

Working Paper

No 1 - December 2003

**Performance-Based Contracting
(PBC) For Human Services:
A Review of the Literature**

By

Lawrence L. Martin, Ph.D.

**Center for Community Partnerships
College of Health & Public Affairs
University of Central Florida
12354 Research Parkway
Orlando, Florida 32816-3224
Tel: (407) – 823-5731**

www.centralfloridapartnershipcenter.org

INTRODUCTION

Contract service delivery has a long history in the human services. State human service agencies were making significant use of contracting long before the terms “privatization” and “alternative service delivery” became fashionable (Mueller, 1978, 1980). Over 25 years ago, an Urban Institute study reported that state human service agencies were already expending over 50% of their funding through contract service delivery (Benton, Field & Millar, 1978:111-112). Fast forwarding to the present day, contracting continues to be the major mode of human service delivery. Some researchers speculate that by the year 2010 upwards of 80% of all government human service funding will involve contracting (Martin, 2001; Lauffer, 1997). Considering major trends in human service contracting today (Martin, 2003; Martin, 2000a; Vinson, 1999; Behn & Kant, 1999; Lahti, 1997; Eggers, 1997a; Kettner and Martin, 1995), the majority of future contracts will most likely be performance-based (Martin, 2004a; Martin & Miller 2004; Frumkin, 2001; GAO, 2000; Martin, 2000b; Kamerman & Kahn, 1998).

From Florida to Oregon and from Arizona to Maine, state, county and municipal governments are increasing their use of performance-based contracting (PBC) for human services. Much of the impetus for the increased use of PBC can be attributed to trickle down federal policy. The federal government has adopted a goal of transitioning a minimum of 50% of all its service contracts to PBC by 2005 (Martin, 2003). Additionally, federal legislation like the *Workforce Investment Act* (welfare-to-work) and the *Adoption & Safe Families Act* (child welfare) place strong emphasis on performance accountability.

This paper reviews the literature on PBC for human services. As part of this review, the history of human services contracting is briefly discussed and a consensus definition of PBC is provided. The paper then transitions into an identification of the theoretical underpinnings of PBC for human services. Next, various state human service agency approaches to PBC are examined and their implications for contractors identified. Lastly, the question is addressed: Does PBC for human services work? Through out this paper, the focus is on state human services agencies. The rationale for restricting the discussion in this fashion is a practical one . . . more published research and information are available at the state level.

Two cautions are offered the reader about this paper:

- in discussing state approaches to PBC for human services, the author has chosen to focus on a small purposeful sample of states whose efforts “appear” to constitute the full range of PBC, at least as the concept is understood today.
- in discussing the question does PBC work, most of the sources cited are government reports and documents that have not been independently verified. A few third party reviews and evaluations are noted, but these are the exception rather than the rule.

A BRIEF HISTORY OF ACCOUNTABILITY IN HUMAN SERVICE CONTRACTING

Using an expanded systems framework (Figure 1) to organize the discussion, the history of human service contracting can be divided into three major periods: the formulative years (1968-1979), the maturing years (1980-1990) and the performance years (1990s-Present) (Martin, 2000a; Kettner and Martin, 1998). Each of these periods is distinctive in terms of how “accountability” in human service contracting has been conceptualized.

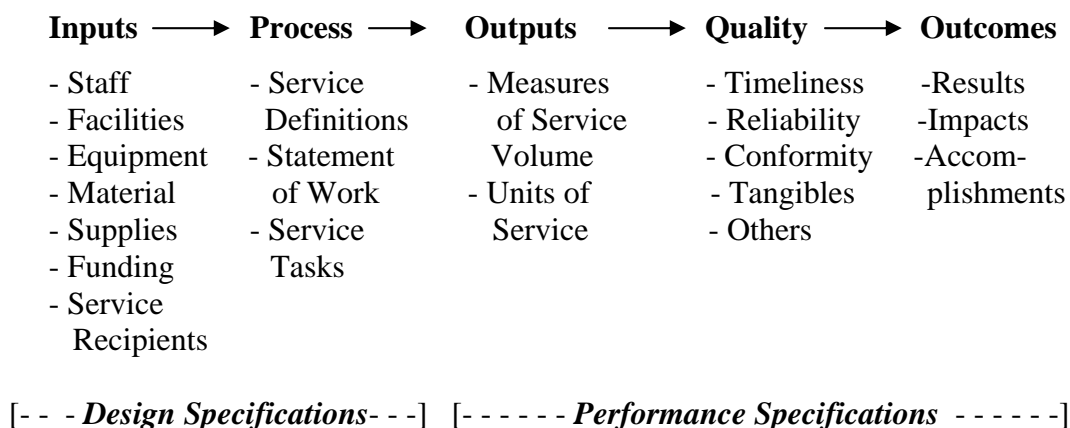
The Formulative Years (1968 – 1979)

Examples of human service contracting can be traced back as far as colonial times (Kammerman & Kahn, 1998; Gibelman & Demone, 1989; Martin, 1986; Wedel, 1974). However, the widespread use of contracting for human services only began with the “War on Poverty” and “Great Society” programs of the 1960s (Kettner and Martin, 1987; Mueller, 1980; Wedel, 1974).

In the language of government contracting (Figure 1), inputs and process represent *design specifications*. Inputs are concerned with what goes into a human service. Process is concerned with the service delivery strategies and treatment modalities. Outputs, quality and outcomes represent *performance specifications*. Outputs, also referred to as “units of service,” are measures of the volume or amount of service provided. Quality is quality. Outcomes refers to the results, accomplishments or impacts of service delivery. In the human services, outcomes are generally conceptualized as “quality of life” changes in clients as a result of service provision (Martin, 1998; Martin & Kettner, 1996).

During the formulative years, accountability in human services contracting was conceptualized primarily in terms of design specifications (Else et al., 1992). Little use was made of performance specifications (Slack, 1979). The preferred contract type was cost reimbursement whereby contractors were reimbursed for their expenses generally without regard to issues of performance.

Figure 1: The Expanded Systems Framework & Accountability in Human Service Contracting



The Maturing Years (1980 – 1989)

In the decade of the 1980s, accountability in human service contracting began to be reconceptualized in terms of process and outputs. At this point, accountability began to bridge from design to performance specifications (Figure 1). During this period, contract service delivery also became more standardized (Smith, 1989), particularly with respect to inputs and process.

Toward the latter part of the decade of the 1980s, the concern with standardization was extended to outputs. State human service agencies began to develop standardized definitions of outputs called “units of service” (e. g. Arizona DES, 2000). States also began holding contractors accountable for collecting and reporting data on the amount of outputs, or units of service, they provided. Some state human service agencies also began experimenting with holding contractors accountable for providing specific amounts of outputs, or units of service. The use of cost reimbursement type contracts began to be replaced with unit cost and fixed-fee contracts that tied contractor compensation to the amount of outputs, or units of service, provided. With the advent of these changes, state human service agencies took their first tentative steps toward PBC (Kettner & Martin, 1998).

The Performance Years (1990 – Present)

The decade of the 1990s was the era of “Reinventing Government” (Osborne & Gaebler (1992), the *Government Performance & Results Act of 1993* (Public Law 103-62) and the service efforts and accomplishments (SEA) reporting initiative of the Governmental Accounting Standards Board (GASB, 1994). An essential aspect of all these government reform efforts was a focus on performance accountability consisting of the outputs, quality and outcomes of government programs (Martin, 1998; Martin & Kettner, 1997; 1996). The concern with performance accountability lead directly to an increased interest in PBC on the part of governments in generally and on the part of state human service agencies in specific.

By the middle of the decade of the 1990s, 50% of state human service agencies reported at least some experimentation with PBC (Eggers, 1997a). Implementation, however, was uneven across states and programs; some states and programs tended to focus on outputs, others on quality and still others on outcomes (Kettner and Martin, 1995). By the end of the decade of the 1990s, what might be called an emerging consensus definition of PBC for human services began to take shape.

A Consensus Definition of Performance-Based Contracting (PBC)

A performance-based contract is one that “focuses on the outputs, quality and outcomes of service provision and may tie at least a portion of a contractor’s payment as well as any contract extension or renewal to their achievement” (Martin, 1999:8).

THE THEORY OF PERFORMANCE-BASED CONTRACTING

This section looks at “principal/agent theory.” Principal/agent theory provides the normative guidance as to how human service contracting relationships should be structured.

Principal/agent theory is derived from the field of economics (e. g., Spence & Zeckhauser, 1971; Ross, 1973). The basic problem addressed by the theory is: how to best structure principal/agent relationships so that the latter will act in the best interests of the former. In applying principal/agent theory to human service contracting, governments (principals) delegate functions or activities (service delivery) to contractors (agents). Principal/agent theory has generated a number of important insights that have implications for human service contracting including: transaction cost analysis; the problems of information asymmetry, incomplete contracts and agent opportunism; the use of *ex ante* incentives and penalties; and approaches to *ex post* monitoring. These concepts in turn provide normative guidance relative to the structure and administration of human service contracts.

Transaction Cost Analysis

Transaction costs are said to be inherent in any principal/agent relationship (Brown & Potoski, 2001; Sclar, 2001; Kettl, 1993). Transactions costs can be defined as the costs principals incur to insure that agents act in their best interests. Transaction costs can be internal to an organization (e. g., employer/employee relationships) or external (e. g., government/ contractor relationships).

The foundation work on transaction cost analysis is generally credited to Williamson (e. g., 1985, 1975). According to Williamson, the costs of producing any good or service is a combination of both: *production* costs and *transaction* costs. Applied to human service contracting, production costs are those costs governments incur in paying or reimbursing contractors to provide services. Transaction costs are those costs governments incur in the administration and monitoring of human service contractors. According to Williamson, contract service delivery only makes economic sense when the combination of contractor production and transaction costs are less than the combination of government production and transaction costs.

The concept of transaction costs and their analysis may be the most important insight provided by principal/agent theory. It is a necessary, but not sufficient, condition to simply identify and calculate transaction costs; they must also be managed during contract administration. Otherwise, transaction costs can increase beyond original calculations and undermine the economics of human service contracting. Fortunately, many of the insights provided by principal/agent theory provide normative guidance on the management of transaction costs (Martin, 2004b).

The Problem of Information Asymmetry

Information asymmetry refers to the imbalance of information that always exists between principals and agents. In the case of human service contracting, contractors (agents) always have more knowledge about their day-to-day service delivery operations than governments (principals) do. The ability of governments to acquire detailed day-to-day information about service delivery is largely a factor of what contractors are willing to divulge voluntarily and what governments are able to independently discover as a result of contract monitoring. Thus, contract monitoring is a major component of contract administration. Contract monitoring also has major implications for transaction costs and their management. The more difficult a service contract is to monitor, the greater are the transaction costs incurred.

The problem of information asymmetry gives rise to two other problems in human service contracting, the problem of incomplete contracts and the problem of agent opportunism.

The Problem of Incomplete Contracts

Because of information asymmetry, neither governments nor contractors can accurately foresee all the problems that may occur during contract service delivery (Kavanagh & Parker, 2000). Information asymmetry thus gives rise to what principal/agent theory refers to as “incomplete contracts.” Incomplete contracts lack sufficient precision (specificity) to cover all service delivery contingencies. Incomplete contracts must therefore be amended or changed to deal with unanticipated service delivery problems when and as they arise. According to information asymmetry, all human service contracts are incomplete to some extent. However, principal/agent theory suggests that the greater the degree of completeness (the greater the degree of precision or specificity) that is achieved in human service contracts, the lower the transaction costs.

Government service contracts are usually divided into two main types: cost reimbursement (**CR**) and fixed-price (**FP**). Under **CR** contracts, contractors are reimbursed for necessary, reasonable and allocable costs incurred in the provision of services. Under **FP** contracts, contractors are paid a fixed-price, fixed-fee or unit cost for service provision. Incomplete contracts are generally of the **CR** type, while complete contracts (if any service contract can ever be said to be truly complete) are generally of the **FP** type. Both **CR** and **FP** contracts present dilemmas for governments (Brown & Potoski, 2001):

- **CR** contracts tend to *increase* production costs, but *decrease* transaction costs. **CR** contracts generally increase production costs because contractors have no incentive to control costs. Conversely, **CR** contracts generally reduce transaction costs because contractors have no need to renegotiate cost adjustments when contract amendments or changes are made.

- **FP** contracts tend to *reduce* production costs, but *increase* transaction costs. **FP** contracts generally decrease production costs because the compensation of contractors is fixed. Conversely, **FP** contracts generally increase transaction costs because contractors invariably attempt to renegotiate their compensation when contract amendments or changes are made.

A normative solution to the dilemmas of **CR/FP** contracts is suggested by principal/agent theory. The solution is for governments to develop more precise service contracts through the use of PBC. Governments should stop trying to control the process of human service delivery and focus more on performance. A process oriented approach must necessarily always lead to incomplete contracts. In PBC, governments focus on a small number of performance specifications that are as precisely defined as possible. Theoretically, it should be easier to develop a small number of performance specifications than to describe in detail the process of human service delivery.

The Problem of Agent Opportunism

Information asymmetry can also give rise to agent opportunism. Agent opportunism refers to the phenomenon that contractors (agents) sometimes pursue their own interests rather than the interests of governments (principals). One general form of agent opportunism is for contractors to provide lower quality services than are called for in their contracts. A specific human services example of agent opportunism is the frequent heard allegation that contractors sometimes keep clients in care longer than necessary because it is in their economic interest to do so. The longer clients are in care, the more revenue generated by contractors. Principal/agent theory suggests that the problem of agent opportunism in human service contracts can be overcome by the use of *ex ante* (before the fact) incentives and penalties that are tied to *ex post* (after the fact) monitoring.

The Use of *Ex Ante* Incentives & Penalties

Ex ante contract incentives and penalties are those that are decided upon up front by governments and included in contract documents. Principal/agent theory suggests that *ex ante* incentives and penalties can be used to create an alignment of interests between governments and contractors. When interests are aligned, no advantages are said to accrue to contractors for engaging in agent opportunism (Bajari & Tadelis, 2001). Aligning the interests of governments and contractors also helps to control transactions costs by reducing the need for contract monitoring. *Ex ante* incentives are used to reward contractors for meeting the needs of governments relative to such service delivery considerations as: quality, timeliness, efficiency, effectiveness, etc. *Ex ante* penalties are used to discipline contractors for failing to meet the needs of governments. *Ex ante* incentives and penalties most often take the form of additional compensation contractors can earn for superior performance or compensation denied contractors for sub-standard performance. However, *ex ante* incentives can take other forms including: the granting of contract extensions and renewals; the award of additional work without competition;

exclusivity arrangements whereby contractors are awarded additional work of either a particular type or in a specific geographical area; and others.

***Ex Post* Monitoring**

The word “monitoring” comes from the Latin *monere* which means to warn (Kettner & Martin, 1986). Monitoring is essentially an early warning system designed to alert governments when contractors stray too far from the contract specifications and the best interests of governments. As far back as Williamson (1975), the difficulty principals have in monitoring the actions and behaviors of agents was identified as a major driver of transaction costs. It follows then, that governments (principals) have little or no economic incentive to monitor their contractors (agents). Monitoring *increases* transaction costs which in turn *increases* service contracting costs. The challenge is for governments to develop relatively inexpensive, yet valid, approaches to monitoring.

Yet another insight provided by principal/agent theory is that governments can better manage transactions costs by making *ex ante* incentives and penalties the focus of *ex post* monitoring. This prescriptive guidance is at odds with the traditional approach to the monitoring of human service contracts which relies heavily on a combination of process monitoring and financial monitoring. However, ***If*** governments use PBC to identify the most important performance requirements of human service delivery, operationalize these requirements through the use of performance specifications, and attach *ex ante* incentives and penalties . . . ***then*** *ex post* monitoring should be primarily concerned with determining and validating the extent to which the desired performance is achieved.

Principal/Agent Theory & PBC

Based on principal/agent theory and its normative prescriptions, the Public Management Committee of the Organization for Economic Cooperation & Development (OECD, 1999:57-58) has developed a set of guidelines for structuring principal/agent relationships (both internal and external). By refocusing and extending somewhat the work of the OECD, a set of guidelines (Figure 2) can be formulated for structuring human service contracting relationships.

Figure 2: Guidelines for Structuring Human Service Contracting Relations

1. Contractual relationship should be performance-based.
2. Contractors should be given increased discretion over inputs and process, while being held accountable for output, quality and outcome performance.
3. Contracts should use performance specifications, not design specifications.
4. The duties and responsibilities of governments and contractors should be clearly delineated in contracts.
5. The preferred contract type is fixed price (FP).

6. *Ex ante* incentives and penalties should be aligned with the needs of governments.
7. Contractors should understand fully the consequence of superior and inferior performance.
8. *Ex ante* incentives and penalties should provide the basis for *ex-post* monitoring.

As Figure 2 illustrates, the 1st guideline states that: contractual relationships should be “performance-based.” This is an implicit *a priori* assumption as made explicit by the title of the OECD (1999) source document, “Performance Contracting . . .” This interpretation is further supported by the 2nd guideline that states: contractors should be given increased discretion over inputs and process while being held accountable for output, quality and outcome performance. The 3rd guideline (contracts should use performance specifications not design specifications) logically follows from the first two.

With the idea of avoiding to the greatest extent possible the problems of incomplete contracts, the 4th guideline states that: the duties and responsibilities of governments and contractors should be clearly delineated in contracts. The premise here is that governments should make human service contracts as complete as possible by focusing on a few precise performance specifications while minimizing the use of design specifications.

The 5th guideline states that: the preferred contract type is fixed price (FP). The use of performance specifications and PBC enables governments to use fixed price (FP) contracts thus avoiding the dilemma of the higher production costs associated with (CR) contracts. Precisely defined performance specifications used in conjunction with PBC reduces contract administration and monitoring activities thereby enabling governments to avoid the dilemma of the higher transaction costs generally associated with FP contracts. The relationship between performance specifications, PBC and transaction costs is specifically addressed in the guidelines by: the emphasis placed on the use of *ex ante* incentives and penalties which should be aligned with the needs of governments (6th guideline); the stipulation that contractors should understand fully the consequences of superior and inferior performance (7th guideline); and finally, that *ex ante* incentives and penalties should provide the basis for *ex post* monitoring (8th guideline).

STATE APPROACHES TO PBC

This section looks at the actual PBC approaches employed by a small purposeful sample of state human service agencies. The sample is believed to represent the full range of PBC approaches that have been, or are being, used by state human service agencies. Some of the case examples represent agency wide PBC initiatives involving the full spectrum of human services from child welfare to aging services. Other case examples represent smaller experimental initiatives involving specific human services such as job training and adoptions. The case examples are introduced in the order of their complexity and degree of contractor financial risk. Finally, the point needs to be stressed that the case examples represent a “snap shot” of the various state PBC approaches at a particular

point in time. On going discussions between the author and representatives in these states indicate that incremental changes in approaches are occurring constantly.

Maine Department of Human Services

By legislative act, human service contracts entered into by the Maine Department of Human Services (Maine DHS) after July 1, 1997 must be performance-based (Maine DHS, 1997). All contracts issued by the Maine DHS today contain performance measures. The Maine DHS does not directly tie contractor compensation to performance, but does link contract renewals and extensions to performance (Clary, Ebersten & Harlor, 2000). Contractors are compensated using cost reimbursement contracts.

The Maine DHS's approach is a developmental one in which contractors are being given an extended period of time to become familiar and comfortable with collecting and reporting performance data before any attempt is made to take PBC to the next level. The Maine DHS's approach can be thought of as an initial first step in implementing PBC. Because the Maine DHS uses cost reimbursement contracts, the degree of contractor financial risk is considered to be low.

Florida Department of Children & Families

The Florida Department of Children & Families (Florida DCF) is under a legislative mandate to contract out all child welfare services by December 31, 2004 (Regier, 2003; Snell, 2001). As part of its strategy for accomplishing this objective, the Florida DCF has adopted PBC.

The Florida DCF worked for several years with its contractors to develop and test what have become generally accepted performance measures and standards for all contracted services. All contracts entered into by the Florida DCF contain specific performance measures and standards (*outputs, quality and outcomes*). Some performance measures are uniform across all contractors providing the same human services. Other performance standards are established as the result of negotiations between Florida DCF and individual contractors (Florida DCF, 2000a).

Like the Maine DHS, the Florida DCF does not directly tie contractor compensation to performance. Contractors are compensated using cost reimbursement type contracts. Contractor performance is, however, directly linked to the award of new contracts. Contractors that do not meet their performance measures and standards are ineligible to receive new contracts. Instead, their current contracts are extended and the Florida DCF provides intensive monitoring and technical assistance. Contractors that repeatedly fail to achieve their performance measures and standards may have their contracts terminated.

Because it relates performance to the receipt of new contracts, the Florida DCF's approach to PBC is qualitatively different than the Maine DHS approach. Contractor financial risk is still rated low because of the use of cost reimbursement contracts.

Illinois Department of Children & Families

The Illinois Department of Children & Families (Illinois DCF) uses PBC for child permanency placement (reunification, adoption and subsidized guardianship) services (Illinois DCF, 2000; n.d.). The premise of the Illinois DCF approach is one of attempting to increase desired *outcome* performance (child permanency placements) by manipulating contractor caseloads.

One variation of the Illinois DCF approach to PBC is taken from the fiscal year 2003 Cook County, Illinois foster care contracts (Illinois DCF, n.d.). During the contract year, foster care contractors were required to accept 24 percent of their caseloads in new referrals over their baseline as of day one of the new fiscal year. Contractors were also expected to move 24 percent of their caseloads to permanency during the same contract period. If contractors placed 24 percent of their caseloads during the contract term, then their caseloads would remain the same. If contractors placed less than 24 percent of their caseloads during the contract term, then their caseloads would increase. And if contractors placed more than 24 percent of their caseloads during the contract term, then their caseloads would decline. The baseline caseload figure used for fiscal year 2003 was 20.5 children to one staff. Contractors are paid according to a complicated system called “the budgeted allocation of traditional foster care (BAT)” which resembles a combination of cost reimbursement and case rate (Illinois DCF, n.d.; Karp, 1999).

Massachusetts Department of Social Services

The Massachusetts Department of Social Services (Massachusetts DSS) has used PBC for permanency services for adolescents as part of a program called “Massachusetts Commonworks.” Contractors are compensated based on a case rate (a fee per client) per month. Contractors are also eligible to receive incentive, or bonus, payments for achieving certain process, output and outcome performance objectives. For example, contractors can earn incentive “transition payments” for moving a child to a lower level of care (process), closing a case (output) and achieving a permanent placement for six months (outcome) (Sahonchik, 1999:4).

In addition to earning incentive payments, contractors also incur some financial risk for cost overruns. If actual expenses on a per child basis are greater than the sum of the case rate payments plus any incentive payments, the contractors are responsible for those costs up to 103% (Sahonchik, 1999). For example, if the total of all case rate and incentive payments is \$45,000 for an individual child, the contractor would actually be responsible for the cost of care for that child up to \$46,350.

Several features (case rate, incentive payments and limited assumption of financial risk for cost overruns) make the Massachusetts DSS approach to PBC qualitatively different from the other approaches previously discussed. The Massachusetts DSS approach is also the first of the case examples discussed that involves some degree of contractor financial risk. Contractor financial risk is rated moderate.

Arizona Department of Economic Security

The Arizona Department of Economic Security's (Arizona DES) approach to PBC can be thought of as contracting for outputs. The Arizona DES has developed standardized output measures, units of service, for all contracted services (Arizona DES, 2002).

Under the Arizona DES approach, contractors are compensated based on a unit cost or fixed-fee for each output or unit of service provided. The Arizona DES approach can be thought of as contracting for: *outputs*. Individual unit costs are established for individual contractors taking into consideration the type of human service and other relevant cost considerations (e. g., urban/rural cost differential). For example, a contractor operating a home delivered meals program might be compensated at a unit cost of \$7.00 for each meal (the unit of service) provided to an eligible client.

The Arizona DES approach to PBC is again qualitatively different because contractor compensation is tied directly to performance, in this case to outputs or units of service. Contractor financial risk can range from moderate to high depending upon the validity and reliability of contractor performance and cost data. In order for contractors to recover the full costs of service delivery, they must provide a sufficient amount of outputs, or units of service, to generate offsetting revenues. The need for valid and reliable performance and cost data thus becomes extremely important. Contractors must be able to forecast, with relatively high degrees of accuracy, the actual performance they can expect to achieve and the full cost, or total cost, of service provision. The lack of accurate performance and cost data can result in contractors overestimating their service delivery capabilities, underestimating their service delivery costs, or both.

Several other financial risk issues arise when contractor compensation (either partially or in toto) is directly tied to performance:

- contractors that rely on others (either the government or third parties) for client eligibility determinations and referrals place themselves at some financial risk. The number of client referrals may not translate into a sufficient number of outputs, or units of service, to enable contractors to reach their break even points (the point at which revenues and expenses balance).
- the time lag between when contractors provide service and incur expenses and when they receive full payment increases. As contractor compensation moves from being tied to outputs, to quality and in particular to outcomes, the time lag can increase significantly. Some human service outcomes can take six to 12 months to achieve. In such situations, contractors must have sufficient working capital to carry them until full payment is received.
- When contractor reimbursements or payments are tied to performance, the performance itself becomes auditable. While state human service agencies have a long and somewhat notorious history of not adequately monitoring their contractors (Kettner and Martin, 1985), the same behavior is not necessarily

reflective of the audit function. Contractors must be able to demonstrate and document that the billings submitted and the payments received are based on actual observable and verifiable performance. If performance can not be objectively verified by auditors, contractors may encounter audit exceptions, questioned costs and demands for the repayment of monies.

Kansas Department of Social & Rehabilitative Services

The Kansas Department of Social & Rehabilitative Services (Kansas SRS) uses PBC for several child welfare services including: family preservation, foster care and adoption (Kansas SRS, 2001; Gurwett, 2000; Martin 2000b). The original Kansas SRS approach to PBC was one of the boldest such initiatives ever undertaken by a state human service agency (Johnson & Romzek, 2000; Petr & Johnson, 1999; Eggers, 1997b). The original Kansas SRS approach can be thought of as contracting for: *outcomes* within a managed care environment. Because neither the Kansas SRS, nor its contractors, had extensive experience with PBC and because of the general lack of valid and reliable contractor performance and cost data, several contractors found themselves in financial difficulty (Gurwitt, 2000; state of Kansas, 2000). As a result, the Kansas SRS changed to a “milestone” approach to PBC. The revised Kansas SRS approach can be thought of as contracting for a mix of: *inputs, process* and *outcomes*.

Under a milestone approach, individual clients are treated as individual projects. Each client has a definable start point (entrance into service), end point (exit from service and case closure) and major milestones along the way. Milestone contracting can involve any combination of inputs, process, outputs, quality or outcomes. Milestone PBC has been used for job training services for some time (Kettner & Martin, 1993), but recently has been applied to other human services such as child welfare.

Milestone contracting is perhaps best explained by the use of an illustration. Table 1 shows the Kansas SRS approach to milestone PBC for adoption services. A case rate (a fee per child) is established for each contractor. The contractor is paid a proportion of the case rate every time a specific milestone is accomplished for an individual child. For example, when a contractor achieves a permanent placement for a child (an outcome milestone), it receives 25% of its case rate. The remainder (75%) of the contractor’s case rate is tied to input and process milestones.

The Kansas SRS approach to PBC is again qualitatively different from the other state approaches already discussed. Contractor financial risk can be described as ranging from moderate to high. Contractors can earn 75% of their case rates by accomplishing three not very difficult milestones that are not tied directly to performance; but 25% of their case rate is directly tied to outcome performance.

Table 1: Milestone PBC By Kansas SRS

Milestone	Type of Milestone	% of Case Rate
1. Child referred to Contractor	Input	25%
2. Contractor sends first 60 day report to Kansas SRS	Process	25%
3. Contractor sends formal 180 day case plan to Kansas SRS	Process	25%
4. Contractor achieves permanent placement for child	Outcome	25%

Source: Adapted from National Child Welfare Resource Center for Organizational Improvement (1999).

Oklahoma Department of Rehabilitative Services

The Oklahoma Department of Rehabilitative Services (Oklahoma DRS) also uses milestone PBC to provide job training and job placement services for persons with disabilities (Oklahoma DRS, n.d.; Frumkin, 2001). Table 2 illustrates the Oklahoma DRS approach.

Table 2: Oklahoma DRS Milestone PBC

Milestone	Type of Milestone	Case Rate
1. Determination of Need	Process	10%
2. Vocational Preparation	Process	10%
3. Job Placement	Output	10%
4. Job Training	Process	10%
5. Job Retention	Quality/Outcome	15%
6. Job Stabilization	Quality/Outcome	20%
7. Case Closure (Client rehabilitated)	Outcome	25%

Source: Adapted from Oklahoma DRS (n.d.); Obrien & Cook (n.d.) and Frumkin (2001).

The Oklahoma DRS approach to milestone PBC is similar to the Kansas SRS approach in that contractors are paid a proportion of their case rate for achieving various milestones. The Oklahoma DRS approach can be thought of as contracting for a mixture of: *process*, *outputs*, *quality* and *outcomes*. The Oklahoma approach is qualitatively different in that a substantial proportion (70%) of the contractor's case rate is directly tied to performance (output, quality and outcome).

Contractor financial risk under the Oklahoma DRS approach is rated high. If a contractor fails to accomplish all performance milestones for a particular client, there is no apparent way that the contractor can escape losing money on that client.

Pennsylvania Department of Welfare

The Pennsylvania Department of Welfare (Pennsylvania DW) has used yet another variation of milestone PBC to implement an experimental jobs program called “Community Solutions.” The purpose of the program is to transition individuals from welfare to work. Again, the Pennsylvania DW pays contractors for the accomplishment of specific milestones. The Pennsylvania DW approach is illustrated in Table 3

As Table 3 demonstrates, the Pennsylvania DW’s approach to milestone PBC is not based on a case rate, like those of Kansas and Oklahoma, but rather on a fixed-fee. Contractors are paid a fixed-fee of \$1,000 for placing a client in an unsubsidized job and an additional fee of \$400 if the job includes medical benefits (Paulsell & Wood, 1997:7). The Pennsylvania DW approach is qualitatively different than the Kansas and Oklahoma approaches, because the Pennsylvania DW does not pay contractors for the accomplishment of any input or process milestones. The Pennsylvania approach can be thought of as contracting for: *outputs*, *quality* and *outcomes*. Since all contractor compensation is directly tied to performance (output, quality and outcome) contractor financial risk is rated high.

Table 3: Pennsylvania DW Milestone PBC

Milestone	Type of Milestone	Fee
1. Participation (client completes an assessment)	Output	\$1,000
2. Placement (client obtains unsubsidized employment)	Output	\$1,000
3. Medical Benefits (the job includes medical benefits)	Quality	\$ 400
4. Job Retention (client remains employed for 12 months)	Outcome	\$1,600

Source: Adapted from Paulsell & Wood (1997).

North Carolina Division of Social Services

The final state human service agency to be discussed is the North Carolina Division of Social Services (North Carolina DSS). The North Carolina DSS, an operating unit within the North Carolina Department of Health & Human Services, has used PBC for adoptions services. The North Carolina DSS approach can be thought of as contracting exclusively for: *outcomes*. Under the North Carolina DSS approach (see Table 4), contractors are paid a percentage of their “average placement cost” when any of three

outcomes are achieved. Contractors receive 60% of their average placement cost when a child is placed for adoption, another 20% when the decree of adoption is finalized and a final 20% when the placement is considered “intact,” has existed for 12 months (Vinson, 1999:3).

Table 4: North Carolina DSS Milestone PBC

Milestone	Type of Milestone	Average Placement Cost
1. Child Placed for Adoption	Outcome	60%
2. Decree of adoption finalized	Outcome	20%
3. Adoption Intact for 12 months	Outcome	20%

Source: Adapted from Vinson (1999):3.

Because the North Carolina DSS approach to PBC directly ties 100% of a contractor’s compensation to outcome performance, contractor financial risk is rated as high. In point of fact, contractor financial risk is rated higher than with any other approach reviewed in this study, excluding the original Kansas SRS approach which was subsequently modified.

DOES PBC FOR HUMAN SERVICES WORK?

In attempting to answer this question, the point needs to be stressed that data on the actual results of PBC are hard to access and comparable data for comparable time periods is virtually impossible to access. Nevertheless, the author was able to identify several reports, studies and other documents that do address the question.

Maine Department of Human Services

Commons, McGuire and Riordan (1997) conducted an evaluation of the Maine DHS’s use of PBC for substance abuse services. The study reported two major findings: (1) the achievement of output and outcome performance increased when tied to contract renewal, and (2) the greater the proportion of a contractor’s operating budget that came from PBC, the greater the performance.

The study findings confirm the basic premise of PBC: that contractor behavior can be influenced by the design of the contract. More importantly, the study suggests that contractor behavior can be changed to focus more on performance even without directly linking contractor compensation to performance.

Minnesota Department of Human Services

For several years now, the Minnesota Department of Human Services (Minnesota DHS) has used PBC for job placement services for refugees (Vinson, 1999). As Table 5 illustrates, the Minnesota DHS reports some impressive results with PBC.

Table 5: Minnesota DHS PBC for Job Placement Services

Fiscal Year	1995	1998	1999
No of Job Placements (Outcomes)	591	1,136	1,423

Source: Adapted from Minnesota DHS (2000) & Vinson (1999).

Over a five year period (between fiscal year 1995 and fiscal year 1999), total statewide full-time job placements increased over 240%.

Florida Department of Children & Families

Table 6 presents a summary assessment of the results of 516 performance-based contracts awarded by the Florida DCF for substance and mental health services during fiscal year 2000. The Florida DCF reports considerable success with its PBC initiative (Florida DCF, 2000b). The proportion of contractors meeting all their client specific performance standards in fiscal year 2000 was 80%.

The Florida DCF example also makes the point that moving to PBC lessens, but does not negate, the need for contract monitoring and oversight. Some 44% of the Florida DCF performance-based contracts required at least some corrective action during implementation.

Table 6: Florida DCF PBC for Substance Abuse & Mental Health Services

Assessment of 516 Performance-Based Contracts:

- The proportion of contractors meeting all client specific performance (output, quality and outcome) standards = **80%**
- The proportion of contracts requiring corrective action = **44%**
 - (1) the number of contracts with payment reductions = **61**
 - (2) the number of contracts extended for six months = **18**
 - (3) the number of contracts terminated = **3**

Source: Adapted from: Florida DCF (2000b):15.

Illinois Department of Children & Families

As Table 7 indicates, the Illinois DCF reports a significant increase in child permanency placements as the result of PBC. Based on Illinois DCF data, child permanency placements increased from 2,220 in fiscal year 1997 to over 7,000 in fiscal year 1999. The Illinois DCF reports that more child permanency placements were achieved during fiscal year 1999 than were achieved during a seven year period between fiscal year 1987 and 1994 (Illinois DCF, 2000).

In interviews with contractors in Illinois conducted by the author, the comment was repeatedly made that the Illinois DCF had intentionally used PBC to reduce the number of child welfare providers to a small number of more efficient and effective contractors.

Table 7: Illinois DCF PBC for Child Permanency Placements

Fiscal Year	1997	1998	1999

No of Child Permanency Placements	2,229	4,293	7,315

Source: Adapted from Illinois DCF (2000).

Oklahoma Department of Rehabilitation Services

A self-assessment of 13 performance-based contracts awarded by the Oklahoma DRS between fiscal years 1992 and 1997 reports that: the time clients spent waiting to receive services declined 53%, case closures increased 100% and contractor costs decreased 35% (Oklahoma DRS, n.d.).

Pennsylvania Department of Welfare

An external evaluation of the Pennsylvania DW approach to PBC was conducted in 1999 (Paulsell & Wood, 1999). The evaluators reviewed some 70 performance-based contracts awarded by the Pennsylvania DW up to that time. As part of the evaluation, the researchers conducted in depth interviews with contractors.

According to the evaluators, and in keeping with other study findings cited above, contractor staff reported focusing more on performance after the change to PBC than they did before the change. A finding not previously reported, however, was that some contractors made payments to individual clients to continue their employment long enough for the contractor to earn bonus payments for job longevity. Thus, it appears that some new and unique problems not confronted before may arise as a result of the use of PBC.

Kansas Department of Social & Rehabilitative Services

Independent external reviews consider the Kansas SRS experience with PBC to be both a success and a failure. On the success side of the equation, an evaluation conducted by the General Accounting Office (GAO, 2000) found that the outcomes achieved by the contractors equaled or exceeded the contract requirements. On the failure side of the equation, the Kansas state legislature (State of Kansas, 2000) found that the funding arrangements created severe financial problems for contractors, pushing some to the brink of bankruptcy. One community based child welfare agency reportedly lost over \$2 million dollars during the transition to PBC (State of Kansas, 2000). In a discussion with the author, a representative of one contractor reported that despite the “turmoil” created by the transition, those child welfare agencies still functioning as contractors today prefer operating under PBC. The stated reason is the increased discretion over service delivery issues that PBC gives contractors.

What About Creaming?

One of the most frequent criticisms leveled against PBC is that it inevitably leads to contractor “creaming.” The argument is made that once you begin requiring contractors to focus on performance they will seek out those clients that are the easiest to serve and will avoid those clients that are the hardest to serve. While this criticism has been vocalized for some time, little research bearing on the issue has existed. Recently, however, two studies have appeared that do shed some light on this issue. What makes the two studies interesting is not only their findings, but the fact that they were both sponsored by Canadian research organizations looking at PBC for human services in the United States.

The first study, conducted by three researchers at the University of Calgary, looked at PBC for substance abuse services in the State of Maine (Lu, Ma & Yuan, 2001). The study analyzed data on 18,972 clients served by contractors between 1989 and 1995, examining referrals between contractors. If creaming was taking place, the researchers expected to find that harder to serve clients would be referred between contractors more frequently than easier to serve clients. What the researchers found was that referrals between contractors did increase, but that clients with more severe substance abuse problems were referred and treated in the most intensive programs, while clients with less severe substance abuse problems were referred and treated in less intensive programs. Rather than using referrals to cream, the researchers concluded that the contractors were using referrals in order to specialize in the types of clients served.

The second study was funded by the Social Science & Humanities Research Council of Canada and involved a meta-analysis of other studies of PBC under the U. S. federal *Job Training Partnership Act* (JTPA) (Heckman, Heinrich & Smith, 1999). The JTPA program has the longest history of PBC of any human service. The researchers found little evidence of creaming. In summarizing their findings, the researchers stated that, “The literature has devoted too much attention to cream-skimming given the weak evidence of its existence” (Heckman, Heinrich & Smith, 1999: 50).

SUMMARY & CONCLUSION

Based on this review of the literature, what can be said about PBC for human services:

First, PBC for human services is not a single approach, but rather a variety of approaches that share a common objective: to change the behavior of contractors to focus more on performance.

Second, PBC for human services does appear to change the behavior of contractors to focus more on performance. The results attributable to PBC are impressive. While the data used to support this conclusion are derived from something less than rigorous assessments and evaluations, they are considerably more than anecdotal in nature.

Third, PBC for human services can involve outputs, quality, outcomes or any combination. The combination of all three perspectives helps insure that contractors do not engage in agent opportunism by focusing on one dimension of performance to the detriment of the others.

Fourth, PBC for human services does not appear to require that all contractor compensation be tied to performance in order to change the behavior of contractors.

Fifth, PBC for human services appears to achieve the most compelling results in those service areas (welfare-to-work and child welfare) where there is a reasonable expectation that clients who enter service will at some future date exist service.

Sixth, PBC for human services can significantly increase contractor financial risk. When contractor compensation is tied to performance (either partially or in toto), no performance means no payments or reduced payments. Other aspects of PBC for human services (third party eligibility determinations and referrals, the time lag between provision of service and payments, and audit considerations) also have significant financial risk implications for contractors.

Clearly more research and more rigorous research is needed on PBC for human services. Nevertheless, the results reported on in this paper combined with continued fiscal constraints and the need to do “more with less,” lead to the inescapable conclusion that more government human service agencies (state, county and municipal) will find PBC an increasingly attractive alternative to business as usual.

REFERENCES

- Arizona Department of Economic Security (Arizona DES). (2002).
ARIZONA DICTIONARY AND TAXONOMY OF HUMAN SERVICES.
Phoenix: Author.
- Bajari, P. & Tadelis, S. (2001). "Incentives Versus Transaction Costs: A Theory of Procurement Contracts." **RAND JOURNAL OF ECONOMICS** 32 (3):386-407.
- Behn, R. & Kant, P. (1999).
"Strategies for Avoiding the Pitfalls of Performance Contracting."
PUBLIC PRODUCTIVITY & MANAGEMENT REVIEW 22(4):470-489.
- Benton, B., Field, T. & R. Millar (1978).
SOCIAL SERVICES: FEDERAL LEGISLATION VS STATE IMPLEMENTATION. Washington, D.C.: The Urban Institute.
- Brown, T. & Potoski, M. (2001).
"Managing Contract Performance: A Transactions Cost Approach" (working paper).
- Clary, B, Ebersten, S. & S. Harlor (2000).
"Organizational Change Issues in Performance Government: The Case of Contracting." **PUBLIC PRODUCTIVITY & MANAGEMENT REVIEW** 23 (March):282-296.
- Commons, M., McGuire, T. & M. Riordan (1997)
"Performance Contracting for Substance Abuse Treatment." **HEALTH SERVICES RESEARCH** 32 (December):631-650.
- Eggers, W. (1997a).
PERFORMANCE-BASED CONTRACTING. Los Angeles: The Reason Public Policy Institute.
- Eggers, W. (1997b).
"There is No Place Like Home." **POLICY REVIEW** 83 (May/June):1-7.
- Else, J., Groze, V. Hornby, H., Mirr, R. & J. Wheelock (1992)
"Performance-Based Contracting: The Case of Residential Foster Care." **CHILD WELFARE** 71(6):513-526.
- Florida Department of Children & Families (Florida DCF) (2000a).
"Model Contract Performance Measures FY00/01." Tallahassee, FL: Author.

- Florida Department of Children & Families (Florida DCF). (2000b).
**STATUS REPORT ON COMPLIANCE WITH ANNUAL PERFORMANCE
 OUTCOME STANDARDS FY 1999-2000: SUBSTANCE ABUSE & MENTAL
 HEALTH PROGRAMS.** Tallahassee, FL: Author.
- Frumkin, P.(2001).
**MANAGING FOR OUTCOMES: MILESTONE CONTRACTING IN
 OKLAHOMA.** Arlington, VA: The PricewaterhouseCoopers Endowment for
 The Business of Government.
- Gibelman, M. & Demone, H. (1989).
SERVICES FOR SALE. New Brunswick: Rutgers University Press.
- General Accounting Office (GAO) (2000).
**CHILD WELFARE: NEW FINANCIAL AND SERVICE STRATEGIES
 HOLD PROMISE BUT EFFECTS UNKNOWN,** Washington, D.C.: Author,
 GAO Report No. GAO/T-HEHS-00-158.
- Governmental Accounting Standards Board (GASB) (1994).
**CONCEPTS STATEMENT #2 OF THE GOVERNMENTAL
 ACCOUNTING STANDARDS BOARD ON CONCEPTS RELATED TO
 SERVICE EFFORTS AND ACCOMPLISHMENTS.** Norwalk, CT: Author.
- Gurwett, R. (2000).
 “The Lonely Leap.” **GOVERNING** 13(10):38-42.
- Heckman, J., Heinrich, C. & J. Smith (1999).
UNDERSTANDING INCENTIVES IN PUBLIC ORGANIZATIONS. The Social
 Science & Humanities Research Council of Canada.
- Illinois Department of Children & Families (Illinois DCF) (2000).
 “Harvard University ‘Innovations in American Government’ Application.”
- Illinois Department of Children & Families (Illinois DCF) (n.d.)
 “Cook County Private Agency Performance Contract Program Plan.”
- Johnson, J. & Romzek, B. (2000).
IMPLEMENTING STATE CONTRACTS FOR SOCIAL SERVICES.
 Arlington, VA: The PricewaterhouseCoopers Endowment for the Business for
 Government.
- Kamerman, S. & Kahn, A. (1998).
**PRIVATIZATION, CONTRACTING & REFORM OF CHILD & FAMILY
 SOCIAL SERVICES.** Washington, D.C.: The Finance Project.

- Kansas Department of Social & Rehabilitative Services (Kansas SRS) (2001).
STATEWIDE ASSESSMENT: CHILD & FAMILY SERVICES REVIEW.
 Topeka: Author.
- Karp, S. (1999).
 “DCFS Policy Spells Pressure for Black Families.” **THE CHICAGO REPORTER**
 <<http://www.chicagoreporter.com/1999/10-99/1099fostercare.html>>
 (04/04/01).
- Kavanagh, I & Parker, D. (2000).
 “Contracting Out of Local Government Services in the UK: A Case Study of
 Transaction Costs. Aston Business School Research Institute, Ashton University.
<http://www.research.abs.ac.uk/wpaper/wpmenu4.html> (09/05/03).
- Kettl, D. (1993).
SHARING POWER: PUBLIC GOVERNANCE & PRIVATE MARKETS.
 Washington, DC: The Brookings Institute.
- Kettner, P. & Martin, L. (1998).
 “Accountability in Purchase of Service Contracting,” in Gibelman, Margaret
 & Harold Demone (Eds.) **THE PRIVATIZATION OF HUMAN SERVICES:
 POLICY & PRACTICE ISSUES, VOLUME 1.** New York: Springer
 Publishing.
- Kettner, P. Martin, L. (1995).
 “Performance Contracting in the Human Services: An Initial Assessment.”
ADMINISTRATION IN SOCIAL WORK 19(2):47-61.
- Kettner, P. & Martin, L. (1993).
 “Performance, Accountability & Purchase of Service Contracting.”
ADMINISTRATION IN SOCIAL WORK 17(1):61-79.
- Kettner, P. & Martin, L. (1987).
PURCHASE OF SERVICE CONTRACTING. Beverly Hills: Sage Publications.
- Kettner, P. & Martin, L. (1985).
 “Issues in the Development of Monitoring Systems for Purchase of Service
 Contracting.” **ADMINISTRATION IN SOCIAL WORK** 9 (3):69-82.
- Lahti, M. (1997).
 “Measuring Accountability in Performance Contracting Systems: Mental
 Health Services for Children.” Paper presented at the Annual Meeting of the
 Association for Public Policy and Management. Washington, D.C., November.
- Lauffer, A. (1997).
GRANTS, ETC. Thousand Oaks: Sage Publications.

- Lu, M., Ma, C. & L. Yuan (2001). "Risk Selection and Matching in Performance-Based Contracting." Monograph, Department of Economics, University of Calgary .
- Maine Department of Human Services (Maine DHS) (1997).
PARTICIPANT HANDBOOK FOR ESTABLISHING A PERFORMANCE-BASED CONTRACTING SYSTEM. Author.
- Martin, L.(2004a).
 "Performance-Based Contracting for Human Services: A Proposed Model." **PUBLIC ADMINISTRATION QUARTERLY** (in press).
- Martin, L. (2004b).
 "Performance-Based Contracting for Human Services: Does it Work?" **ADMINISTRATION IN SOCIAL WORK** (in press).
- Martin, L. (2003).
MAKING PERFORMANCE-BASED CONTRACTING PERFORM: WHAT THE FEDERAL GOVERNMENT CAN LEARN FROM STATE & LOCAL GOVERNMENTS. Arlington, VA: The IBM Center for the Business of Government.
- Martin, L. (2001).
FINANCIAL MANAGEMENT FOR HUMAN SERVICE ADMINISTRATORS. Boston: Allyn & Bacon.
- Martin, L. (2000a).
 "The Environmental Context of Social Welfare Administration," in Patti, R. (Ed.).
THE HANDBOOK OF SOCIAL WELFARE MANAGEMENT. Thousand Oaks: Sage Publications, pp. 55-67.
- Martin, L. (2000b).
 "Performance Contracting in the Human Services: An Analysis of Selected State Practices." **ADMINISTRATION IN SOCIAL WORK** 24(2):29-44.
- Martin, L. (1999).
 "Performance Contracting: Extending Performance Measurement to Another Level." **THE PUBLIC ADMINISTRATION TIMES** 22 (January):1&2.
- Martin, L. (1998).
 "The Rush to Measure Performance." **JOURNAL OF SOCIOLOGY & SOCIAL WELFARE** 25(3):65-765.
- Martin, L. (1986).
 "PURCHASE OF SERVICE CONTRACTING FOR HUMAN SERVICES: AN ANALYSIS OF STATE DECISION MAKING". Dissertation, Arizona State University.

- Martin, L. & Miller J. (2004).
CONTRACTING FOR PUBLIC SECTOR SERVICES. Herndon, VA: National Institute of Governmental Purchasing.
- Martin, L. & Kettner, P. (1997).
 “Performance Measurement: The New Approach to Accountability.”
ADMINISTRATION IN SOCIAL WORK 21(1):17-29.
- Martin, L. & Kettner, P. (1996).
MEASURING THE PERFORMANCE OF HUMAN SERVICE PROGRAMS.
 Thousand Oaks: Sage Publications.
- Mueller, C. (1980).
 “Five Years Later: A Look at Title XX: The Federal Billion Dollar Social Services Fund.” **THE GRANTSMANSHIP CENTER NEWS** 8:27-37.
- Mueller, C. (1978).
 “Purchase of Service Contracting from the View Point of the Provider,” in
PROCEEDINGS OF THE NATIONAL INSTITUTE ON PURCHASE OF SERVICE CONTRACTING: CHILD & FAMILY SERVICES. Lawrence: School of Social Work, University of Kansas, pp. 29-36.
- Minnesota Department of Human Services (Minnesota DHS). (2000).
 “Request for Proposals to Provide Social Services to Refugees in the State of Minnesota.” St. Paul: Author.
- National Child Welfare Resource Center for Organizational Improvement (NCWRCOI). (1999). “Practice Form: Performance-Based Contracting for Out-of-Home Care.” **MANAGING CARE** 2(3):1-11.
 <http://ww.muskie.usmedu/helpkinds/mcII_3.html> (09/05/03).
- O’Brien, D. & Cook, B. (n.d.).
OKLAHOMA MILESTONE PAYMENT SYSTEM.
 <<http://www.onenet.net/~home/milestone/mlstjrnl.html>> (09/05/03).
- Oklahoma Department of Rehabilitative Services (Oklahoma DRS) (n.d.).
MILESTONE PAYMENT SYSTEM. Oklahoma City: Author.
 <<http://www.onenet.bet/home/milestone>> (09/05/03).
- Organization for Economic Cooperation & Development (OECD). (1999).
LESSONS FROM PERFORMANCE CONTRACTING CASE STUDIES: A FRAMEWORK FOR PUBLIC SECTOR PERFORMANCE CONTRACTING.
 Paris: Author.
- Osborne, D. & Gaebler, T. (1992).
REINVENTING GOVERNMENT. Reading, MA: Addison-Wesley.

- Paulsell, D. & Wood, R. (1999).
THE COMMUNITY SOLUTIONS INITIATIVE: EARLY IMPLEMENTATION EXPERIENCES. Princeton: Mathematica Policy Research, Inc. (MPR Reference No. 8465-800).
- Petr, C. Johnson, I. (1999).
 “Privatization of Foster Care in Kansas: A Cautionary Tale.” **SOCIAL WORK** 44 (3):263-267.
- Regier, J. (2003). “Reforming the Social Service Business Partnership: Setting Out the Vision & Strategies for Reform.” Tallahassee: Florida Department of Children & Families.
- Ross, S. (1973).
 “The Economic Theory of Agency: The Principal’s Problem.” **AMERICAN ECONOMIC REVIEW** 63 (2):134-139.
- Sahonchik, K. (1999).
 “Rate Setting: Innovations in Paying for Out-of-Home Care” **MANAGING CARE** 2(2):1-11.
- Sclar, E. (2001).
YOU DON’T ALWAYS GET WHAT YOU PAY FOR: THE ECONOMICS OF PRIVATIZATION. Ithaca: Cornell University Press.
- Slack, I. (1979).
TITLE XX AT THE CROSSROADS. Washington, D.C.: American Public Welfare Association.
- Smith, S. (1989).
 “The Changing Politics of Child Welfare Services: New Roles for the Government & Nonprofit Sectors.” **CHILD WELFARE** 68:289-299.
- Snell, L. (2001).
 “Foster Care Privatization Update.” **PRIVATIZATION WATCH**, No. 292 (April):607.
- Spence, M. & Zeckhauser, R. (1971).
 “Insurance, Information & Individual Action.” **AMERICAN ECONOMIC REVIEW** 61 (2):380-387.
- State of Kansas (2000).
 “Minutes of the Joint Meeting with the SRS Oversight Committee & Children’s Issues Committee of the Kansas State Legislature, September 26, 2000.”

Vinson, E. (1999).

PERFORMANCE CONTRACTING IN SIX STATE HUMAN SERVICE AGENCIES. Washington, D.C.: The Urban Institute.

Wedel, K. (1974).

“Contracting for Public Assistance Social Services.” **PUBLIC WELFARE** 32:57-62.

Williamson, O. (1985).

THE ECONOMIC INSTITUTIONS OF CAPITALISM. New York: The Free Press.

Williamson, O. (1975). **MARKETS AND HIERARCHIES: ANALYSIS AND ANTITRUST IMPLICATIONS.** New York: The Free Press.

