



# Performance-Based Strategies

## Defining Terms and Comparing Common Strategies

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To improve programmatic effectiveness and boost accountability, governments and other funders of social services are increasingly interested in ways to measure, incentivize, and emphasize performance as part of planning and budgetary decisionmaking. Ongoing innovation in the field has led to the development of creative strategies and ideas with an abundance of terms used to describe them. Different stakeholders often use different terminology for the same or similar concepts (for example, contracting for results, results-driven contracting, outcomes-based contracting, etc.), and no standard framework exists for grouping, understanding, or comparing the various strategies. This has made it difficult to make sense of how each of these strategies relates to one another.

This short brief will help governments, foundations, and others conceptualize and understand the range of performance-based strategies. It builds off the definitions and work of field leaders as well as the Urban Institute's experience managing performance and engaging with the pay for success model.

## Defining Performance

Improving program performance starts with understanding current performance, setting performance goals, and building measurement capacity. This requires the careful collection and analysis of data on various types of performance, which can include the following:

- **Outputs** are the direct activities and actions produced or delivered by a program, such as the number of course completions and number of clients served.
- **Outcomes** are the intended changes (e.g., in behavior, knowledge, or conditions) that can be observed among program participants. Outcomes could include reductions in recidivism, increased housing stability over time, and increased graduation rates.

- **Impact** measures the achievement of outcomes relative to a comparison, which helps estimate causality (whether a given program or policy caused the observed outcomes). Impact can only be determined with a proper evaluation methodology, such as a randomized controlled trial.
- **Efficiency**, often measured as the cost per unit of output or outcome achieved. This is meant to help decisionmaking on cost-effective solutions. Increasingly, the field is looking at deeper, more meaningful, and more informative measures of efficiency (for example, the cost per served client whose condition improved).
- **Quality** describes characteristics of a delivered good or service relating to timeliness, reliability, conformity, and other dimensions and is often used as a procurement performance measure.<sup>1</sup>

Many performance-based strategies will incorporate or track different types of performance. For example, the Denver Social Impact Bond, a pay for success project, places participants in housing and enrolls them in services (output) with the goal of improving housing stability and reducing recidivism (outcomes).<sup>2</sup> A forthcoming impact study will determine the effect of the program on those outcomes (impact).

In some contexts, the term *results* is defined narrowly as synonymous with outcomes (Hatry 2014); in others, *results* is used as a broad term and encompasses outputs, outcomes, and impact.<sup>3</sup> Because this term is interpreted in so many different ways, we recommend actors in the field use more specific language to define the models, activities, and measures they are using.

## Measuring and Managing Performance

**Performance measurement** has been defined as “ongoing monitoring and reporting of program accomplishments, particularly progress toward pre-established goals,” where a program is defined as “any activity, project, function, or policy that has an identifiable purpose or set of objectives” (GAO 2011, 2). For example, a service provider might be required to track the number of people who successfully complete a job skills training program and report this information to the grant administrator. Establishing strong performance measurement infrastructure and capacity is a critical first step to implementing strategies that seek to use data in ways that maximize performance and inform decisionmaking.

**Performance management** is the “use of performance information to affect programs, policies, or any other organization actions aimed at maximizing the benefits of public services” (Hatry 2002). The National Performance Management Advisory Commission (2010) sees performance management as the bridge between collecting data and seeing desired improvements: they posit that it involves the “[systematic use of] measurement and data analysis as well as other tools to facilitate learning and improvement and strengthen a focus on results.”

Building off the principles and frameworks of performance measurement and management, some places have adopted strategies that link funding with measures of performance. Table 1 describes three of the main such strategies funders of social services employ.

TABLE 1

Performance-Based Funding Strategies

	Performance-based budgeting	Performance-based contracting	Pay for success
Similar terms and concepts	Performance-informed budgeting	Results-based contracting; results-driven contracting; <sup>a</sup> outcomes-based contracting; outcomes rate cards; and performance-informed contracting	Social or environmental impact bonds; social impact partnerships <sup>b</sup>
Definition	“Aims to improve the efficiency and effectiveness of public expenditure by linking the funding of public sector organizations to the results they deliver, making systematic use of performance information” <sup>c</sup>	“A results-oriented contracting method that focuses on the outputs, quality, or outcomes that may tie at least a portion of a contractor’s payment, contract extensions, or contract renewals to the achievement of specific, measurable performance standards and requirements” <sup>d</sup>	A more complex form of performance-based contracting, this model helps fund innovative programs by securing up-front funding from private or philanthropic investors. Includes an evaluation that aims to attribute observed outcomes to the program itself (impact). Governments repay investors if outcomes or impacts are achieved.
What results are being measured?	Outputs and outcomes	Outputs and outcomes	Outcomes and impact
How are payments tied to results?	Link between results and forward budgeting	Payment to service providers directly tied to results	Payment to investors directly tied to verifiable outcomes and impact
Who are the actors involved?	<ul style="list-style-type: none"> <li>■ Government</li> <li>■ Service providers (potentially)</li> </ul>	<ul style="list-style-type: none"> <li>■ Funder (government or foundation)</li> <li>■ Service provider</li> </ul>	<ul style="list-style-type: none"> <li>■ End payor (usually government, pays back initial investment)</li> <li>■ Investors</li> <li>■ Service providers</li> <li>■ Evaluators</li> <li>■ Intermediaries</li> </ul>
Are investors involved?	No	Sometimes	Always
Example?	Maryland’s performance-informed budgeting <sup>e</sup>	<ul style="list-style-type: none"> <li>■ Seattle’s results-driven contracting for homeless services<sup>f</sup></li> <li>■ Tennessee Department of Children and Families<sup>g</sup></li> </ul>	<ul style="list-style-type: none"> <li>■ South Carolina Nurse-Family Partnership<sup>h</sup></li> <li>■ Denver Social Impact Bond<sup>i</sup></li> </ul>

**Notes:**

<sup>a</sup> See “Results-Driven Contracting,” Harvard Kennedy School Government Performance Lab, accessed May 13, 2019.

<sup>b</sup> See “Social Impact Partnerships to Pay for Results Act (SIPBRA),” Urban Institute, accessed May 13, 2019.

<sup>c</sup> Marc Robinson and Duncan Last, *A Basic Model of Performance-Based Budgeting* (Washington, DC: International Monetary Fund, 2009).

<sup>d</sup> NIGP (The Institute for Public Procurement), “Public Procurement Practice: Performance Based Contracting” (Herndon, VA: NIGP, 2009).

<sup>e</sup> “Managing for Results: Performance-Informed Budgeting in Maryland,” State of Maryland Department of Budget and Management, accessed May 13, 2019.

<sup>f</sup> “Seattle, WA Homeless Service Contracts,” Harvard Kennedy School Government Performance Lab, accessed May 13, 2019.

<sup>g</sup> “Performance-Based Contracting,” State of Tennessee Department of Children’s Services, accessed May 13, 2019.

<sup>h</sup> “South Carolina Nurse-Family Partnership Project,” Urban Institute, accessed May 13, 2019.

<sup>i</sup> “Denver Social Impact Bond Program,” Urban Institute, accessed May 13, 2019.

## Notes

<sup>1</sup> See, for example, Baker (2000), Heinrich (2003), Lawrence (2005), and Wholey and Hatry (1992).

<sup>2</sup> For more information on the Denver project, see Cunningham et al. (2018).

<sup>3</sup> “What are results?” Organisation for Economic Co-operation and Development, accessed May 10, 2019, <https://www.oecd.org/dac/results-development/what-are-results.htm>.

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