

**Maintaining voluntary sector autonomy while
promoting public accountability: managing
government funding of voluntary organisations**

Royal Irish Academy Third Sector Research Programme

Working paper No. 3

Moving towards outcome-focused contracting

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1. The evolving contractual funding relationship between voluntary and community sector organisations and government

In working paper no. 1 (Boyle, 2002a), increasing accountability demands for the use of public funds by voluntary and community organisations are recognised. These accountability demands, it is noted, have led to a more prominent role for contracting and the use of contracts between voluntary and community organisations and government. Potential dangers with such an approach leading to greater formalisation and more bureaucratic procedures are noted.

Similarly, working paper no. 2 (Boyle, 2002b) highlights the role of contracting as one of the main mechanisms through which partnership arrangements between government and the voluntary and community sector are implemented. While partnerships may promote longer-term relationships rather than once-off funding allocations, contracting is seen as a way of helping define the parameters of the partnership relationship. Under the partnership ethos, there is an emphasis on joint decision making in determining the nature of the contract. That is, the contract is seen as more relational than competitive in nature. However, there can still be problems with contracting in a partnership setting. Issues such as conflicts between organisational goals and those of the partnership may arise. Contracts may also focus the activities of a voluntary or community organisation on the main items specified in the contract, possibly to the detriment of the wider social goals of the organisation.

Given both the growing interest in, and the concerns about, contractual relationships, efforts are being made to promote the benefits of contracting and at the same time minimise the associated difficulties. One particular development of note in recent years is the move towards contracts which focus more on the outcomes to be achieved as the result of the contract. This is seen as a means of giving government assurance of accountability for the wise use of public funds while at the same time giving voluntary and community organisations the freedom they need to be innovative and responsive. It does away with some of the rigidities imposed by a fee per item of service contract (for example a set amount of money for an agreed number of hours service), where the details of how services are to be provided must be addressed in the contract. In comparison, outcome focused contracting aims to put more attention on

the desired results (people placed in employment, reduction in the number of unplanned pregnancies among teenage mothers), leaving more discretion to organisations as to how precisely they arrive at the desired results. The funding contract is geared more towards what happens as a result of the funding.

2. Defining outcomes

Most voluntary and community organisations will monitor the amount of funding they receive, both from government and other sources. They will also know how many staff and volunteers they have. Further, organisations will be clear about how services are delivered and the number of type of people receiving services. Organisations, in other words, can often make a good attempt at determining their inputs, activities and outputs:

- *Inputs* are the resources consumed for a particular activity, for example, staff, staff and volunteer time, buildings and equipment.
- *Activities* are what is done with the inputs to deliver services or ‘how we work’. Sheltering and feeding homeless families and providing job training are examples of programme activities.
- *Outputs* are the direct products of the organisation arising from their activities. They include items such as the number of beds or places provided and the number of people provided with counselling. Outputs show the volume of work undertaken.

However, not many voluntary and community organisations traditionally attempt to systematically determine what happens to participants as a result of receiving their services. For example, how many people who receive job training subsequently gain employment and are still employed one year later? How many people ensured that their children were vaccinated as a result of a public awareness campaign?

Outcomes, as defined by the United Way of America (1996) are ‘the benefits or changes for individuals or populations during or after participating in programme activities. They are influenced by a programmes outputs. Outcomes may be related to behaviour, skills, knowledge, attitudes, values,

condition or other attributes. They are what participants know, think, or can do; or how they behave; or what their condition is, that is different following the programme.'

An important and useful distinction can be drawn between intermediate and final or end outcomes. *Intermediate outcomes* are interim accomplishments that are intended to (but may or may not) lead to end results (Hatry, 1999). So, for example, residents signing up to participate in an environmental improvement scheme is an intermediate outcome of a programme of training for tenants who's end outcome is a safer and cleaner neighbourhood. Intermediate outcomes are more closely and directly linked to an organisations activities and outputs than end outcomes, which may be influenced by a wide range of other factors and be more difficult to assess.

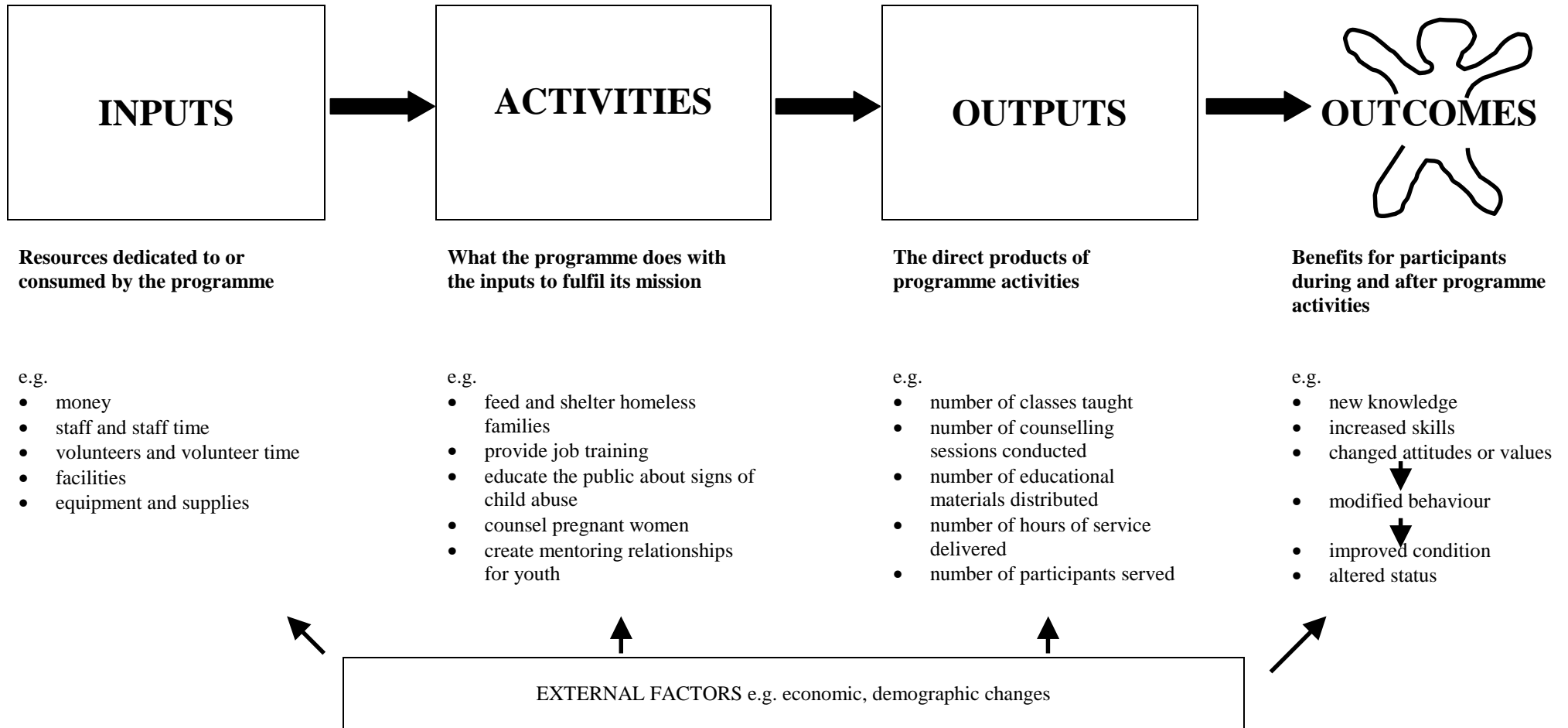
A schematic representation of the linkage between inputs, activities, outputs and outcomes is given in Figure One. This figure is a representation of the programme logic model, aiming to show how services are arranged so as to achieve benefits for participants. This model is increasingly being used by voluntary and community sector organisations, as well as many other public service organisations, to enhance their understanding of their performance.

3. Potential problems with outcome focused contracting

Conceptually, the attraction of a focus on outcomes achieved by voluntary and community organisations is clear. Contracting for results achieved makes sense. However, such a move is not straightforward or without its difficulties. Frumkin (2001), in a review of the literature on outcome focused contracting, identifies five broad problems and concerns:

1. The danger of selection by organisations of those needing least support to achieve the agreed outcomes, marginalizing the more disadvantaged or difficult to deal with cases. This process is sometimes referred to as 'creaming'. For example, selecting people who are most likely to succeed anyway to participate in a job training programme.

Figure 1: Summary of Programme Logic Model



Source: United Way of America, 1996

2. The possible ‘gaming’ of the system: appearing to take actions without actually improving performance. This can happen particularly where activities are not closely monitored.
3. Many voluntary and community organisations have organisational cultures that do not see performance targets as appropriate for the services they provide. Mission driven organisations may find it difficult or inappropriate to concentrate on specified outcomes that are seen as detached from their broad social obligations.
4. Organisations may be concerned that they become engrossed with the number of outcomes produced rather than with the quality of the services provided.
5. Outcome funding can place considerable strains on the capacity of the organisation to respond.

Such concerns are mirrored in a survey undertaken by the United Way of America (2000) of voluntary agency experience with outcome measurement. Of the approximately 300 agencies (75 per cent) who responded, just over half indicated that implementing outcome measurement had over-loaded their record keeping capacity. Just under half indicated that implementing outcome measurement caused resources to be diverted from existing activities, and that it led to a focus on measurable outcomes at the expense of other important results.

However, it is important to note that despite these reservations, the agencies surveyed were in general supportive of outcome measurement. Approximately three-quarters of respondents either agreed or strongly agreed with the statements that ‘on balance, implementing outcome measurement has had a positive impact on this program’s ability to serve clients effectively’ and ‘program outcome information should be used in making decisions about program funding’. It is, therefore, important to recognise that problems with outcome focused contracting need to be seen within an environment that is generally supportive of the use of outcomes in funding arrangements. Any system of funding will have strengths and limitations, and the aim must be to minimise the limitations and to gain the maximum benefits from the perceived advantages.

4. Moving towards outcome focused funding: some illustrative examples

A number of innovations in encouraging more interest in outcome focused contracting have taken place in recent years, particularly in the USA (Vinson, 1999). Here, three examples are reviewed: milestone contracting in Oklahoma, performance contracting in Minnesota, and social capital evaluation in Northern Ireland.

Case Study 1: Milestone Contracting in Oklahoma

Frumkin (2001) has conducted an extensive review of the Oklahoma experience with milestone contracting, and this case study draws extensively from Frumkin's review. The case in question relates to the provision by nonprofit organisations of training services for people with disabilities on behalf of the Community Rehabilitation Services Unit of the Department of Rehabilitation Services. The aim of the training is to provide integrated employment for people with disabilities in the community. Interest in outcome contracting arose from the fact that placing people in jobs was seen to be both expensive and time consuming. The major cause of the problem was seen as the fee-for-service reimbursement structure, which put the emphasis on providing the services rather than on moving people into stable jobs. The implicit goal was seen as being to maximise the number of hours spent on a particular client.

To change the system, a milestone payment system was devised and introduced in the early 1990s. This reimburses nonprofit organisations when clients reach a number of milestones along the way to getting a job. Reimbursement is for the average cost of providing the outcome rather than for the cost of staff time. The broad structure of the milestones, and associated payments (with the largest payment for the final milestone) are:

Milestone	Percentage of funding payment
Determination of need	10
Vocational preparation	10
Placement	10
Four-week job training	10
Ten-week job retention	15
Stabilisation	20
Full employment for 17 weeks and 90 days	25

In terms of the discussion earlier, the first five milestones can be seen as intermediate outcomes, the sequence of steps along the way needed to secure the final outcome of stable full-time employment. To avoid problems of ‘creaming’, a two-tier system of payments was introduced, where organisations are paid higher fees for serving people designated as highly challenged.

In broad terms, the move has been very successful. A survey conducted in 1997 indicated that 13 of 16 nonprofit organisation surveyed showed improvements in the time taken to place people with disabilities in jobs and reductions in costs and paperwork. The initiative was seen as a good or excellent one by 75 per cent of the organisations surveyed. In 2000, the cost to the state of closure of a case was \$10,740 on average, compared to \$22,000 in 1991. Most of the nonprofit organisations felt that the less-onerous reporting requirements under the milestone payment system had freed their job coaches up to spend more time with clients. It had also freed up managers to spend more time supporting job coaches and ensuring things ran smoothly.

This is not to say that the move was painless, however. A third of nonprofit organisations noted that the changeover was challenging. Many were found not to have the skills and experience to run outcome-focused organisations. Some felt that the focus on job placement was too narrow and inappropriate for what they did, and dropped out of the programme. Concerns about potential ‘creaming’ remain, despite the two-tier payment system.

Overall, however, the move is regarded as a beneficial one, both by the state and by the majority of participating nonprofit organisations. Linking payments to milestones (intermediate and final outcomes) has led to improved services in terms of job placement for people with disabilities, increased efficiencies, and reduced paperwork and administrative burden for nonprofit organisations.

Case Study 2: Performance contracting in Minnesota

The Oklahoma milestone contracting case is an example of where contracting specifically ties payments to outcomes. An alternative approach is to develop

contracts that do not provide direct monetary incentives for performance, but instead encourage improved performance by detailing performance specification and outcome targets. A job placement programme run by the Refugee Services Section of the Minnesota Department of Human Services, as outlined by Vinson (1998) provides an example of this latter approach.

In this case, performance contracting was introduced in 1990. Each contractor receives a grant based on the number of clients it proposes to serve and the cost of placement per client. Contractors must submit a two year work plan that contains performance indicators with targets for all activities leading to job placement. Contractors regularly report information on job placements, retention and other activities, and receive a quarterly status report in return. If performance is lower than 80 per cent of target, the providers must submit a corrective action plan. If performance does not improve in the next quarter, contractors are placed on probation. Ultimately, contracts may be terminated or not renewed.

Minnesota's programme was rated one of the six top performers in the country in 1997. From 1995 to 1999, the programme increased job placements from 591 per annum to 1136 per annum. Providers also frequently exceed their targets for clients average hourly wages, jobs with health benefits and termination of cash assistance because of earnings.

Case Study 3: The use of social capital evaluation in Northern Ireland

As noted previously, many voluntary and community organisations feel that the contracting process insufficiently captures the breadth and nature of the work that they are involved in. In particular, the advocacy role, in terms of speaking out for their clients interests and in terms of community transformation, is not seen to be captured by monitoring that focuses on service delivery issues.

In an attempt to address this issue, Community Evaluation Northern Ireland (CENI) are trying to develop evaluation practices that will value these wider and less tangible outcomes of community and voluntary organisations. CENI are using the concept of social capital to provide the framework for doing this (Morrisey, McGinn and

McDonnell, 2001). Putnam (1993) identifies social capital as ‘features of social organisation, such as networks, norms and trust, that facilitate coordination and cooperation for mutual benefit.’ Higher levels of social capital are seen as producing more socially healthy and economically competitive societies. CENI propose (Morrissey, McGinn and McDonnell, 2001):

... that the elements of social capital (principally trust, norms and networks) are used to organise indicators that are specific to the different contexts within which voluntary and community activity takes place. Community organisations have frequently complained that statutory funders under-value the process outcomes that are specific to the sector. Conversely, some funders worry that an exclusive focus on a ‘non-measurable’ process cannot represent value for money and carries a high opportunity cost. We suggest that social capital captures many of the process outcomes of community-based activity without denying that outputs and results should be monitored as well. Particular funding arrangements will have their anticipated outcomes specified in advance. The concept of social capital can capture the process aspects of the activity.

In terms of capturing social capital, CENI suggest a list of indicators (drawn from World Bank literature), which reflect four levels of social capital: individual, organisational, community and civic. These indicators are set out in Table 1. CENI recognise that not all these indicators will be of equal relevance or applicable to all voluntary and community organisations, but suggest that the framework can be tailored and adapted as appropriate. The approach is seen as a way of capturing the added value associated with funding voluntary and community organisations.

Table 1

	Social Capital Indicators
<p><i>Individual Capital</i></p> <p>(the development of skills, capacity and confidence: both of individuals within organisations and of individual beneficiaries)</p>	1. Involvement in volunteering;
	2. Interpersonal trust among participants
	3. Knowledge of community affairs;
	4. Number of active group memberships;
	5. Depth of active participation in groups
	6. Trust in own community's groups or organisations:
<p><i>Organisational Capital</i></p> <p>(the development of such organisations themselves to the point where they can fully participate within a modern system of governance, particularly partnership structures)</p>	7. Number of active network memberships;
	8. Depth of active participation in networks;
	9. Sustainability of group or organisation's effects;
	10. Inclusivity of group or organisation's membership
	11. Group or organisational capacity;
	12. Formal participation in inter-sectoral linkage through partnerships;
	13. Depth of participation in partnerships:
<p><i>Community Capital</i> – social capital for 'bonding'</p> <p>(the fostering of networks of trust and collaboration within the communities in which the organisations are located)</p>	14. Depth of collective action undertaken by communities;
	15. Range of collective action undertaken by communities;
	16. Integration within 'their' collective action of communities' marginalised groups eg stigmatised young people;
<p><i>Civic Capital</i> – social capital for 'bridging'</p> <p>(developing networks of trust and collaboration beyond the limits of the religio-ethnic spaces of Northern Ireland's divided society, i.e. developing relationships based on common citizenship rather than ethnic identity)</p>	17. Trust in 'other' community;
	18. Trust in sub-regional partnerships across ethnic communities;
	19. Trust in regional partnerships across ethnic communities

Source: Morrissey, McGinn and McDonnell, 2001

5. Conclusions

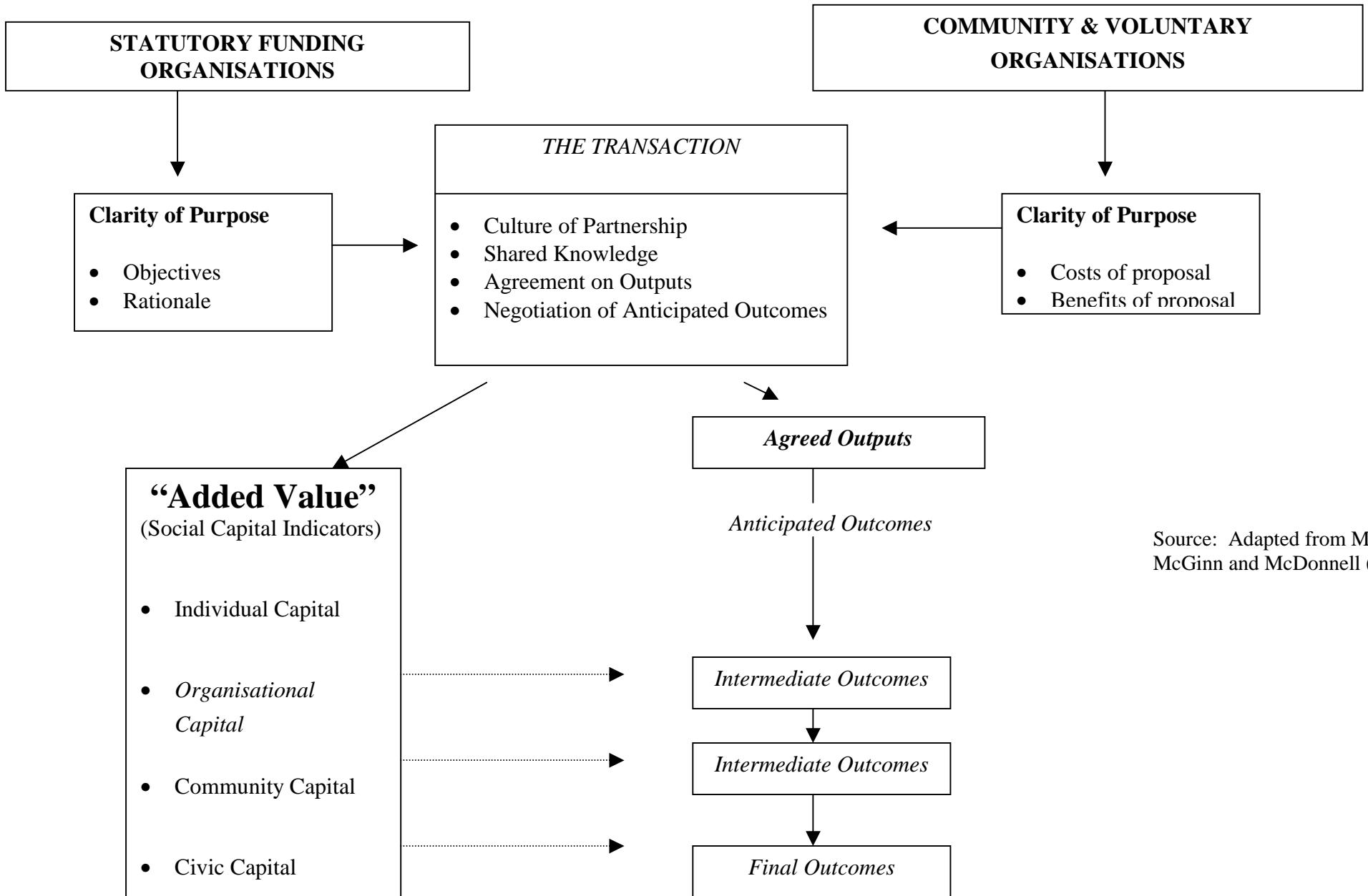
Attempting to measure outcomes is not a simple or straightforward task. But in recent times some useful guidance has been issued on how to measure outcomes (see, for example, United Way of America, 1996; Martin and Kettner, 1996; and Hatry, 1999). In particular, the use of intermediate outcomes or milestones as they are referred to in the Oklahoma case study, represents a way of specifying and detailing the results to be expected from the funding of services by voluntary and community organisations.

Outcome focused contracting offers potential benefits both to government and to voluntary and community organisations. The government's need for accountability is ensured by putting attention on what is actually happening as a result of the provision of public funds. The values of autonomy and innovation for voluntary and community organisations are promoted by moving away from detailed fee-per-item of service contracts towards more attention on outcomes. The measurement of social capital, as promoted by CENI, offers the opportunity of capturing some of the less quantifiable but nevertheless important aspects of the work of voluntary and community organisations.

However, this is not to say that outcome focused contracting is a panacea. There are potential problems, including the 'creaming' of services and potential increasing marginalisation of those most in need and a focus on measurable outcomes at the expense of quality. Sometimes, the outcomes themselves may be impossible to assess or may only be known several years after the funding has been given. What is needed, it is argued here, is an increasing focus on the use of outcome-oriented contracts, but not a total reliance on them as the solution to the funding relationship between the government and voluntary and community organisations.

The broad parameters of the funding relationship based on a more outcome-focused contracting approach are set out in Figure Two. Here, voluntary and community organisations transact with statutory funding organisations in a partnership context to arrive at agreed outputs, anticipated outcomes and the added value of social capital. Such an approach offers a way forward for funding.

Figure 2: Parameters for an Outcome-focused Funding Relationship



Source: Adapted from Morrisey, McGinn and McDonnell (2001)

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