Performance-based Contracting in Human Services: Performance and Accountability

Dissertation Abstract

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Within the “hollow state,” there is an increased reliance on contracting as an indirect government tool in human service delivery. Accordingly, public administration practice and scholarship have conducted a surge of exploration of effective contracting management. The rise of performance-based contracting (PBC) represents the most recent effort. PBC incorporates performance measures into contract specification and makes contract compensations contingent on performance achievements, leaving contractors substantial freedom to prescribe service delivery methods and use of funds. Traditionally, human service contracting is run on a fee-for-service (FFS) basis, with an orientation on service input and process. In contrast, PBC promises better outcomes, quality services, and acquisition efficiency.

However, despite the burgeoning popularity of using PBC in a variety of human service areas, current empirical evidence on the effectiveness and the capacity of PBC is elusive. Indeed, human services’ ambiguous performance and high provider discretion complicate the implementation of PBC. Relying on imperfect surrogate measures leaves service contractors room to “gaming,” while high provider discretion helps contractors gain these potential benefits.

My dissertation aims to address this gap. It begins with a discussion of the intellectual roots and the historical evolvement of PBC in wide public administration context and delineates the current popularity of PBC use. Then, building on the principal-agent framework, this research discusses the difficulty of contracting design for human services, due to human services’ low task programmability and low outcome measurability. After that, the central part of the dissertation uses a mixed research method to evaluate the PBC effectiveness compared to FFS. On the quantitative side, the research, based on a case study of the Indiana vocational rehabilitation program, employs a quasi-experiment to examine the impact of PBC on service outcomes. It finds PBC is significantly effective in promoting measured performance incentives, but the impact on unmeasured performance areas is trivial. On the qualitative side, this project conducts semi-structured interviews with public managers and contractors to explore PBC implementation at the street-level. The qualitative findings generally triangulate the quantitative ones. In addition, through interviews, the research summarizes detailed lessons on designing and implementing effective PBC systems.

Beyond this, another portion of my dissertation explores the capacity problem of how to take full advantage of PBC in human services. Instead of technically restructuring PBC systems, this project emphasizes the supplement role of relational contracting. Generally, in human
services, not all aspects of performance can be clearly defined and measured. The broader ambiguous portion of service performance, the less effectiveness PBC could produce as a formal control mechanism, and the more room left for relational contracting to fit in. Based on this, the dissertation discusses how public managers build sustainable and trustworthy relationships with contractors to support PBC endeavor.