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Performance-Based Contracting: The Case of Residential Foster Care

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Growing concern about accountability in the human services has led to interest in performance-based contracting. This article defines and analyzes different approaches to performance-based contracting, specifically the measurement of input versus outcomes. Using group foster care as an example, it proposes a design for performance-based contracting that achieves the intended objectives and yet is consistent with the values of the social work profession.

Assuring achievement of social service goals is important to both policymakers and social work professionals. Legislators and policymakers allocate funds to programs that professionals say will alleviate specific social problems. Policymakers and the public are becoming skeptical, however, about whether the programs are achieving their objectives, because the targeted problems continue to grow. As budget pressures increase, policymakers want to know

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that the money they are allocating is achieving the intended results. To maximize the benefits of scarce resources, policymakers require evaluations of the effectiveness of programs in meeting the objectives specified [DeHoog 1985].

For example, states currently spend a considerable amount of money to place children in residential treatment centers and other group foster care settings on the assumption that it is useful—that group foster care will improve the lives of children. As the per diem cost of group foster care rises, together with the total expenditures for such care, questions are being raised about how effective group foster care is, which programs are effective with which children, and whether group foster care is the most effective and efficient (cost-effective) way to help children. Policymakers are asking for hard evidence that there are, in fact, positive results to warrant spending these funds.

Social work professionals are also concerned about the achievement of social service objectives. The goal of social services is to improve human lives. Social work as a profession has increasingly recognized the need to hold itself accountable for achieving what it seeks to achieve, hence the importance of evaluating whether (or the extent to which) we are producing the outcomes that we seek [Carter 1988a; Carter 1988b; Poertner and Rapp 1987; Rapp and Poertner 1987]. We have recognized the importance of assessing the relative effectiveness of various service methodologies in achieving specified outcomes [Carter 1988a; Hudson 1987; Walsh and Walsh 1990; Poertner and Rapp 1987; Prochaska and Arsenault 1984; Rapp and Poertner 1987]. We can grow as a profession and the quality of our services can improve only as we learn more about the extent to which we are achieving our objectives and the relative success of various approaches to achieving them.

These two sources of concern in achieving identified objectives—quality of human service provision and financial accountability—have led increasingly to the establishment of standards within service contracts. One strategy that has been advocated is performance-based contracting: the use of specified rewards for meeting or exceeding contract objectives, and penalties for failure to meet contract objectives [Wedel and Colston 1988]. It is a strategy that has been proposed by policymakers in social services, education, vocational training, mental health, and other fields to hold agencies accountable for meeting the service objectives they have presented as justification for funding.

There are, however, many problems with the way performance-based contracting has been conceived and carried out. This article analyzes performance-based contracts in general. Then, using group foster care as a field of focus, it proposes a design for performance-based contracting that achieves the intended objectives and yet is consistent with the values of the social work profession.

A Historical Antecedent: The Field of Education

This increased demand for accountability in human services is similar to that which occurred in the field of education beginning in the late 1960s. The public was unwilling to continue to fund the educational system at the levels being requested without evidence that the money was translating into improved performance [Betchkal 1971; Blaschke 1971; Lessinger 1971]. Educators and school boards were faced with convincing a concerned and sometimes skeptical public that teaching resulted in learning, especially for children from low-income families [Blaschke 1971; Wilson 1971]. Educators were accused of focusing exclusively on inputs (more books, more programs, more money for teachers), while ignoring outcomes [Peterson 1971; Wilson 1971]. It was in this context that performance-based contracting was introduced in education.

Private companies or groups of teachers or administrators contracted with school districts to accelerate the achievement of a limited number of students, with payment contingent upon outcomes [Blaschke 1971]. Performance-based contracting in education did not deliver the expected results [Wedel and Colston 1988]. Problems arose in the implementation of performance-based contracts in schools, such as opposition from teachers who were not included in planning or evaluation design [Barrett 1971], challenges to the validity of standardized tests as measures of achievement [Levine 1971; Campbell and Lorion 1972], and concern about narrowness in scope, that is, limiting attention to subjects such as reading and math where there is consensus on what should be measured [Carpenter 1971].

The field of education continues to look for ways to measure outcomes and yet avoid the problems of some of the early experiments with performance-based contracting. Kentucky is one such example. In 1990 Kentucky initiated a plan that includes rewards (up to a 15% increase in pay) for teachers based upon the performance of the school where they are employed. Performance is to be measured by such variables as grades, attendance, and dropout rate. Penalties are incurred when performance declines, ranging from decreases in pay to closing the school. Each school's performance is measured relative to its results the previous year rather than by comparing it with other schools. The Kentucky plan also increases funding for education, teachers' administrative power, and freedom to experiment with innovative methods [Berstein and Howington 1991; The Economist 1991].
Performance-based Contracts in the Human Services

The social work literature describes a variety of performance-based contracts. For example, Miller and Wilson [1981] describe Colorado’s contracts with community mental health centers, which require compliance with a variety of facility and management standards. The centers must also report the number of clients served in specific categories. A failure to serve 93% of their categorical quotas can result in fiscal penalties of up to 7%; there are no rewards for exceeding these quotas. Client outcomes are also reported, but no penalties or rewards are attached to this measure of performance.

The Oklahoma Department of Mental Health has a similar performance contracting system with community mental health centers, except that it includes fiscal rewards for exceeding contract performance objectives. Wisconsin’s Division of Vocational Rehabilitation, Department of Health and Human Services, includes in its measurement of performance for divisional field offices their impact rate, cases per 1,000 population, and type of case closure. Incentives include recognition for exceptional and most improved performance. In a performance-based contract demonstration project with a private provider (Goodwill Industries), the division used the number of clients placed in jobs at specific wage levels to measure performance [Wedel and Colston 1988].

In the field of services to the aging, performance-based contracts have been defined as reimbursement for specified units of service that are actually provided [Hill and Lau 1985; Wedel and James 1986]. Rewards and penalties are excluded from this definition. The Areawide Aging Agency of Central Oklahoma, in experiments with performance-based contracts for homemaker/chore programs, used a variety of rewards for performance, including pay raises, bonuses, recognition dinners, funds for additional training and travel to present project results, and local publicity [Wedel and James 1986]. In this case, incentives were directed to the line staff, rather than focused on the agency.

Measuring Performance as Inputs

Social workers have traditionally responded to demands for accountability by emphasizing inputs—measuring the units of service provided for dollars spent [Poertner and Rapp 1985; Rock 1987]. Professionals have argued that costs are easy to measure, but benefits are often subjective or intangible and can be almost impossible to measure [Birdsall 1987]. They have noted the difficulty of measuring outcomes in human services, since outcomes cannot easily be attributed to particular interventions when there are many confounding factors [Wedel and James 1986].

Most performance-based contracts in the social or human services, therefore, measure performance in terms of inputs. This usage of the term refers simply to assuring that standards specified in the contract are in fact delivered. That is how we think of construction contracts—assuring that wood, cement, and fixtures of the specified quality are used. The problem in the human services is that expectations for inputs are often not specified. The authors found, for example, that the residential foster care contracts in one state often described what the agencies agreed to provide as “one 24-hour day of residential care.” There was no further specification of the kinds or amounts of services, the qualifications of the persons providing the services, and so forth.

Given this state of the art of contracting in the human services, it is understandable why contracting that defines performance in terms of inputs is seen as progress. It is confusing, however, to label it performance-based contracting. It is actually the specification of service standards and the monitoring of those standards.

Monitoring of standards requires that the funding agency, e.g., DHS, develop and publish service standards for each type and level of service for which it contracts. Then each agency enters into a contract that specifies the type and level of services it plans to provide and agrees to meet all the standards related to those services. The funding agency designs and implements a methodology for monitoring the extent to which each agency has met the standards, that is, a methodology for obtaining and analyzing data on services delivered to determine whether standards are being met and whether the agencies are delivering what they agreed to deliver.

The monitoring system must then be integrated with the payment system. This can begin by designing the monthly invoices submitted by provider agencies so that the information can be used for both payment and monitoring. This avoids duplication of paperwork by the provider agencies. These monthly invoices delineate the number and level of staff members (with a code for the qualifications of each), the number and kinds of services provided, the number of days of service, and so on. In group foster care, the information involves both basic maintenance functions and services given. The maintenance payment can be automatic, based on the contract, and service can be reimbursed on the basis of actual units of service provided.

Every three months a monitoring unit (either a unit within the funding agency or an organization contracted for the monitoring function) can compile and analyze the data from these monthly invoices to determine (a) whether each agency has consistently maintained the staff-client ratio required by the
standards, and (b) whether each agency has provided the appropriate kinds and amounts of services. It would be important to have a flexible system for the sake of variations in the services according to the needs of the clients at different points in time; for example, the system should permit the kinds and amounts of services to be averaged over a six-month period, so that an agency can provide and be reimbursed for more or less than the agreed monthly amount in any one month, as long as the total within the six-month period is not exceeded.

Another critical element of a monitoring system is annual site visits to each agency by the monitoring unit to review the record-keeping systems, verify the accuracy of the information submitted in the monthly reports, and interview selected staff members. The site visitor reviews case records, personnel records, time sheets, and other pertinent records and documents, and interviews selected staff members to obtain a description of the services given.

If the monitoring process finds that an agency is not meeting structure or service standards, the monitoring unit can explore the reasons for the deficiency with the agency administrator. Continued below-standard performance could result in probationary action, revision of the purchase-of-service contract to reflect the kind of structure or services actually being provided, or in extreme cases, the withdrawal of the contract.

**Measuring Performance as Outcomes**

Social work’s effort to measure performance on the basis of inputs has contributed to increased specificity of inputs and increased assurance that the services promised are in fact delivered. The emphasis on inputs has not, however, addressed the concern of policymakers and the profession that the services produce the promised results. Consequently, the human services are being pressed to measure performance in terms of outcomes (impact or effect of services provided).

The first question that arises when social service agencies are asked to measure outcome is whether one measures treatment outcome or posttreatment outcome. Treatment outcome focuses on the outcome in the treatment setting. This approach measures the improvements in the functioning of the child and the family during the time the child was in group residential care. It requires an assessment tool to measure child and family functioning, which would provide baseline data at the time of placement. (If properly designed, the tool could supply information for guiding the placement decision and the treatment plan, as well.) The administration of the same instrument at the end of treatment would produce important quantitative measures of the changes in child and family functioning during the time the child was in placement.

Information regarding what the particular treatment achieved would be important to agencies that are constantly seeking greater understanding of what is and what is not effective and how to improve the quality of their treatment programming. It would also be important in discovering which treatment strategies are most effective for which children and families, that is, children and families with what characteristics and/or kinds of problems.

Although this approach to outcome evaluation is valuable, it has limited value by itself. It is not clear that changes that take place in the group foster care setting will translate to the child’s and family’s ability to function successfully in the setting designated in the permanency plan. In other words, since the goal of foster care is to enable the child (and the family, in cases where the goal is family reunification) to function effectively in the agreed-upon postfoster-care situation, the real evaluation of outcome is whether the child and family function effectively after treatment. Thus, evaluating outcome in the treatment setting is not assessing the intended outcome, but assessing the effectiveness of the means, which is assumed to produce the intended outcome. It is critical, then, to combine this approach with the posttreatment outcome evaluation.

**Posttreatment Outcome Evaluation: A Proposal**

Posttreatment outcome evaluation concerns the outcome in the posttreatment setting. In the case of group foster care, this refers to the setting designated in the permanency plan. This seems the most important variable to measure, since getting there is the reason for placing children in group foster care. The most effective means of measuring posttreatment outcome is to follow foster children after placement to determine, on an annual basis (until each child reaches age 18), how long the children maintain the statuses (e.g., family reunification, adoptive home, independent living) that were specified in the final permanency plans [Liebott 1990; Schwab 1990].

These results should be compiled and reported each year by level of care and by agency [Liebott 1990; Schwab 1990]. Figures should be available for each level of care within each agency, presenting the percentage of children who successfully maintained their expected outcome for specific time periods. This kind of report could be more than a simple presentation of outcomes, however. The analysis of data could include many of the complex factors that affect outcome. A variety of factors could serve as variables in analyzing and reporting the outcomes, for example, categories of children served, the
number and types of previous placements, the length of time in group care, whether the agency agreed with the decision for the child to leave the center, whether postplacement support-service recommendations were followed, and any chance factors that had a significant impact on the family.

This approach focuses on the ultimate objective of group foster care—empowering children and their families to achieve whatever goal is set forth in their permanency plan. It also recognizes that children and families can continue to have problems in various behaviors and still be successful in achieving the overall objective. It provides the opportunity to determine whether (or the extent to which) there is a correlation between the gains identified at the conclusion of treatment and the posttreatment outcome.

Incentives and Disincentives

The matter of incentives and disincentives is different for performance-based contracting that measures inputs and that which measures outcomes. Measuring performance as inputs simply involves assuring compliance with contract provisions. This should not involve incentives or disincentives, except in the ultimate sense of being allowed or disallowed the opportunity to serve clients. If a provider agency is complying with the standards, it continues to be granted funds to serve clients. If it fails to comply with standards, then it must come into compliance with the existing contract, alter its contract to reflect accurately what it is able to provide, or cease serving clients.

Difficulties with Incentives

Financial and other incentives and disincentives are possible when performance is measured as outcomes. There is potential for rewarding and penalizing agencies based on their level of performance, and many performance-based contracting systems include financial incentives and disincentives. There are many problems with these incentive systems, however. Three of these problems are discussed here.

First, when people set goals on which their performance will be evaluated and rewards/punishments given, they tend to set low goals that they are confident of achieving. This has been a problem in the use of management by objectives (MBO), one form of performance-based contracting in the human resource management field [Kane and Freeman 1986]. MBO is a technique used by management to involve employees in setting performance objectives, which are subsequently used as a basis for performance evaluations, and to determine the level of reward for performance. Employees learn quickly to set low goals they are confident of achieving, and much of the purpose and usefulness of MBO is lost.

Similarly, agencies tend to set low goals for themselves that they are confident of achieving. If uniform goals were set, agencies would feel the pressure to "cream," that is, to select the clients who are most likely to respond to treatment, whether or not they are most in need of services [Wedel and James 1986].

Second, performance objectives tend to be treated like licensing standards—the minimum tends to become the maximum. If a specified level is required in order to be rewarded, there is no incentive to achieve above that level. In the case of Wisconsin's Division of Vocational Rehabilitation, divisional field offices that had been identified as performing at high levels before the implementation of performance-based contracting initially decreased their level of performance [Wedel and Colston 1988].

Third, when performance-based contracting is imposed by a funding source, the rules often become the focus of concern, rather than the performance objective. Administrators and staff members argue with funders about the appropriateness of each variable and of the means of measuring each variable. If an agency knows that there are possible penalties for failing to achieve objectives as determined by specific measures, it is likely to seek to avoid any negative repercussions, often by focusing on the rules or some details of the findings that led to the penalty, rather than on the program-related problems that led to not achieving the objective. Alternatively, the agency "plays the game" by focusing services on the variable measured, to the exclusion of other outcomes, which may be equally important but more difficult to measure. In a 1970 project to test performance-based contracting in school systems, the Department of Health, Education, and Welfare had to disqualify one contractor due to allegations that instructors were "teaching the test," that is, focusing exclusively on the items contained in the instrument that evaluated the outcomes [Carpenter 1971].

Neutralizing Negative Impacts

One way to minimize such dysfunctional repercussions is to avoid connecting any direct financial incentives or disincentives to performance. This avoids any necessity for a preestablished level of success below which agencies would have their payments reduced and above which they would have their payments increased. Elimination of such financial incentives/disincentives makes the performance-based contracting system much less complex to administer and less threatening to the provider agencies.

It is appropriate that the incentives and disincentives be those related to
professional and organizational achievement and recognition. This approach is built on the assumptions that service agencies want to provide the best possible services for children and that they are willing to learn from each other what works and what does not. A published annual report of the outcome evaluation would identify the agencies whose service programs are producing the best outcomes. This would result in professional recognition of quality programs. This is an incentive in and of itself, but it would create additional recognition in the form of opportunities for those agencies to share their experiences and what they have learned with others locally and nationally. Service providers whose programs did not produce good results would seek to learn from the leading agencies, which would improve the overall quality of services.

There would be much informal pressure on agencies with poor performance to improve their performance, and there would be indirect financial incentives and disincentives. Both professional staff members and board members of agencies would be concerned about the standing of the agency and motivated to improve these programs. Also, department of human services workers would be more reluctant to place children in agencies that had a low rate of achieving expected outcomes, unless there were waiting lists for admission to group foster care settings.

This approach to performance-based contracting could result in a continual escalation of quality. Instead of setting a minimum level of performance that becomes the maximum, it offers incentives for continual improvement in outcomes. As service providers learn what is effective and improve their work, the leading agencies will have to continue to find ways to improve if they expect to remain in the spotlight.

Additional Problems with Performance-based Contracting

Although it is widely agreed that performance-based contracting is a good concept, it is often rejected because of several shortcomings that are seen in specific proposals. One problem is the tendency to measure what can be most easily measured (which may not be the most important things to measure) and to use the most easily available, convenient measurement instruments. Performance-based contracts in group care contexts, for example, focus on certain aspects of children’s behavior (school performance, achievement test scores, scores on behavior checklists, etc.), but it is difficult to measure such qualities as the ability to care for others or to accept the caring of others. The posttreatment outcome evaluation above avoids the problem of focusing on specific behaviors; it simply measures how long children maintain the statuses that were expected in the final permanency plan.

Second, the focus on multiple minor dimensions of children’s performance can result in excessive testing of children. Thus, one of the penalties of being a foster child becomes being tested constantly. By focusing on how long children maintain the expected statuses, this proposal avoids giving children batteries of tests.

Third, one may measure performance, but there are no norms regarding what amount of change is significant. Until standards are available to determine reasonable expectations for performance, it will be difficult to set levels for acceptable versus unacceptable performance. Even when empirical measures for performance are developed, their meaning is not clear if there is nothing with which to compare them [Poertner and Rapp 1987]. Carter [1988b] describes the problems of a lack of standards in attempts to evaluate the performance of a former director of a state human services department. This proposal avoids the problems of determining how much change has occurred, since the focus is the length of time children maintain the statuses that professionals have established as the expected outcomes.

Fourth, attributing total effect, either positive or negative, to treatment is problematic [Wedel and James 1986]. It is not possible in social work research to control for all the variables that might have an impact on treatment outcomes. This proposal does not attempt to control for all variables. It is a proposal for practice-based measurement of outcomes. The assumption, however, is that the confounding variables will be distributed among the children who are served by the various group foster home organizations.

Finally, the process of designing a performance-based contracting system is critical to its acceptance. It is important that a system of this kind not be imposed from above by funders. The participation of social workers in the development of contracting standards is critical [Hart 1988]. The factors that must be taken into consideration in determining what to measure and how to measure are complex, and providers are able to identify these complexities. In the authors’ work in designing a system for group foster care, the providers noted, for example: the difficulties of determining, in the case of sequential providers, which provider had what influence on the children; the differences in the difficulties of the children treated; whether the court accepted the recommended treatment plan or imposed one with which the agency disagreed; and whether the support services that were part of the permanency plan were actually delivered. This proposal represents a concept that the authors believe is sound. The process of developing and implementing the system in a par-
Conclusion

The human services lack consensus on a definition of performance. The profession first needs to make clear distinctions between performance-based contracts focused on inputs and those focused on outcomes. The proposals presented in this paper include strategies for measuring both input and outcomes. The proposal for measuring performance by outputs provides for the development and monitoring of performance standards for the services delivered. The proposal for measuring performance by outcomes suggests a standard set of measures of outcomes, which over time should clarify the best strategies for serving various kinds of children and adolescents, increase appropriateness of placements, reduce length of time in placement, and reduce costs. The proposal also encourages professional development and the exchange of knowledge and best practice among agencies. This approach views the goal of performance-based contracting not only as assuring achievement of goals, but also as supporting agencies as they seek to improve their quality of care and their level of achievement.

References


Integrating Special-Needs Adoption with Residential Treatment

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This article describes a special program for latency-age children entering residential treatment who are available for adoption. The program offers a continuum of care, incorporating the strengths of group living, therapy, and adoption preparation and placement.

An increasing number of children in residential care have adoption as a treatment consideration. Initially, children adopted as infants were reportedly overrepresented in clinical populations [see Bohman 1971; Brinich 1980; Senior and Himadi 1985; McRoy et al. 1988]. Many children are now entering residential treatment whose parents’ rights have been terminated and for whom adoption is a permanency goal. One-third of the 70 children in residential treatment and group home care at Four Oaks* have either had their parents’ rights terminated or been adopted. These children constitute unique challenges to the service delivery system. This article describes a program to integrate residential and adoption services to both treat adoptable children and prepare them for adoptive placement.

*Four Oaks is a private, nonprofit human service agency providing out-of-home care programs and prevention and support services to families.

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