

# **Inter-Organizational Relations and the Implementation Process: An Analysis from the RSBY**

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## **Abstract**

We espouse the importance of inter-organizational relationships for effective and successful policy implementation. As they serve to influence and regulate the actions of individual parties in the implementation process, in this paper, we term such interparty relationships and the corresponding interactive dynamics as the governance mechanism. A congruent governance mechanism is present when interactions encourage conformity of action between parties for implementation and outcomes which line up with a policy's objectives, and vice versa. We show the importance of inter-organizational relationships with the use of a comparative case study of India's National Health Insurance Scheme, or RSBY, in the three states of Himachal Pradesh, Punjab and Uttar Pradesh. To do so, this paper first dichotomizes the governance design into the implementation structure and the compliance mechanism. Following which, we use a combination of primary data from interviews and from various secondary sources to examine how the inter-organizational relations between them affect implementation performance. This enables us to analyze how the interactions and relational dynamics impact on the implementation outcomes of the RSBY in each state. Following on, we provide an unambiguous illustration of how different relationships and interactions between parties in the governance design result in varying extents of successful implementation. Our findings indicate, and we argue, that the underlying functionalities of the various parties privy to the implementation process play an important role in determining the type of interactive dynamics that emerge. More crucially, we find and argue that interactions can differ considerably between administrations even if there is a seemingly-identical governance

design present. The broader significance of the paper is that, besides ensuring appropriate implementation structures and compliance mechanisms in the governance design, there is a clear need for policymakers and administrators across the public-private spectrum to understand what relationships may form between parties and their plausible impact on successful implementation.

Key words: RSBY, inter-organizational relations, governance mechanism, governance design, congruence

## **Introduction**

Initiatives which require a combination of public and private sector entities is an inherently complex process. This owes much to the potential for conflicting/competing interests between the individual and society. For the public sector, Hill and Hupe (p. 563; 2006) state that implementation requires public administrators to engage in “managing policy trajectories, managing inter-organizational relations and managing external and internal contacts.”

There is an established literature, e.g. Howlett (2009); Howlett and Ramesh (2014), which emphasizes the essentiality of policy and governance designs to be consistent and coherent with the policy goals (we use “congruent” to refer to these two conditions in the rest of the paper) for successful (effective) implementation. But the role and influence of relational interactions and its dynamics in regulating performance is somewhat less in studies of public-private hybrid organizations/institutions, or public administration/management in general, e.g. Peters (2014, 2015) and O’Toole and Meier (2015). This is despite explicit recognition of its importance in the implementation process, i.e. Hill and Hupe (2006). This paper covers some ground in the area.

We examine the variation in implementation performance of India’s national health insurance scheme – the Rashtriya Swasthya Bima Yojana or RSBY<sup>1</sup> – in the states of Himachal Pradesh, Punjab and Uttar Pradesh to flesh out the influence of interparty interactions and dynamics on implementation performance.

Briefly, approximately 41 million households across 482 districts, or nearly 60% of the target coverage of 70 million households, are enrolled in the RSBY as of 31 March 2016. Yet, despite the absolute take-up numbers, considerable variation was observed in

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<sup>1</sup> The RSBY is to be restructured (and renamed) as the Rashtriya Swasthya Suraksha Yojana (RSSY), or the National Health Protection Scheme as announced in the Budget for year 2016-17 in March 2016.

enrolment and the utilization of services within and across states. Previous analyses, e.g. Rajasekhar *et al* (2011) and Nandi *et al* (2013) attributed the variation to poor information dissemination of the scheme, principal-agent coordination issues, various physical/mechanical problems which impeded the enrolment process, etc. Barring the last, these are (fundamentally) relational in nature.

We argue that the environment emerging from the interactive dynamics between the components of the governance design is a key determinant of whether implementation proceeds as per the policy intent. Interparty or inter-organizational relationships and interactions serve to influence and regulate how parties behave in the implementation process. Thus, variations in implementation performance and outcomes can be attributed, to a considerable extent, to the type of relationships and interactions present<sup>2</sup>.

Following Pawson (2008), we term these relationships and interactive dynamics as the governance mechanism<sup>3</sup>. We characterize those which foster a facilitative (prohibitive) environment and encourages (discourages) cooperation and collaboration in implementation to be a congruent (incongruent) governance mechanism vis-à-vis the policy goal(s). This, and its effect on implementation performance, is distinct from the governance design, instruments, and policy goals which are often the larger focus of the contemporary literature.

This paper appends to the literature in the following ways. Firstly, contemporary practice often refers to the governance design as a “black box”, or an exogenous varia-

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<sup>2</sup> Note: this is in spite of the presence/absence of instruments such as contracts or monitoring devices which also facilitate implementation.

<sup>3</sup> “Governance mechanism” as used in this paper is potentially contentious. We follow the argument of “invisible mechanisms” by Pawson (2008) who asserts that these “...if triggered successfully, work their way into subjects’ reasoning” (p. 10; Pawson, 2008). Interparty relations are identical in that they are primarily intangible and non-documentable but, over a period of repeated interactions and experiences, they exert a (subconscious) influence, i.e. “govern”, an individual’s behavior and response to a particular external stimulus.

ble. This provides parsimony in an analysis but it prevents disclosure about the interactions between the different involved implementation parties. This paper disaggregates the governance design into two main constituents: the governance structure and the compliance mechanism. Doing so allows examination of the relational dynamics between the parties privy to each, without any (substantial) compromise of parsimony<sup>4</sup>.

We also provide some conceptual specificity to what “governance mechanism” refers to. Governance mechanism is typically used in the literature with a precursor, e.g. market governance mechanism or corporate governance mechanism (Jap and Anderson, 2003, and the references within), which provides a degree of contextual placement. But what a governance mechanism is, or specifically refers to, remains somewhat ambiguous. We highlight some characteristics which distinguish a governance mechanism from the more commonly-inferred compliance mechanism.

A third aspect of this paper is that, we highlight a reasonably clear link between implementation success and the environment that emerges as a result of the interactive dynamics (and idiosyncrasies) between the components of the governance design, i.e. the governance mechanism.

Owing to the “black box” treatment of the governance design, there is little in the public administration/management literature that has been able to establish a univocal influence of interparty interactions on implementation effectiveness<sup>5</sup>. In this case, using a combination of primary and secondary data on the RSBY, we make a demonstrated

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<sup>4</sup> This does not mean that policymakers and researchers should insist on data availability on as disaggregated a level as possible. Rather, stakeholders need to be aware and understand the extent and limitations of the data at their disposal. This is even more pertinent for many, if not most, developing countries where data collection capabilities are often limited, and data quality is often compromised. See Chander (2014) for some of the issues that arise in/for a developing country.

<sup>5</sup> More often, the situation which arises is the identification of various (potential) influences of effective implementation, the cumulative of which elicits the Goggin (1986) critique of “too few cases” and “too many variables” which, he argues, impedes the formulation of a consistent and/or robust theory of implementation.

argument of the interactive dynamics between the implementation structure and compliance mechanism on implementation outcomes.

Next, analyses of a public-private hybrid often involve organizations under the category of “third sector organizations” such as social enterprises. These operate by commercial norms but, unlike commercial entities, profit-maximization is not the primary objective. Simultaneously, the public sector operates as a regulator or administrative functionary than an active stakeholder in the organization’s operations (Cornforth and Spear, 2010; Doherty *et al*, 2014).

The RSBY differs in that the scheme requires active participation by both private and public sector entities – its structure will be described in greater detail later in the paper – and is a public-private hybrid in the operative sense of the term. Thus, the scope and analysis of this paper complements the literature on the management of public-private hybrids and third sector organizations.

The broader emphasis of this paper is that policymakers/administrators have to be aware about the influence that the interactive dynamics emerging from a governance design can have on implementation and, if necessary, incorporate additional measures or safeguards to facilitate for better performance and outcomes<sup>6</sup>. This takes greater significance when congruity of the governance design is compromised. The latter was the situation with the RSBY.

Conceptually, while the topical and geographical focus of this paper is on public administration and management in a developing country (India), the analytical findings and arguments are relevant to administrators and organizations across the public-private spectrum.

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<sup>6</sup> This follows from Williamson (2000). However, it is an empirical issue if more safeguards do result in better implementation outcomes. For analytical tractability, we assume in this paper that they do.

The rest of the paper is organized as follows. The next section first establishes the conceptual bases which underpin the analyses of the paper. This is followed by an overview of the RSBY including its aims, design, and implementation structure in the following section. Data sources for the analysis of this paper are described in the section following after. The penultimate section analyses the influence of interparty interactions and dynamics on implementation outcomes, and the final section concludes.

## **Precepts**

### **Governance Design and Governance Mechanism**

We build on the prior literature, largely (but not only) from Considine and Lewis (1999), Huxham (2003) and Amirkhanyan *et al* (2007) and dichotomize governance design into: (i) an implementation structure which establishes the formal hierarchy order and horizontal links between agencies; and (ii) a compliance mechanism compelling stakeholders to follow a set of actions and/or behavioral conventions. Successful implementation is more likely to occur when the implementation structures and compliance mechanisms are appropriately matched than otherwise.

Often for analytical tractability and to establish unidirectional causality, the literature assumes the existence of an internally congruent organization and implementation structure. Even if congruity was initially absent, the dynamic and continually evolving nature of public sector administrative capacities and/or capabilities suggests that public sector organizations will attempt to better align their governance design mixes over time in line with the policy objectives. Kelman and Myers (2011) provide empirical evidence on this.

Importantly however, the operative environment that emerges from interparty interactions is likely to be independent of such changes, i.e. even if some members in a de-

partment change because of different skill needs or other requirements, it is unlikely to substantially change the nature of the prior-established relationships. This can exist even if parties exhibit conflicts of interest – interparty interactions are separate and distinct from the governance design in eliciting performance.

Next, we follow Jap and Anderson (p. 1648; 2003) who consider governance mechanisms to be safeguards which “function to make principals and agents reach agreements and honor them by: (1) reducing opportunism *ex post* (that is once, the relationship is in place), and (2) coordinating and motivating the parties’ exchange activities and processes.” This characterization differs from a compliance mechanism in the following ways.

A compliance mechanism relies chiefly on punishment. This is where, to enforce conformity for implementation and policy delivery, a violating party is subject to some response/action that results in a pecuniary or other physical loss. However, punishment is only one form/type of motivation that explains why parties conform and perform in a governance mechanism.

In a governance mechanism, conformity can also be elicited by, for example, parties wishing to appear “decent” as dictated by some social acceptance thresholds, e.g. Corchón and Herrero (2004). This is independent of the threat of punishment, and regardless of the compatibility between the compliance mechanism and the implementation structure.

Thus, a governance mechanism is akin to a device where its purpose is to manage (or internalize) the innate complexities of the implementation process. A congruent governance mechanism arises when interparty interactions create a set of enabling conditions and feedback loops that continually *encourages* conformity from all parties, and



facilitate successful delivery of a desired set of outcomes. The reverse is the case when it fails to do so<sup>7</sup>.

### **Assessing Congruence**

It is a stylized fact that partner opportunism is an omnipresent phenomenon, insofar as inter-organizational interactions are a necessary in/for implementation. Partner opportunism refers to the situation where implementation agents contravene one or more norms expected from their participation.

An act of partner opportunism exists when a party successfully violates a convention during the implementation process *without* repercussion (Wathne and Heide 2000). This reduces trust, increases conflict and transaction costs, and lowers motivation and implementation performance by the involved agencies<sup>8</sup>. Thus, Williamson (2000) argues that a primary need for governance mechanisms is to control opportunism, specifically to mitigate conflict, realize mutual gain, and induce order for effective implementation.

From the (largely business and management) literature, e.g. Jap and Anderson (2003), Cavusgil *et al* (2013) and Caniëls and Gelderman (2010), an inverse relationship exists between the congruity of the governance mechanism and the extent of partner opportunism<sup>9</sup>. Thus, greater displays of partner opportunism correspond to lower congruity of the governance mechanism and vice versa.

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<sup>7</sup> A somewhat more intuitive (but imprecise) interpretation is that a congruent governance mechanism ensures that any explicit/implicit contracts between parties in the implementation process are incentive compatible, thereby increasing conformity and implementation performance. See Kaplan and Mukherji (1993) for an intuitive introduction to incentive compatibility.

<sup>8</sup> It may also signal the potential presence of structural issues such as poor agenda setting and ambiguity of performance measurements, e.g. Verbeeten (2008). However, as the conceptualization of the RSBY in the next section shows, these factors are not present in this case.

<sup>9</sup> Empirically, these authors find that the adverse impact of partner opportunism is partially mitigated by punishment-prescribing compliance mechanisms in the governance design, i.e. a threshold. Beyond which, inter-organizational interactions can serve to either deter or encourage partner opportunism.

## **The National Health Insurance Scheme (RSBY) in India**

### **Overview**

Expenditure on healthcare is estimated to reduce 40 million people into poverty annually in India (Selvaraj and Karan, 2009). In 2008, the RSBY, a nationwide health insurance scheme that is specifically targeted at low income groups, was launched by the Indian government to try to address this issue.

The RSBY has two main implementation objectives: to increase the enrolment of beneficiaries (the “enrolment ratio”) and enable greater access to medical insurance by the poor who were previously unable to do so due to financial and other constraints; and to raise the (same) target group’s utilization of hospital-based healthcare services, or the “hospitalization ratio”, of the contracted providers.

As a public-private hybrid, the scheme requires collaboration and the cooperation of both public and private agencies. To provide the necessary coverage, state governments contract commercial insurance companies to provide a defined health insurance package to all BPL, or below poverty line<sup>10</sup>, families who enroll in the scheme in each implemented district. The insurance premium each family is charged is determined by a competitive bidding process. Premiums and other operating costs are financed by general taxes and divided in the ratio of 3:1 between the Union and State governments.

On procuring the tender, the insurance company provides the required set of coverage and healthcare services as defined in the contract. This is done in collaboration with various healthcare agencies and providers in both the public and private sectors. The

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<sup>10</sup> There are two main definitions currently used to report poverty in India – the Lakdawala poverty line and the more recent Tendulkar line. See Panagariya and Mukim (2014) for a review of the differences between them. It is unclear which definition the RSBY uses to categorize and report BPL-status eligibility. However, the Tendulkar line was officially adopted by the Government of India in 2011, after the RSBY was launched in 2008. Thus, it is reasonable to assume that the Lakdawala line is the definition used and interpretation of poverty in this paper should follow the same definition.

input quality, quantity and processes for the deliverables are explicitly defined in a standardized contract. This specifies the responsibilities of each agency – including government agencies – and the type and extent of support that each is expected to provide to the scheme.

Enrolment in the RSBY is voluntary. Enrollees pay a registration fee INR 30 per annum and the beneficiary is entitled to seek treatment with any of the scheme's empaneled hospitals across the country. For families classified as BPL, there is no exclusion on the basis of pre-existing medical conditions. The scheme covers annual healthcare expenditure of up to INR 30,000 per BPL family. This includes hospitalization expenses for all treatments.

### **Conceptual Design**

The scheme is implemented at the district level through a network model consisting of the State Nodal Agency (SNA), the insurance company, District Administration (DA), the Third Party Administrator, Smart Card Providers and empaneled hospitals.

Operationally, the insurance company is the lead agency at the district level. It is responsible for contracting and coordinating with the other organizations that are part of the implementation process – the DA which facilitates local implementation of the scheme, operates the grievance committee and (implicitly) provides feedback of a party's suitability for participation in the scheme; the Third Party Administrator handling various back office functions (such as claims); Smart Card Providers who are responsible for beneficiary registration and enrolment procedures; and the empaneled hospitals that provide the requisite (contractual) healthcare services to the beneficiary.

The SNA prepares and provides the relevant information of families eligible for enrolment, collects and analyzes data of transactions between insurer, hospitals and the

beneficiaries, constitutes the formal grievance/redress committee, and provides any further administrative support that the contracted insurance company may request/require.

The design of the RSBY was conceptualized as a network model of implementation. Under this implementation structure, the final policy deliverable requires the input of all of parties involved, i.e. there is pooled interdependence, but each entity retains considerable independence in their actions and decision-making processes.

The (textbook) compliance mechanism ascribed to the network model is the extent of trust between parties, using persuasion to encourage parties to adhere to communal (or community) norms and values towards a broader objective (O'Toole, 2012). The need to maintain trust facilitates compliance as, in the event of a breach, a violating party is likely (but not necessarily only) denied further participation in the implementation process, with the possibility of incurring both pecuniary and non-pecuniary losses as a result.

Yet, what is unique in the conceptual design of the RSBY is that no penalty clauses are specified in the contracts between agencies. This was rationalized by the relatively short tenure (one year) given for each contract and the understanding that a party's continued participation in the RSBY implementation will be evaluated on performance in meeting stipulated deliverables<sup>11</sup>. There is also belief that if penalties were included, greater attention would be paid to the design and functionality of the penalties than on the scheme itself.

Interviews with the scheme's designers indicate clearly that the main objective was

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<sup>11</sup> Quoting Mr. Anil Swarup, then-Director General of Labour and Welfare, Ministry of Labour and Employment of the Government of India, "Our approach is either you are with us or you are not with us. There is no penalty. If you are not performing, then you are out, then you are not with us. Only if you are performing, you are with us."

on ensuring performance measured by the uptake rate of the RSBY<sup>12</sup>. To facilitate this goal, the RSBY was designed (more) around the use of informal resolution procedures such as convening of meetings and discussions when faced with implementation impediments, than formal (or contract-based) measures like the requirement for regular administrative reports and updates. These arrangements were to enable the various involved parties and organizations to discuss, analyze and find solutions to the problems faced, in a cordial setting.

Notably, this elicits ambiguity about what ought to be the imposed penalties (and the corresponding enforcement) with respect to shortfalls and/or delays in policy delivery. This is further complicated if the delivery lapses were a result of administrative/operational lapses by the public sector<sup>13</sup>.

In response, the RSBY's designers tried to provide guidelines for each and every process, particular in those necessary for eliciting compliance. If an agency fails to act as would be expected, they are required to provide explanations for why it was the case. In the event of repeated defaults, even after repeated discussions and further administrative support, the contract will not be renewed with the agency in the following next year. The state can debar the agency future participation in the scheme and this can extend at up to the national level. Further interviews with GIZ/GTZ officers also revealed that in the event of severe malfeasance, the contract can be terminated midway through tenure.

The focus on collaboration and mutual trust is further emphasized by the specification of the coordination and dispute redress clauses in the contracts. These explicitly state the use of discussion to resolve disputes between agencies. Parties are expected to

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<sup>12</sup> Details of the interviews referred to here and in the rest of the paper are available on request.

<sup>13</sup> Based on interviews with various GIZ/GTZ officers. GIZ, or Deutsche Gesellschaft für Internationale Zusammenarbeit, and its predecessor, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), were active in assisting the establishment of the RSBY.

approach the dispute/grievance committees, convened by the SNA and administered by the DA, than the formal judiciary in the case of redress.

More crucially, a GIZ/GTZ officer states that these committees have “no legal power and no legal sanctions can be put or implemented except in renewing the contract next year.” This suggests that the main enforcement instrument committees have at their disposal is the threat of barring an agency’s future participation in the event of delivery non-performance. There is also no legal sanctity of the arbitration outcomes due to the grievance redress committees. A GIZ/GTZ officer described that the management approach of the RSBY is to promote working in teams and “not be dependent on penalties but facilitate and support each other in performing.” Thus, it is unambiguous that inter-organizational behavior and relations were the idealized basis in which to elicit effective implementation performance and outcomes in the RSBY.

### **Operative Structure**

More realistically, and particularly in the case of hybrids (which the RSBY is one), implementation structure and the compliance mechanism are more likely to exhibit characteristics of a hierarchy or a market implementation structure than of a network. This arises as a result of, among others, the type and nature of trade-offs faced by individual agencies over the course of inter-organizational interactions (O’Toole, 2012) with their regular operations.

For the RSBY, other implementation structures in the design are immediately clear: the use of one-year contracts with a distinct possibility for termination<sup>14</sup>; and an established hierarchy between the SNA and DA in convening and operating the dispute resolution committees. Thus, instead of a network structure as conceptualized, Figure 1 pre-

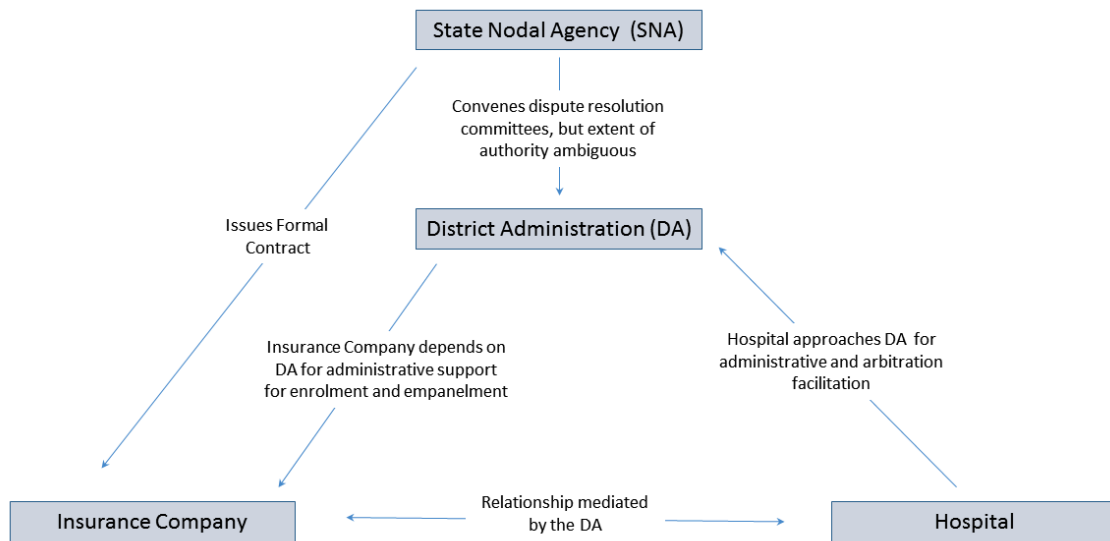
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<sup>14</sup> Despite the absence of explicitly stipulated penalties, a continued possibility of termination means that termination is still a credible enforcement device to the *contracted* agency.

sents a (likely) more representative description of the implementation structure of the RSBY<sup>15</sup>.

Most strikingly, the combination of management devices – contract and hierarchy – as labeled in Figure 1 highlight the distinct presence of veto/approval points. In a conventional (textbook) network structure, formation and the exercise of veto points arise

**Figure 1: Implementation structure and relationships in the RSBY**



Source: Authors' construct

from the interactions of various complementing/competing interests (O'Toole, 2012), and mitigation of their impacts on implementation effectiveness is endogenously determined over the network's course of operations.

In this case, veto points are incorporated into the implementation structure by design. This potentially compromises the effectiveness of the *de jure* compliance mechanism of norms or trust between parties in eliciting conformity. Furthermore, veto points provide staging points for the parties in closest (operative) proximity to leverage on and engage in partner opportunism. In this case, the potential for such behavior is enhanced by the

<sup>15</sup> Third Party Administrators and Smart Card Providers are not included in Figure 1 without any significant loss of representation. If included, these two parties would be contracted to the Insurance Company, with informal (i.e. non-contractual) administrative links to the hospitals as per the conceptualized design.

ambiguity as to the extent of authority and control between the SNA and DA. This is despite the (stipulated) hierarchy between them.

Following on, in the absence of additional safeguards, congruity of the governance mechanism and the extent of effective implementation are likely to be considerably reduced as a result. As the subsequent analysis confirms, this was indeed the case.

## **Data and Methodology**

### **Data Sources**

A combination of primary and secondary data is used in this paper for the analyses. The former consists of information and qualitative data obtained from a series of formal and informal interviews with stakeholders in the RSBY. Secondary data sources include administrative records and reports from different agencies and ministries involved in the implementation of the RSBY, newsletters (RSBYConnect) and newspaper reports, planning and concept notes, various evaluation studies and, where necessary and relevant, data from other outlets such as social media forums.

To facilitate manageable data collection, particularly for interviews, data collection was centered on an RSBY-implementing district within each state. The district was selected on the basis that its socio-economic structure bears reasonable similarity with, or is reflective of, the state as a whole.

In total, 57 direct interactions were solicited in the primary data collection. These comprised of 42 face-to-face interviews, 9 informal engagements with various stakeholders, and 6 direct (on-site) observations of the RSBY's operative implementation. Formal interviews and data collection from ministries and other agencies were conduct-



ed between August 2012 and January 2013<sup>16</sup>. Prior to the formal collection, a series of informal discussions were undertaken with various parties privy to the RSBY to identify potential sources/reasons of implementation effectiveness. This also allowed verification that the questionnaires used in the formal interviews were topically and contextually relevant.

In the formal data collection process, semi-structured interviews were used to elicit data across the broad spectrum of stakeholders. Key personnel were approached and interviewed on an individual basis. These interviews allow one to, firstly, ascertain the accuracy of administrative data and verify the validity of the responses in the semi-structured interviews<sup>17</sup>; secondly, gain insights of the stakeholders' personal views about the implementation processes; and, thirdly, obtain additional feedback that were/could not be reflected in the semi-structured interviews.

### **Analytical Approach**

The paper uses a comparative analysis to assess and evaluate the extent of partner opportunism present. Using a “diverse case” selection procedure, Himachal Pradesh, Punjab, and Uttar Pradesh were chosen as the case study states. The selection criteria used are state per capita GDP and per capita net national income, human development index (HDI), health indicators defined by infant and maternal mortality rates, and the relative size of the public sector's health and medical facilities – in particular, the latter provides an indication of a state's existing healthcare capacity and, can, have bearing on the behavior of empaneled hospitals.

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<sup>16</sup> Details of the data collection and interview processes as well as approval from the institutional review board of the National University of Singapore, which sanctioned the data collection, are available on request.

<sup>17</sup> Corroborating the responses of individual interviews with those from semi-structured interviews offers some information about the (internal) consistency of feedback on the various organization and implementation protocols. A key tenet here is that internally consistent responses suggest a lower likelihood for erroneous, or spurious, inferences and conclusions.

A “typical” case approach may be more appropriate but, in view of the considerable heterogeneity in socio-economic development across India, the likelihood of being able to select a sample of relatively representative states is considerably low. In this case, a “diverse” case selection is likely to provide a more insightful, and relevant, set of analyses. Seawright and Gerring (2008) provide further details on this.

The data is analyzed with respect to the implementation outcomes to assess the resulting extent of partner opportunism. In line with the RSBY’s objectives, the outcome variables used are the enrolment (or conversion) ratio and the hospitalization ratio.

Also, from Figure 1, it is clear that the operating structure of the RSBY exhibits an explicit veto point (by design) as a result of the DA’s interlocking directorate with the insurance companies and empaneled hospitals. With ambiguity as to the SNA’s authority over the DA, the DA can (potentially) exert influence on insurance claims. As it issues the formal contract, there exists potential for the SNA to exercise influence on the choice and/or behavior of the insurance company, i.e. another veto point which may compromise integrity in the conduct and handling of claims. Thus, the claims ratio – ratio of the total claims value relative to the premiums paid – is also included.

The combination of first-hand accounts and secondary data allows a mapping of the influence of the governance structure, compliance mechanism(s) in place and used, and the reported (as well as plausible) interparty interactions on performance. Following on, this enables assessment of the extent of partner opportunism in each of the states, and its corresponding cause(s).

An issue highlighted of such analyses, e.g. Winter (2012); Peters (2015), is the difficulty in distinguishing, and controlling, between the influence of the governance mechanism in implementation effectiveness vis-à-vis other structural determinants. The latter

(some of which were also identified in the empirical literature mentioned early on) includes the contract design, administrative structure, and shortfalls in administrative capabilities. However, we argue that their relative influence in our analysis and conclusions is likely to be small on the following.

The RSBY is implemented on a uniform platform. All jurisdictions administer the same contract design and they possess similar administrative structures and implementation capacities. Given the presence of a uniform administrative structure and skillset, variations in implementation performance can be ascribed directly to either of the governance design's constituents and/or the interactive dynamics between them than from other plausible structural influencers.

## Analysis and Evaluation

### Descriptive Statistics

Table 1 reports the socio-economic statistics used as the selection criteria for the case study states. These correspond to the period, or the closest available, of the primary data

**Table 1: Descriptive Statistics**

		<b>Himachal Pradesh</b>	<b>Punjab</b>	<b>Uttar Pradesh</b>
<b>State population (million)<sup>a</sup></b>		6.86	27.7	199.5
<b>GDP per Capita (INR)<sup>b</sup></b>		49,817	46,688	18,103
<b>Per capita Net National Income (INR)<sup>c</sup></b>		83,889	84,526	33,482
<b>% of population registered as below poverty line (2004-2005)<sup>d</sup></b>	<b>Rural</b>	10.9	10	33.9
	<b>Urban</b>	5.0	5.0	30.7
<b>Human Development Index<sup>e</sup></b>		0.647	0.538	0.122
<b>Infant Mortality Rate (IMR) per 1,000 live births<sup>f</sup></b>		36	28	53
<b>Maternal Mortality Rate (MMR) per 100,000 live births<sup>f</sup></b>		Not available (but the average MMR for all unreported states is 136)	155	292
<b>Corruption Assessment (with a focus on BPL households)<sup>g</sup></b>		Moderate	Moderate	Alarming

<sup>a</sup> Census India 2011. Available at: <http://www.censusindia.gov.in/> (accessed 10 Jun 2016)

<sup>b</sup> Per capita net state domestic product at 2004-2005 constant prices. Available at: [http://mospi.nic.in/mospi\\_new/upload/state\\_wise\\_sdp\\_2004-05\\_14mar12.pdf](http://mospi.nic.in/mospi_new/upload/state_wise_sdp_2004-05_14mar12.pdf) (accessed 14 Jun 2016)

<sup>c</sup> Press Information Bureau, Government of India. From: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=123563> (accessed 18 Jun 2016)

<sup>d</sup> Chapter 3 of Asian Development Bank (2011).

<sup>e</sup> Mukherjee *et al* (2014).

<sup>f</sup> Press Information Bureau, Government of India. From: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=103446> (accessed 18 Jun 2016)

<sup>g</sup> Transparency International (2008).

collection – August 2012 and January 2013.

It is evident that Uttar Pradesh is a relatively mediocre performer in all criteria examined. Himachal Pradesh and Punjab have near-equivalent per capita GDP and incomes, but the latter reports relatively better poverty and infant mortality rates. However, on aggregate, Himachal Pradesh demonstrates a clear lead in overall human development (HDI).

Thus, Himachal Pradesh, Punjab and Uttar Pradesh are classified to be of “high,” “intermediate” and “below average” socio-economic development respectively. However, it needs to be emphasized at this point that no inference or linkage should be made between this paper and the subsequent socio-economic developments in these states.

### Performance Analysis

Table 2 reports the organizational and performance variables for each state. An interesting observation here is the different background organizations of the SNA in Punjab and

**Table 2: Implementation Organization and Outcomes**

	<b>Himachal Pradesh</b>	<b>Punjab</b>	<b>Uttar Pradesh</b>
<b>Year RSBY implementation began</b>	2008	2008	2008
<b>State nodal agency (SNA)</b>	Autonomous agency under the Department of Health	Autonomous Agency	Autonomous agency under the Department of Health
<b>Human resource capacity at SNA (number of employees)</b>	3	6	30
<b>District Administration (DA) supporting scheme implementation</b>	Department of Rural Development	Department of Health	Initially the Department of Rural Development, then by the Department of Health
<b>% of privately-operated empan-</b>	10.0	48.3	67.3

<b>eled hospitals<sup>a</sup></b>			
<b>Conversion Ratio (%)<sup>a</sup></b>	79.9	46	31.1
<b>Hospitalization Ratio (%)<sup>a</sup></b>	5.1	2.3	2.7
<b>Claims Ratio (%)<sup>a</sup></b>	234	94	128

<sup>a</sup> Ministry of Labour, Government of India

those of the SNA and DA in Uttar Pradesh. As the following state-wise analyses reveal, the functionaries underpinning the SNA and DA is able to exercise considerable influence on the resulting type of interparty relationships (and the extent of opportunism).

### *Himachal Pradesh*

From Table 2, Himachal Pradesh is a clear high performer<sup>18</sup> in implementation measured by the enrolment and hospitalization ratios, both of which compare favorably against Punjab and Uttar Pradesh. The state also received a number of awards and accolades in recognition of its performance from 2009 to 2011.

There were also no reports of widespread fraud from the hospitals, most of which continue to be empaneled year-on-year. For the selected study district, only one case of hospital de-empanelment was found. Thus, there was continuity and little disruption in services under the RSBY. As a digression, these factors also bear influence on utilization rates and treatment outcomes (e.g. Dreiherr *et al*, 2012).

Importantly, in this case, interviews with the Director of the Himachal Pradesh SNA states that the state government was very keen to make the scheme successful. The State Ministry of Health chairs all meetings of the RSBY, and state ministers actively participated in its planning and implementation. This placed considerable pressure on district level authorities to ensure successful implementation regardless of any personal dispositions towards the scheme and its implementation. Thus, there was strong emphasis in

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<sup>18</sup> Note that whether performance and, as discussed later, partner opportunism and congruence is “high” or “low” needs to be assessed with respect to a benchmark. As only three states are examined here, the median provides a suitable reference. For larger samples, the choice of benchmark requires more rigorous evaluation.

creating a culture of cooperative behavior between parties for effective coordination and implementation. This can be inferred from the following.

Firstly, there was consistent recordkeeping and revision of the state's BPL lists by administrators and facilitators at the grassroots, notably from the panchayats (village councils) at the behest of the DAs (who were pressed to meet enrollment targets by the SNA). This provided the DAs with an accurate database to identify and enroll the target population. Notably, in some village councils, the entire BPL population was enrolled, a testament to the accuracy of the database.

Next, the Department of Rural Development-run DA had limited ties and knowledge of the management and operation of private hospitals. This enabled, despite the absence of direct hierarchical links, the Department of Health-led SNA to leverage on its background knowledge and preferences and impress on the DA to follow the recommendations of the insurance companies on hospital empanelment. This is particularly evident from the fact that 90% of empaneled hospitals are public sector hospitals.

The SNA also made explicit use of its (contract-issuing accorded) authority by punishing errant insurance companies and public sector hospitals<sup>19</sup>. This successfully deterred collusion between these parties and/or the DA to engage in opportunistic behavior. Thus, despite the considerably higher claims ratio, there was little evidence to suggest that this was due to the engagement in partner opportunism. Rather, this was the direct outcome from the high enrollment and utilization rates in the state.

Over time, the combination of informal interactions which continually emphasized

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<sup>19</sup> The state's strong commitment in controlling fraud can be demonstrated by the following. In one of few cases of a fraudulent hospital, the state government directed the relevant District Vigilance and Monitoring Committee to conduct further investigation on the hospital's records and practices. This was even *after* the hospital's de-empanelment by the insurance company. This sends a clear signal to hospitals that they will receive no leniency if caught engaging in fraudulent activity – Interview with an SNA officer.

the need for cooperation between the SNA and DA, and the use of explicit punishment where the SNA had jurisdiction, elicited an environment that continually promoted collaborative behavior amongst all parties, i.e. low motivation to engage in partner opportunism, leading to high implementation performance.

### *Punjab*

Punjab, unlike the other two states, possesses a slightly different implementation structure, where the SNA does not come under the direct purview of any specific governmental department. Instead, scheme is managed by the Punjab Health Systems Corporation (PHSC) that was established under the Punjab Health Systems Corporation Act (1996).

The PHSC is legislatively mandated to oversee and manage the implementation of various public sector healthcare programs in the state. This enabled it to develop organizational capacities and management competencies that are well-suited to the operative requirements for effective implementation of the RSBY. The PHSC thus possessed a nuanced understanding of the scheme and its complementary technical setup. This is aided by a focus and emphasis on the district in terms of planning, setting targets, reviewing performance and designing the implementation strategy. The SNA further deploys teams under their direct authority in each of the implementing district to collect, and provide, in-depth information and control over field operations. Like Himachal Pradesh, this suggests there was stringent monitoring and supervision by the SNA.

Yet, the operating circumstances in Punjab proffered some extent for the conduct of opportunism. For instance, interviews with various insurance company representatives revealed that the state's BPL records were considerably dated, most having been compiled in 2001 and 2002. Furthermore, unlike Himachal Pradesh, the SNA was less uni-

formly active in monitoring enrolment and empanelment decisions, typically focusing more on the management and facilitation of public-sector hospitals than privately-run ones. This is despite a strong preference in the state for private medical providers<sup>20</sup>.

As a result, despite the presence of seemingly-stringent monitoring by the SNA, these factors provided opportunity for some extent of fraudulent activity across parties, and relatively lower performance as reported in Table 2 due, first, from the dated BPL records. These gave a (likely) smaller BPL population in the state.

As the size of the enrolled population, particularly of BPL beneficiaries, was directly linked to their profitability, interviews revealed that insurance companies were often unwilling to enroll or would delay enrollment of the targeted beneficiaries as a result. Together with the relatively-high preference for private medical providers and concurrent (lower) focus in monitoring the behavior private hospitals, these provided avenues for collusion and fraud between the DA, the insurance companies, and even between public and private hospitals<sup>21</sup>.

Separately, and concurrently, there is also interview-evidence of trust in the SNA's impartiality as an autonomous agency, un-beholden to any particular government department by the DA and other operative parties in some districts. DAs and other operative parties in such districts, in the knowledge that the SNA was a fair and efficient arbitrator/adjudicator, reported engaging in cooperative behavior to ensure that enrolment and other targets were met.

Thus, arguably, the lower aggregate implementation performance relative to Hima-

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<sup>20</sup> Only 19.2% of the households reported using public sector facilities when sick (International Institute for Population Sciences (IIPS) & Macro International, 2008).

<sup>21</sup> Interviews reveal some of these practices to include coercion by the DAs on insurance companies to empanel specific hospitals, delays in processing, disbursement and even fraudulent submission of claims by insurance companies in collaboration with the DA, public-to-private hospital referrals for (monetary) favors, etc.



chal Pradesh (a near-equivalent high-income state) stems from the uneven presence and distribution of cooperative versus collusive behavior in the state.

### *Uttar Pradesh*

For Uttar Pradesh, the state experienced considerable mismanagement of the scheme by the DA, with reports of embezzlement and fraud by functionaries for personal gain in its early years<sup>22</sup>. In response, the State Government established the State Agency for Comprehensive Health Insurance (SACHI) in 2011 under the purview of the State Department of Health, with the explicit mandate to improve implementation of the RSBY<sup>23</sup>.

To improve accountability and enable better engage stakeholders at various levels, the new agency reformed the State's RSBY implementation structure and administrative capacities. Some of these changes included the hiring of additional administrative staff, adoption of new processes, and improved monitoring practices at the relevant SNA and DA levels. Concurrently, focus was also placed on administrative capacity building as another means to improve implementation outcomes.

Yet, despite the reforms, Uttar Pradesh remained a comparatively low performer in implementation as reported in Table 2. Notably, the overall implementation environment remained considerably conducive for fostering of collusion between parties and engaging in fraudulent activity. Among them, two factors, in particular, had a significant contribution to this.

The first is that the SNA had limited hierarchical authority on the DA. Both the SNA and DA were under the auspices of the State Department of Health and, perhaps para-

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<sup>22</sup> E.g. "Fake patients for insurance? Govt hospital under scanner," Indian Express, April 25 2011 (<http://indianexpress.com/article/cities/lucknow/fake-patients-for-insurance-govt-hospital-under-scanner/>) and "Now, bungling of insurance scheme funds," Indian Express, August 11, 2011 (<http://indianexpress.com/article/cities/lucknow/now-bungling-of-insurance-scheme-funds/>).

<sup>23</sup> "To boost RSBY implementation, govt to hire independent agency," Indian Express, August 22 2011. (<http://indianexpress.com/article/cities/lucknow/to-boost-rsby-implementation-govt-to-hire-independent-agency/>)

doxically, the key administrators of the SNA *and* the DA are equivalent in their hierarchical authority within the common background functionary – the Ministry of Health. Thus, in the event of disagreements or differences, disputes had to be routed through to the highest level of bureaucracy in the state, rather than from the DA to the SNA as originally stipulated.

The result was that the SNA could not exercise any form of hierarchical authority, implicit or otherwise, on the DA. This had the follow on effect that, in spite of the fact that the SNA issues the contract, the DA was able to exercise influence on the operations of the insurance companies (since the latter depended on the DA for arbitration and dispute resolution with empaneled hospitals). The DA, thus, had considerable influence on hospital empanelment as per its preferences. That this suggested partner opportunism being exercised is reflected by the revelation that more than 90% of empaneled hospitals were privately-run and (notably) prevalent in rural areas where the majority of potential users are<sup>24</sup>, and many of such across the country were established with either fraudulent intent and/or do not meet minimum the requisite standards and/or performance<sup>25</sup>.

The second follows on the first. Once empaneled, fraudulent hospitals typically enjoy immunity as to the claims they make to insurance companies from the DA. Such behavior is especially observable from the claims ratios in some districts in Uttar Pradesh as shown in Figure 2.

Figure 2 reports the claims ratio of selected (where comparable data was available)

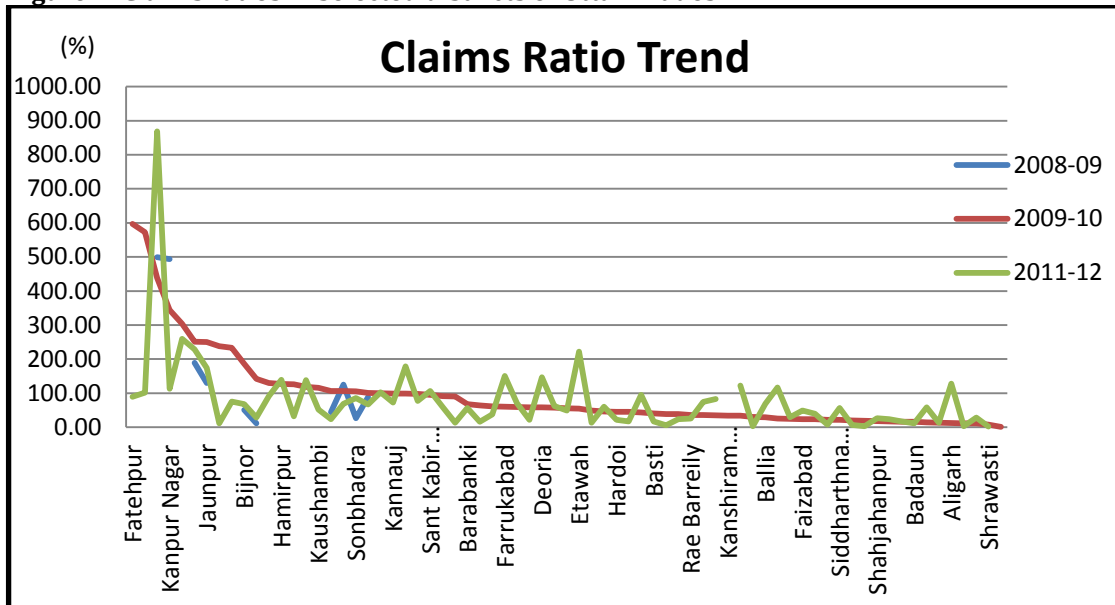
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<sup>24</sup> Approximately 30% of Uttar Pradesh's population is classified as urban.

<sup>25</sup> E.g. Patel *et al* (2015). That there is considerable leeway for fraud and opportunism to be practiced in Uttar Pradesh is because trust in public medical facilities is considerably low, where even the lowest income quintile of the population seeks the services of private medical providers (International Institute for Population Sciences (IIPS) & Macro International, 2007).

districts for the claimant years of 2008-2009 to 2011-2012. While the state average claims ratio (out of 72 districts) is 128%, these districts provide some indication and substantiation to the presence of fraud and engagement in partner opportunism. It is

**Figure 2: Claims ratios in selected districts of Uttar Pradesh**



Source: RSBY Uttar Pradesh

appealing to attribute the observed claims ratios as similar to Himachal Pradesh, but a different set of inter-organizational dynamics is present here.

Due to immunity provided by district administration insurance company, insurance companies often resort to delaying and other tactics like repeatedly suspending hospitals which submit high claims, delaying payment to hospitals and/or paying them less than the claimed amounts. As a result, hospitals which do fulfill their contractual obligations often encounter difficulties in cost recovery for their services (as an insurance company could/would not verify accordingly) and are forced to exit from the scheme.

Consequently, rather than a pooling equilibrium comprising of various hospital types, the RSBY in Uttar Pradesh lead to a separating equilibrium where predominantly fraudulent hospitals remain in the scheme. This is independent of whether the DA exercises any rent-extracting behavior.

The follow-on effect is that, given a prior history of fraud and (likely) low trust in the competency of empaneled hospitals, the actions of the insurance companies serve to increase the extent of public distrust in the integrity and quality of RSBY-empaneled hospitals, leading to lower enrolment rates, and an escalation of opportunism in all functional areas (since a small base of claimants necessitates larger claims for such hospitals for any given level of expected profit).

Following on, in spite of Uttar Pradesh possessing a similar implementation structure as Himachal Pradesh, low implementation performance in the state likely draws heavily from the inter-organizational relations and dynamics which promote partner opportunism and rent-seeking than cooperation.

### Evaluating Opportunism and Congruence

Table 3 amalgamates the analyses and arguments of the three study states, and evaluates

**Table 3: Opportunism across study states**

	Contributing Factors				Resulting Interparty Dynamics	Extent of Opportunism
<b>Himachal Pradesh</b>	SNA was able to exercised informal hierarchical authority on DA to enforce administrative efficiency.	Clear distinction in background functionalities between the SNA and DA, reducing the prospect of within-organization collusion.	Large share of public hospitals which could be easily and effectively be monitored by the SNA.	SNA sent clear emphasis for implementation success by punishing errant parties across the whole implementation network.	All parties had little incentive or compulsion to deviate from implementation goals as conceptualized.	Low
<b>Punjab</b>	SNA was legislatively mandated, with no links to any specific state organ.	SNA had controlled observation parties to monitor implementation at various levels.	Outdated BPL lists, thus unclear as to the true extent of the program's reach to the intended beneficiaries.	Surveyed preference for private medical providers by users.	Distribution of trust in SNA and corresponding motivation for implementation was uneven. Overall integrity of implementation	Moderate

					is ambiguous.	
<b>Uttar Pradesh</b>	State possesses a history of consistent rent-seeking and corruption in scheme implementation.	SNA had little control on DA due to similar levels of authoritative powers within the overseeing organization – the Ministry of Health	High share of rural population and extremely high surveyed preference for private medical providers.	Large share of private hospitals, which neither the SNA/DA nor Insurance Companies were able, or had incentive, to monitor effectively.	Considerable avenues for collusion and rent extraction with no corresponding signs of enforcement or punishment by any party.	High

the extent of opportunism between them. From Table 3, Himachal Pradesh has a highly congruent governance mechanism which is able to regulate implementation parties' behaviors for high implementation performance. Correspondingly, this is moderate for Punjab, and low in Uttar Pradesh. However, a caution needs to be emphasized when drawing further inference from Table 3.

Corroborating the evaluations in Table 3 with Table 1, an observation here is that there appears to be a direct correspondence of the relative extent of opportunism with the level of socio-economic development. This is spurious. Punjab offers an illustrative case-in-point.

Recall that the extent of opportunism that is engaged is an outcome of the environment stemming from the type(s) of relationships and dynamics across implementation parties. *If* socio-economic variables were a key influence, Punjab can expect to exhibit a closer set of implementation outcomes to Himachal Pradesh, e.g. adjusted by income or HDI differences. In turn, conversion and hospitalization ratios in Punjab should be considerably greater than approximately half of Himachal Pradesh's. While the claims ratio was considerably better, it is unclear (though unlikely) that this was due to socio-

economic developments in the state only<sup>26</sup>.

Instead, examining the data reveals that implementation performance across the state was dependent on how each party in the implementation process perceived the other(s). The varying extent of trust in the SNA and its actions, and different motivation levels of the DAs across the state created a spectrum of operating environments which encouraged either cooperation or collusion. Thus, when compared to Himachal Pradesh and Uttar Pradesh, the relative effect in curbing opportunism was, on aggregate, moderate.

What is crucial to infer from Table 3 and the preceding state-specific analyses is the extent of variation and complexity that can arise if interparty interactions and relationships are considered (omitted) when planning/evaluating for implementation success. It is evident that even seemingly-identical governance designs, i.e. Himachal Pradesh vs Uttar Pradesh, can yield considerably different regulatory regimes and implementation outcomes when the interactions between the various implementation parties create conditions that encourage contrasting behaviors<sup>27</sup>.

## **Conclusion**

Observation that implementation structures are almost never truly homogenous in practice clearly suggests an inadequacy of a congruent governance design in explaining the variation in implementation performance. The literature has focused, to a considerable extent, on the importance of aligning appropriate compliance mechanisms with the implementation structure – a congruent governance design – for effective policy implementation. However, the extent which this argument holds needs to be tempered.

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<sup>26</sup> Rather, it suggests that there is possibly underutilization of the scheme, issues concerning claims and payouts or, possibly, even some type of fraudulent behavior.

<sup>27</sup> A question which arises naturally is what safeguards may plausibly be placed in Uttar Pradesh to elicit, vis-à-vis Himachal Pradesh, better implementation performance. We do not to make any speculative recommendations as it requires knowledge of the *intra*-organizational relations in the Department of Health. We are not privy to such information.

While a congruent governance design plays a major role, its structural characteristics are more attuned towards enforcing conformity of the implementation parties to facilitate implementation success since a compliance mechanism is, fundamentally, coercive by the fact that it prescribes punishment. We argue in this paper that the environment which emerges from the relationships and dynamics between parties serve to facilitate effective implementation by encouraging conformity. We term this as the governance mechanism.

We illustrated this by examining the implementation outcomes across three states of India's national health insurance scheme, the RSBY. Owing to the divergence between its conceptualization and actual implementation structure, the RSBY provided a natural setting by which to examine how interparty interactions and relationships influence implementation performance. Our analysis of a combination of primary (interview) and secondary data from the three states provides reasonable premise that these interactions have considerable bearing on implementation outcomes.

Studies on implementation and policy performance have tended to place relatively little focus on the role of inter-party and -organizational relationships. This is a major omission against the further understanding on appropriate structural (governance) designs for effective regulation and implementation. This paper argues, and demonstrates clearly, that there is clear and sufficient indication that this is an area which warrants greater attention and analysis.

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