

Building Performance Systems in Child Welfare

Lessons from Performance-based Contracting, Performance Management, and the Emergence of Social Impact Bonds

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Executive Summary

Child welfare organizations work with one of the nation's most vulnerable populations, children who have been abused or neglected and removed from their homes. While performance is important for all social services, the stakes are especially high for these children, where failure can mean futures marked by domestic violence, homelessness, teenage pregnancy, criminal involvement, and suicide.

Despite this hard reality, there are also reasons to be optimistic. Advances have been made in multiple performance-related systems, including evidence-based practices, performance management, data systems, performance-based contracting, and social impact bonds. Most of these have made individual contributions, but they are also substantially interconnected and mutually reinforcing.

These advances have not yet significantly changed all or even most child welfare systems, but there are glimmers of progress throughout the field. This paper reviews these overall national trends in the context of two promising cases studies – one of performance-based contracting in the state of Tennessee and the other of a high-performing national nonprofit provider based in the state, Youth Villages – before concluding with lessons learned from the recent emergence of social impact bonds.

Highlights are summarized below:

- **Performance-based Contracts:** A central tenet of child welfare practice is that children fare better in stable, loving homes. Several policy changes have been instituted at the federal and state levels over the past two decades to divert more children from group homes to more permanent living arrangements with biological or adoptive families or legal guardians.

One policy change that has been instituted in several states is performance-based contracting. Such contracts establish financial incentives for providers to achieve faster placement of children in permanent homes and they appear to have produced results. A 2011 study of performance-based contracting in three states found that they were associated with improved permanency-related outcomes for children. Tennessee's system has followed this same pattern.

Unfortunately, because outcomes can be driven by many factors other than the work of providers, including the availability of foster homes or other policies adopted at the same time, it is difficult to be certain how much, if any, of the observed improvements are attributable to performance-based contracts. Indeed, the general history of performance-based contracting contains several examples of systems that appeared to be generating positive results only to see these results overturned when subjected to more rigorous impact studies.

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A closer look at this overall history, however, also reveals a number of consistent design flaws. Reviewing Tennessee's system in light of these flaws, which have largely been avoided, provides reason to be cautiously optimistic that it is actually contributing to improved permanency for the state's foster children.

- **Service Provider Case Study:** Federal and state policies can establish a supportive framework, but actual improvements must take place on the front lines. This paper explores how one nationally-recognized child welfare provider, Youth Villages, has implemented a best-in-class performance system within Tennessee's broader system of performance-based contracting. It explores several major components, including the organization's: (1) leadership and culture; (2) evidence-based program models; (3) performance management system; (4) use of follow-up evaluations; and (5) funding sources for its performance-related work.
- **Social Impact Bonds:** While performance-based contracts have a longer track record, social impact bonds have also begun to draw interest in recent years, with several child welfare-related projects now underway both in the United States and abroad. This paper compares the strengths and weaknesses of these two approaches and concludes that while different, they are highly complementary. Although performance-based contracts are easier to scale, social impact bonds may help address some of the known shortcomings of performance-based contracts.

The paper concludes with recommendations to policymakers on how to further improve performance systems throughout the nation's child welfare system.

Performance-based Contracts

Performance-based contracting is a growing phenomenon in child welfare. A 2009 study found that fourteen states used performance contracts for at least one child welfare-related service³ and they appear to be drawing increased interest in other states.⁴ Despite this interest, however, no rigorous evaluation has been conducted to determine their actual effects on children in the child welfare system.

Performance-based contracts differ from traditional contracts in important ways. While traditional fee-for-service contracts usually establish fixed payment rates for expected services, performance-based contracts feature variable payment rates that incentivize improved performance, often through the use of financial bonuses or penalties tied to specific benchmarks.

Performance-based contracts hold significant promise. By providing financial incentives for better performance, they incentivize greater effort and continuous improvement. They may generate market effects, allowing better performers to grow and forcing lower-performers to either improve or close their doors. They may also encourage the use of evidence-based practices while simultaneously providing the flexibility needed to adapt and improve upon those practices.

Despite this potential, however, the actual track record of performance-based contracting in social services more generally has been mixed to poor. The nation's experience with such contracts dates as far back as the Job Training Partnership Act of 1982, which tied payments to job training and job placement providers to employment and earnings outcomes. However, a subsequent national evaluation of the program found no relationship between the program's outcome measures and their actual impact.⁵ This evaluation and other reviews suggested that the observed outcomes were driven more by other factors such as cream-skimming the most job-ready prospects, gaming the numbers, and variations in the local economy, such as poverty and unemployment.⁶

³ Quality Improvement Center, "Examples of Performance Based Contracts in Child Welfare Services," July 27, 2009. See: <http://www.fox.temple.edu/cms/wp-content/uploads/2012/09/Performance-Based-Contracts-in-Child-Welfare.pdf>

⁴ Alliance for Children and Families Engagement Team, "Michigan Child Welfare Performance Based Funding," February 24, 2014. See: https://www.michigan.gov/documents/dhs/CWPFBF_Final_Report_2_24_14_448934_7.pdf

⁵ Burt Barnow, "Performance Management of U.S. Job Training Programs: Lessons from the Job Training Partnership Act," *Public Finance and Management*, 2004. See: http://www-personal.umich.edu/~econjeff/Papers/barnow_smith_published.pdf

⁶ James Heckman, Carolyn Heinrich, et al, *The Performance of Performance Standards*, W.E. Upjohn Institute for Employment Research, 2011.

Similar results have marked other pay-for-performance efforts. An evaluation of the national Job Corps program found no relationship between the program's better-rated providers (as determined by their outcomes) and their actual impact.⁷ Failures have also marked efforts to tie teacher pay to performance⁸ and to incentivize better care in hospitals⁹ and nursing homes.¹⁰

Despite this poor track record, however, there is reason to believe that the success of previous pay-for-performance efforts has had less to do with the concept and more to do with execution. One review of 128 studies of the effectiveness of pay-for-performance policies in health care, for example, found that their effectiveness varied substantially according to design choices.¹¹

Moreover, while the track record of pay-for-performance has been unimpressive overall, studies have suggested a better record in child welfare. A federally-sponsored 2011 study of such systems in Florida, Illinois, and Missouri found improved outcomes, although the authors cautioned that a more rigorous analysis was needed to conclusively determine their impact and longer-term effects.¹²

Given this history, Tennessee's performance-based contracting system holds both potential promise and peril. Although not a rigorous evaluation, this qualitative review of its history, design, and possible shortcomings may provide insights into whether it is a potential model for the rest of the nation.

Politics and History

Fully understanding performance-based contracting in Tennessee requires knowledge of its history, context, and politics. This history provides greater understanding not only of how Tennessee's system was created, but also the system it replaced, providing a basis for judging whether it is a net improvement.

In the United States, child welfare services originated in the nonprofit sector with orphanages in the late 1700s and early 1800s. Many were religiously-based and supported through private philanthropy, with little government support or oversight. Significant federal involvement did not begin until the creation of the Children's Bureau in 1912 and even then the agency's involvement in child welfare issues was modest.¹³

This changed significantly in 1935 with the enactment of the Social Security Act, which extended aid to eligible dependent and neglected children as an entitlement, splitting the costs with the states.¹⁴ Over the next several decades, these grants and state caseloads grew steadily, especially in the late 1980s and 1990s when enrollment spiked due to increasing admissions and lengths of stay, peaking in the late 1990s.¹⁵

As foster care rolls soared, states began to explore ways to reduce their costs. Many shifted more of their caseloads to nonprofits. Some adopted managed care models borrowed from the healthcare sector. Privatization became a buzzword as child welfare services, which had originated in the nonprofit sector, began once again to increasingly rely on nonprofit providers, many of which were the same organizations that had

⁷ Mathematica Policy Research, "Analysis of Associations Between Contemporaneous Job Corps Performance Measures and Impact Estimates from the National Job Corps Study," January 31, 2011. See: <http://www.mathematica-mpr.com/our-publications-and-findings/publications/analysis-of-associations-between-contemporaneous-job-corps-performance-measures-and-impact-estimates-from-the-national-job-corps-study>

⁸ Mathematica Policy Research, "Evaluation of the Teacher Incentive Fund: Implementation and Impacts of Pay-for-Performance After Two Years," September 24, 2015. See: <http://www.mathematica-mpr.com/our-publications-and-findings/publications/evaluation-of-the-teacher-incentive-fund-implementation-and-impacts-of-payforperformance-after-two>

⁹ U.S. Government Accountability Office, "Hospital Value-Based Purchasing: Initial Results Show Modest Effects on Medicare Payments and No Apparent Change in Quality-of-Care Trends," October 1, 2015. See: <http://www.gao.gov/products/GAO-16-9>

¹⁰ L&M Policy Research, "Evaluation of the Nursing Home Value-Based Purchasing Demonstration," August 26, 2013. See: https://innovation.cms.gov/Files/reports/NursingHomeVBP_EvalReport.pdf

¹¹ Pieter Van Herck, et al, "Systematic Review: Effects, Design Choices, and Context of Pay-for-performance in Health Care," BMC Health Services Research, August 23, 2010. See: <http://www.biomedcentral.com/1472-6963/10/247>

¹² National Quality Improvement Center on the Privatization of Child Welfare Services, "Performance Based Contracts and Quality Assurance Systems: Final Report," March 2011. See: http://socialinnovationcenter.org/wp-content/uploads/2015/10/QIC-PCW_Performance-based_Contracts.pdf

¹³ Children's Bureau, U.S. Department of Health & Human Services, "The Children's Bureau Legacy: Ensuring the Right to Childhood," 2013. See: https://cb100.acf.hhs.gov/CB_ebook

¹⁴ Ibid.

¹⁵ House Ways and Means Committee, *2000 Green Book*, "Section 11: Child Protection, Foster Care, and Adoption Assistance," 2000. See: <http://www.gpo.gov/fdsys/search/pagedetails.action?granuleId=&packageId=GPO-CPRT-106WPRT61710>

begun as orphanages in the 1800s.¹⁶

Tennessee's experience mirrored these national trends. In the early and mid-1990s, five different government departments could remand children to state custody and when they did they usually referred children to nonprofit residential care. According to one history of the period:

When asked to describe the decision-making process for placing children in congregate care ... many interviewees replied with some variation of "It was just easier." They described the process as "entirely bed-driven," "haphazard," and "disjointed." When a child entered foster care, caseworkers scrambled to "find a bed, any bed," and made placement decisions without consideration of whether the setting was appropriate for [a] child's particular needs.¹⁷

As the state became more reliant upon congregate care, the nonprofit providers became increasingly entrenched. While not a powerful interest group in classical terms – working with extremely disadvantaged populations and unable to make campaign contributions – they were nevertheless respected and often politically well-connected, particularly those institutions that were faith-based. According to one review:

Tennessee's group facilities had been providing what was perceived as good care for years. Members of the child welfare community admired them for their beautifully appointed grounds and respected them for their attempts at creating "family-like" environments.¹⁸

Politics and inertia favored the status quo. When change finally came, it did not come through the normal political process, but through a class action lawsuit brought against the state.

Federal law requires children in foster care to be placed in the least restrictive (most family-like) setting that is consistent with the best interest and special needs of the child.¹⁹ In May 2000, Children's Rights, a child welfare advocacy organization, filed a lawsuit against the state of Tennessee, known as *Brian A. v. Sundquist*, that alleged that routine placement of children in congregate care settings was contrary to the children's best interests. The following year, a settlement was reached and the state agreed to implement a number of reforms intended to reduce congregate care.

Over the following two years, however, the state made only modest progress and contempt proceedings were initiated in 2003. Subsequent mediation resulted in an agreement by the state that it would work with a technical assistance committee of five national child welfare experts to develop and implement a plan that would address the state's shortcomings.²⁰ This plan, which was approved by the courts in 2004, included several strategies to divert children from congregate care, one of which was a shift to performance-based contracting.

Shortly thereafter, the state began working with the Chapin Hall at the University of Chicago to develop its performance-based contracting system, including performance indicators, payment structures, and recommendations for improved data use.²¹ The state also worked closely with the affected providers, soliciting their input through a formal request for information in December, 2005, and maintaining ongoing communication over subsequent years that included calls with providers once or twice per week.²²

The initiative was launched in 2006 with an initial cohort of five providers, including Youth Villages. Additional providers were added in subsequent years until 2009, when all of the state's providers were covered by the new performance-based contracting system.

¹⁶ U.S. General Accounting Office, "Social Services Privatization: Expansion Poses Challenges in Ensuring Accountability for Program Results," October 1997. See: <http://www.gao.gov/archive/1998/he98006.pdf>; Quality Improvement Center on the Privatization of Child Welfare Services, "Literature Review on the Privatization of Child Welfare Services," August 25, 2006. See: <http://centerforchildwelfare.fmhi.usf.edu/kb/bpam/Literature%20Review%20on%20the%20Privatization%20of%20Child%20Welfare%20Services%20-%202006.pdf>

¹⁷ Children's Rights, "What Works in Child Welfare Reform: Reducing Reliance on Congregate Care in Tennessee," July 2011. See: <http://www.childrensrights.org/publication/works-child-welfare-reform-reducing-reliance-congregate-care-tennessee/>

¹⁸ Ibid., p. 36

¹⁹ U.S. Social Security Act, sec. 475. [42 U.S.C. 675] 5(A). See http://www.ssa.gov/OP_Home/ssact/title04/0475.htm

²⁰ Children's Rights, "*Brian A. v. Sundquist* Fact Sheet," July 26, 2006. See: http://www.childrensrights.org/wp-content/uploads/2008/06/tn_briana_fact_sheet.pdf

²¹ Children's Rights, "What Works in Child Welfare Reform: Reducing Reliance on Congregate Care in Tennessee," July 2011. See: <http://www.childrensrights.org/publication/works-child-welfare-reform-reducing-reliance-congregate-care-tennessee/>

²² Beeck Center for Social Impact & Innovation, "How Governments Can Pay for Outcomes," November 12, 2014. Available at: <http://www.driveimpact.org>

The Tennessee System

As currently designed, Tennessee's performance-based contracting system divides payments into two pieces. The first provides base payments up front on terms that are fairly standard for the sector, using a blended daily payment rate based on the characteristics of the children served.²³ These base payments are supplemented by the performance component, which includes financial bonuses and penalties based on the following three metrics:

- (1) Decreases in the number of days that children are in care;
- (2) Increases in permanent exits from state custody through family reunification, adoption, or guardianship; and
- (3) Decreases in reentries by children back into care within one year after a permanent exit.

As originally designed, providers that made improvements compared to their own historic performance received bonuses, while those that fell short were assessed a penalty.²⁴ The rewards and penalties were usually a fraction of the providers' upfront payments. Incentive payments to Youth Villages, for example, commonly ranged from 0 to 7 percent of their total contract size.²⁵

While not necessarily causally related, the adoption of these performance metrics coincided with a significant change in statewide permanency outcomes. According to one report:

Starting in fiscal year 2006, more children were placed in permanent homes than entered into state custody each year. In Tennessee's first three years of using PBC, the number of days children spent in care decreased by 8%, permanent exits from the welfare system increased by 6%, and re-entries to the welfare system remained flat. PBC was helping to reduce the total number of children in care. Compared to nearly a decade earlier, by 2009 the number of children in out of home care had decreased by 34%. By 2010, Tennessee had the fastest care to adoption time in the nation, and one of the lowest national rates for placing children in congregate care.²⁶

These changes were also accompanied by major turbulence among the state's nonprofit providers. Although there is little evidence that the state made a conscious effort to shift market share among them, the overall number of providers shrank considerably, from 89 providers to approximately 30 today.²⁷

According to one provider, "Some of those agencies who didn't see how the changes were coming, who dug their heels in and refused to change, those agencies did eventually close." According to another:

[[O]nce all those things became mandated, there were [providers] that literally were not able to continue to function because they didn't have the sophistication to actually document and maintain that information and update it and give it back to the Department in a timely fashion. And so those people fell by the wayside.²⁸

By contrast, stronger providers like Youth Villages thrived. As one of the state's strongest providers, its incentive payments more than tripled in the first few years.²⁹

This initial burst of progress, however, eventually slowed and leveled off. Although early gains were maintained, as has happened in other states, further improvement eventually became difficult. According to an analysis in Michigan, which is also considering the adoption of a similar performance-based contracting system:

²³ Beeck Center for Social Impact & Innovation, "How Governments Can Pay for Outcomes," November 12, 2014. Available at: <http://www.driveimpact.org>

²⁴ Additional details can be found in: Tennessee Department of Children's Services, "Basic Principles of the Tennessee Department of Children's Services Performance-Based Contracting (PBC) Initiative." Available at: https://www.tn.gov/assets/entities/dcs/attachments/Performance-based_Contracting_%28Basic_Principles%29.pdf

²⁵ Patrick Lawler and Jessica Foster, "Making Performance-Based Contracting Work for Kids and Families," Federal Reserve Bank of San Francisco, Community Development Invest Review, April 2013. See: <http://www.frbsf.org/community-development/files/making-success-work-kids-families.pdf>

²⁶ Beeck Center for Social Impact & Innovation, "How Governments Can Pay for Outcomes," November 12, 2014. Available at: <http://www.driveimpact.org>

²⁷ Ibid.

²⁸ Children's Rights, "What Works in Child Welfare Reform: Reducing Reliance on Congregate Care in Tennessee," July 2011. See: <http://www.childrensrights.org/publication/works-child-welfare-reform-reducing-reliance-congregate-care-tennessee/>

²⁹ Casey Family Programs, "Tennessee and Youth Villages Common Knowledge Case Study," June 2010. See: <http://www.youthvillages.org/Portals/0/PDFs/TN-YV-Common-Knowledge-Case-Study.pdf>

[T]here has typically been an initial decline of children in out-of-home care as providers develop additional prevention, after care and support services, which offer additional supports to keep children safely in home ... Children who do remain in the system have greater behavioral needs, significant mental health, cognitive and physical conditions and/or no appropriate family resources.³⁰

Changes implemented in 2014, however, could spur another round of improvement for Tennessee. In prior years, some providers (including Youth Villages) had argued that the existing system unfairly penalized better performing providers by comparing them to their own historic performance rather than to their competitors.

Starting in July, 2014, the state adopted baselines for each of the state's three regions (east, central, and west) that applied equally to every provider in each region, adjusted for caseload characteristics such as a child's age, adjudication status (i.e., neglect, delinquency, unruliness), and amount of time in care. Although it is still too early to determine the impact of these revisions, they could drive greater competition and further improvement among the state's providers.

From Outcomes to Impact

Although Tennessee's results seem promising, no firm conclusions can be drawn from them alone. As previously noted, other performance-based contracting systems have also produced impressive outcomes only to have them overturned by rigorous impact evaluations that revealed they were driven primarily by other factors, such as focusing on easier-to-serve populations, external changes in public policy, or local variations in the economy.

Tennessee's results may have been similarly driven by external factors. In the aftermath of the *Brian A* court decision, for instance, the state adopted numerous changes in child welfare policy, not just performance-based contracts. These other changes included new strategies for child placement, greater use of alternative practices like therapeutic foster care, and improved recruitment and training of foster parents.³¹ These other policies may have been principally responsible for any subsequent change in state outcomes.

Moreover, these state-level changes were also supplemented by a broader national trend that has produced lower child welfare caseloads and less congregate care throughout the United States, including states that do not have performance-based contracting systems. In fact, a recent Children's Bureau analysis indicated that Tennessee's progress actually lagged the rest of the country during years (2004-2013) when its performance-based contracting was being phased in.³²

According to the Children's Bureau, while Tennessee's foster care population dropped 15 percent during this time period, the national population dropped 21 percent.³³ Similarly, while Tennessee's congregate care population dropped 12 percent, the comparable national drop was 37 percent.³⁴

State personnel and external experts argue that these statistics are not strictly comparable for many reasons, including differing caseload characteristics and the likelihood that Tennessee had made significant progress prior to 2004 and thus had less room for improvement. However, if such figures provide little basis for suggesting that Tennessee's performance has been worse than the rest of the country, they also provide little basis for saying it has been better.

Given these multiple alternative explanations, it is clear that simple outcomes data are not sufficient for determining the impact of Tennessee's performance-based contracting system. Isolating its independent effects would require a rigorous impact evaluation, but no statewide child welfare performance-based contracting

³⁰ Alliance for Children and Families Engagement Team, "Michigan Child Welfare Performance Based Funding," February 24, 2014. See: https://www.michigan.gov/documents/dhs/CWPBF_Final_Report_2_24_14_448934_7.pdf

³¹ Children's Rights, "What Works in Child Welfare Reform: Reducing Reliance on Congregate Care in Tennessee," July 2011, pp. 47-77. See: <http://www.childrensrights.org/publication/works-child-welfare-reform-reducing-reliance-congregate-care-tennessee/>

³² U.S. Department of Health and Human Services, Administration for Children and Families, Children's Bureau, "A National Look at the Use of Congregate Care in Child Welfare" (May 2015), p. 14. See: <http://www.acf.hhs.gov/programs/cb/resource/congregate-care-brief>

³³ U.S. Department of Health and Human Service, Children's Bureau. "Numbers of Children In Foster Care on September 30th, by State: FY 2004–FY 2013," July 2014. See: http://www.acf.hhs.gov/sites/default/files/cb/children_in_care_2013.pdf

³⁴ U.S. Department of Health and Human Services, Administration for Children and Families, Children's Bureau, "A National Look at the Use of Congregate Care in Child Welfare" (May 2015), p. 14. See: <http://www.acf.hhs.gov/programs/cb/resource/congregate-care-brief>

system has been subjected to an evaluation of this kind, neither in Tennessee nor any other state. Given this lack of evidence, no definitive conclusions can be drawn from Tennessee's results.

This does not mean, however, that nothing can be said. Enough lessons have been learned from other performance-based contracting systems outside of child welfare, including some that have been subject to rigorous impact evaluations, to identify a relatively consistent set of potential pitfalls. An analysis of Tennessee's system in light of these pitfalls could provide insights on its actual impact. The remainder of this section examines the state's system in this light.

Basic Design Flaws: Some performance-based contracting systems suffer from design flaws that are so basic that they prevent even the possibility of influencing desired outcomes. For example, the chosen metrics may inadequately measure the desired outcomes, rely on unreliable or invalid data, or be tied to financial incentives that are too low.

These do not appear to be major issues in Tennessee, which has invested in quality improvements for its state data system and partnered with an independent organization, Chapin Hall, to monitor and analyze provider data. According to the state, tying data to provider payments has significantly improved data quality, creating incentives for both the state and providers to monitor its accuracy.³⁵

To be effective, however, performance-based contracts must also have financial incentives that are sufficient to drive change. According to Youth Villages CEO Pat Lawler, Tennessee's performance incentives meet this test:

Tennessee has shown that an effective monetary performance incentive need represent only a small percentage of a contract's value. Youth Villages' contracts on average have zero margin; therefore, having a very small portion of our reimbursement at risk is highly motivating and risky for us—having as little as 5 percent withheld or lost would likely represent losses and an inability for us to cover our expenses.³⁶

While the financial incentives appear sufficient, however, the state's performance measures have been criticized for being overly complex, with complicated formulas tied to historic baselines and targets. Such complexity could create confusion, which would undermine the effectiveness of the incentives.

It appears, however, that this complexity has not been a problem because the overarching permanency goals remain relatively simple and clear. The state has also invested in significant technical assistance, holding calls as frequently as once or twice per week to address provider questions.³⁷ As a result, the complex design of the performance metrics does not seem to have hindered the achievement of the state's permanency objectives.

External Influences: One widely noted potential flaw of performance-based contracts is that the outcomes they measure are often subject to many external influences, which can mask the impact of the provider's contribution. In a workforce program, for example, job placement is a function not only of the provider's work, but also of local unemployment rates and the availability of jobs.

Child welfare performance metrics are potentially vulnerable to similar external influences, such as the availability of qualified foster parents.³⁸ However, according to at least some observers, Tennessee's system is less subject to such external effects. Most providers are responsible for reuniting children with their families and/or recruiting foster parents when necessary, which means that the state's placement metrics are not substantially subject to factors beyond their control.

³⁵ Interview: September 29, 2015

³⁶ Patrick Lawler and Jessica Foster, "Making Performance-Based Contracting Work for Kids and Families," Federal Reserve Bank of San Francisco, Community Development Invest Review, April 2013. See: <http://www.frbsf.org/community-development/files/making-success-work-kids-families.pdf>

³⁷ Beeck Center for Social Impact & Innovation, "How Governments Can Pay for Outcomes," November 12, 2014. Available at: <http://www.driveimpact.org>

³⁸ Children's Rights, "What Works in Child Welfare Reform: Reducing Reliance on Congregate Care in Tennessee," July 2011. See: <http://www.childrensrights.org/publication/works-child-welfare-reform-reducing-reliance-congregate-care-tennessee/>

Cream Skimming: Cream skimming occurs when a provider focuses on easier-to-serve clients, a process that makes outcomes-based standards easier to achieve. Cream skimming can be purposeful, as can happen when a provider has a choice of clients to recruit and serve. It can also be unintentional, as can happen when providers are working with motivated individuals who volunteer for a program or are serving a geographic location with higher income, greater education, and less poverty.

Tennessee's performance-based contracting system appears to have corrected for both intentional and unintentional cream skimming. Intentional cream skimming is prevented because the state decides which children are assigned to which providers, based on their licensing and capacity. If providers refuse a child they must file detailed exception reports explaining why.³⁹ Given the state's relatively small number of providers, state officials say they would know if one was inappropriately rejecting difficult cases.⁴⁰ Moreover, harder-to-serve children, such as those who are older or suffer severe mental illness or substance abuse dependency, command greater payments and outcomes are judged compared to adjusted baselines.

Because children are also commonly assigned to local providers, however, the system is potentially vulnerable to unintentional cream-skimming based on regional differences. In Tennessee such differences tend to fall along urban-rural lines, with the population of the rural eastern portion of the state differing significantly from the more urbanized western part of the state. The state has corrected for such differences by establishing different measures for providers in each of the state's three main regions (east, central, and west).

Gaming and Fraud: Some performance-based contracting systems may also be vulnerable to providers gaming the numbers and to outright fraud. This phenomenon is often attributed to the sociologist Donald Campbell, who observed that "The more any quantitative social indicator (or even [a] qualitative indicator) is used for social decision-making, the more subject it will be to corruption pressures and the more apt it will be to distort and corrupt the social processes it is intended to monitor."⁴¹

Campbell cited crime statistics and educational achievement tests as particularly vulnerable to such corruptive influences. For example, New York City police officers have reported downgrading felonies to misdemeanors to reduce reported crime rates.⁴² Widespread cheating also took place in Atlanta, Georgia in 2011 when teachers doctored test results to make student achievement appear better than it was.⁴³

In each of these cases, however, the data were susceptible to alteration by individuals who were being held accountable for results. By contrast, data for Tennessee's performance-based contracts are monitored by an independent third-party organization, Chapin Hall, with no vested interest in the outcomes. The data were also based on clearly defined outcomes (i.e., a child being placed in a home), which are less susceptible to manipulation.

The system is not completely immune to such influences, however. As originally designed, the metrics were subject to distortions based on the timing of a youth's admission or discharge within a fiscal year. These issues were subsequently corrected by expanding the measurement window to three years.⁴⁴ Apart from this one instance, which was resolved, Tennessee's system does not seem to be vulnerable to such effects.

Tunnel Vision: Tunnel vision occurs when a provider focuses primarily or exclusively on the measured outcomes, potentially ignoring or neglecting other important issues. In child welfare, the literature suggests that permanency-focused systems like those in Tennessee can lead caseworkers to neglect other services that do not directly relate to permanent placement, such as those focused on health, education, or safety.⁴⁵

³⁹ Beeck Center for Social Impact & Innovation, "How Governments Can Pay for Outcomes," November 12, 2014. Available at: <http://www.driveimpact.org>

⁴⁰ Interview, September 29, 2015.

⁴¹ Robert Behn, *The PerformanceStat Potential: A Leadership Strategy for Producing Results*, Brookings Institution Press (2014), p. 132.

⁴² William Rashbaum, "Retired Officers Raise Questions on Crime Data," *The New York Times* (February 6, 2010). Available at: <http://www.nytimes.com/2010/02/07/nyregion/07crime.html>

⁴³ Valerie Strauss, "How and Why Convicted Atlanta Teachers Cheated on Standardized Tests," *The Washington Post* (April 1, 2015). Available at: <https://www.washingtonpost.com/news/answer-sheet/wp/2015/04/01/how-and-why-convicted-atlanta-teachers-cheated-on-standardized-tests/>

⁴⁴ Beeck Center for Social Impact & Innovation, "How Governments Can Pay for Outcomes," November 12, 2014. Available at: <http://www.driveimpact.org>

⁴⁵ Emmeline Chuang et al, "Performance-based Contracting and the Moderating Influence of Caseworker Role Overload on Service

Moreover, even within permanency-focused efforts, such incentives can push providers toward easier permanency outcomes like adoption or kinship care over the more difficult work of reunifying children with their families.⁴⁶ Finally, such measures are inherently focused on achieving successful outcomes after children have entered the system, not preventing them from entering in the first place.

Although Tennessee's system may be vulnerable to this phenomenon, there are also several counterarguments and countervailing influences. First, the system was designed to address a specific issue: permanency outcomes for children in the state's care. Federal law requires that children in foster care be placed in the least restrictive, most family-like environment available and capable of meeting their needs.⁴⁷ The state had been taken to court over the issue and performance-based contracts were intended to address and prioritize this specific problem.

Second, while a child's health, safety and well-being are critically important, a central tenet of child welfare practice is that children are best served when they can live safely with their parents or an alternative permanent living arrangement.⁴⁸ Indeed, research suggests that achieving greater permanency has positive spillover effects on child safety and well-being.⁴⁹ For example, in one study of the Tennessee system, interviewees said they felt children were safer when they were not being held in group care:

In particular, they noted that conflicts tend to escalate when many teens, especially those with mental health or emotional issues, are placed together in highly structured environments. Former foster youth with whom we spoke recalled serious threats to their safety when they lived in congregate care settings, describing aggressive and abusive staff, and drug use on the part of residents.⁵⁰

Finally, performance-based contracts like those in Tennessee are not implemented in isolation. They are typically just one tool among many that are being implemented simultaneously – including regulations, licensing, inspections, and training, among others. State personnel point out that the health and well-being of children in state custody is important and is tracked outside of the performance-based contracting system.⁵¹ Internal cultures among nonprofit providers and frontline social workers may also play an important compensating role.

Superficial and Short-lived Outcomes: The effects of any intervention, even those determined through a rigorous evaluation, can be short-lived and subject to fade-out effects. This can often result from low quality or superficial treatments. In child welfare, for example, placing children with unqualified or poorly prepared foster parents with little follow-up can produce a revolving door effect, with children being rapidly returned to the system. In Tennessee this has been addressed through the inclusion of the reentry measure, which adjusts payments according to the number of children who reenter care within a year.

Status Quo Alternatives: Any review of an initiative's impact must look not just at its effects in isolation, but also its effects compared to the expected alternative. Rigorous evaluations commonly examine new initiatives compared to standard existing social services.

Where the status quo is already effective, this can raise the bar. Where the existing alternative has negligible or negative effects, however, such comparisons can make even modest changes look good. Performance-based contracting in child welfare may benefit from such comparisons because the major alternative, fee-for-service, creates financial incentives for providers to hold children in care too long, resulting in potentially worse outcomes.

Provision in Child Welfare," Administration in Social work (2011). Available at: <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3280696/>

⁴⁶ Ibid.

⁴⁷ U.S Social Security Act, sec. 475. [42 U.S.C. 675] 5(A). See http://www.ssa.gov/OP_Home/ssact/title04/0475.htm

⁴⁸ Congressional Research Service, "Child Welfare: State Plan Requirements under the Title IV - E Foster Care, Adoption Assistance, and Kinship Guardianship Assistance Program," (October 26, 2012), p. 5. Available at:

http://greenbook.waysandmeans.house.gov/sites/greenbook.waysandmeans.house.gov/files/2012/R42794_gb.pdf

⁴⁹ Annie E. Casey Foundation, "Rightsizing Congregate Care: A Powerful First Step in Transforming Child Welfare Systems," 2009. See:

<http://www.aecf.org/m/resource/doc/AECF-RightsizingCongregateCare-2009.pdf>

⁵⁰ Children's Rights, "What Works in Child Welfare Reform: Reducing Reliance on Congregate Care in Tennessee," July 2011. See:

<http://www.childrensrights.org/publication/works-child-welfare-reform-reducing-reliance-congregate-care-tennessee/>

⁵¹ Communication with DCS staff: December 4, 2015.

Continuous Improvement and Revision: Finally, most studies of performance-based contracting suggest that planners must expect to revise and improve their systems over time.⁵² Experience often reveals unknown barriers and perverse incentives that can be corrected. Like other performance-based contracting efforts, Tennessee has made such adjustments, including changing the window for judging performance from one to three years and adjusting provider baselines.

Conclusion

While a definitive conclusion about its impact must await a more rigorous evaluation, a review of Tennessee's performance-based contracting system in light of some of the most common pitfalls provides reason to be cautiously optimistic that it is contributing to improved permanency outcomes for the state's foster children.

This does not mean that it is perfect. Its exclusive focus on permanency may make providers and frontline social workers vulnerable to tunnel vision, potentially leading them to ignore other needs such as those involving health and education, and to avoid family reunification efforts when they are more difficult than other placement options. Moreover, by focusing solely on children who have already entered the system, it does nothing to prevent them from entering it in the first place.

However, these potential shortcomings are likely addressed by other factors, including other state policies as well as cultural norms among nonprofit providers and case workers. As just one tool among many, performance-based contracts need not address every aspect of a child's well-being. Given this larger perspective, particularly when compared to the incentives that existed in the fee-for-service system that it replaced, Tennessee's performance-based contracting system seems likely to be contributing to better outcomes for the children in its care.

Provider Case Study

State-adopted contracting systems may provide a framework for improved performance, but if better performance is to actually occur, it must happen at the provider level. What does it take to achieve such performance?

Insights into this question can be drawn from the experiences of one of Tennessee's largest and most successful child welfare providers, Youth Villages. Founded in 1986 with the merger of two residential facilities for youth with behavioral and emotional difficulties, Youth Villages has grown over the past 30 years from a struggling regional organization with an annual budget of about \$1 million to one with over \$200 million in operating revenues and a presence in eleven states and the District of Columbia.

Youth Villages' growth can be traced to a number of factors, including mergers and acquisitions activity that allowed it to grow both within its home state of Tennessee and in other states.⁵³ One of the critical ingredients of this growth, however, has been its reputation for being a high-quality provider with proven results.

Like many child welfare and behavioral health organizations, the roots of the Youth Villages performance system can be traced to the concept of continuous quality improvement (CQI), an idea that originated in the manufacturing sector with Total Quality Management (TQM). Unlike TQM, however, which focuses on compliance with established procedures, CQI is more dynamic, focusing on continuous study and adaptation.⁵⁴

According to the Chapin Hall, continuous quality improvement in child welfare can be broken down into the

⁵² National Quality Improvement Center on the Privatization of Child Welfare Services, "Performance Based Contracts and Quality Assurance Systems: Final Report," March 2011. See: http://socialinnovationcenter.org/wp-content/uploads/2015/10/QIC-PCW_Performance-based_Contracts.pdf; Quality Improvement Center, "Examples of Performance Based Contracts in Child Welfare Services," July 27, 2009. See: <http://www.fox.temple.edu/cms/wp-content/uploads/2012/09/Performance-Based-Contracts-in-Child-Welfare.pdf>; and Gregory Daniel Perrins, "An Examination of Performance Based Contracts to Purchase Social Services from Non-profit Service Providers," August 2008. See: https://dspace.library.uvic.ca/bitstream/handle/1828/1205/perrins_gregory.pdf

⁵³ Allen Grossman, et al, "Youth Villages," Harvard Business School Case 309-007, March 23, 2009. See: <http://www.hbs.edu/faculty/Pages/item.aspx?num=36580>

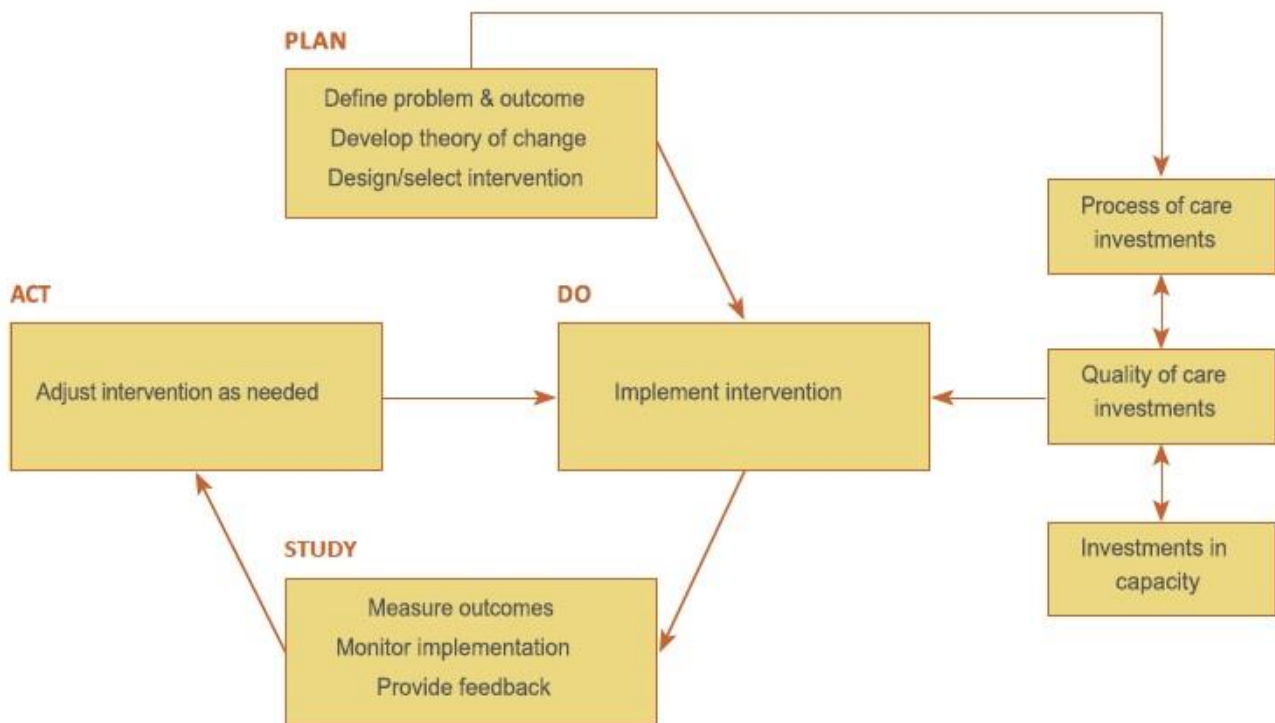
⁵⁴ Administration for Children and Families, "Establishing and Maintaining Continuous Quality Improvement (CQI) Systems in State Child Welfare Agencies," August 27, 2012. Available at: <http://www.acf.hhs.gov/programs/cb/resource/im1207>

following four stages (see Figure 1):⁵⁵

- **Plan:** The process begins by identifying objectives and devising a plan, ideally rooted in a theory of change or logic model and informed where possible by evidence, for addressing these objectives.
- **Do:** The next step is to execute the plan with supportive investments in quality, process, and organizational capacity.
- **Study:** While implementing the plan, the organization tracks how well it is being implemented, including fidelity to the original design as well as its outcomes.
- **Act / Revise:** The final stage, critical to the idea of continuous improvement, is to revise the program in response to observed results and to make corresponding investments in quality, process, and organizational capacity as needed.

The performance system at Youth Villages mirrors this approach. It includes each of the four elements, including: (1) evidence-based model development (planning); (2) implementation and performance management (doing); (3) ongoing evaluation (studying); and (4) ongoing revision (acting). Dedication to performance and continuous improvement are also reflected in the organization’s leadership and culture.

Figure 1: Continuous Quality Improvement (CQI) in Child Welfare



Source: Fred Wulczyn, et al, "Principles, Language, and Shared Meaning: Toward a Common Understanding of CQI in Child Welfare," Chapin Hall at the University of Chicago, July 2014.

⁵⁵ Fred Wulczyn, et al, "Principles, Language, and Shared Meaning: Toward a Common Understanding of CQI in Child Welfare," Chapin Hall, July 2014. See: <http://www.chapinhall.org/research/report/principles-language-and-share-meaning-toward-common-understanding-cqi-child-welfare>

Leadership and Organizational Culture

Students of performance improvement regularly cite organizational culture and leadership as critical elements of success.⁵⁶ The culture of Youth Villages is reflected throughout the organization, but especially at the top.

Pat Lawler, the organization's CEO, first came to the organization in 1980 at the age of 24. "When we started Youth Villages, we knew who we were," he said in an interview. "We didn't just want to respond to RFPs; we wanted to do what was best for kids. No more of the status quo, instead we used our expertise and created best practices. We built our leadership team and our culture around a clear mission and set of values. Our culture is a big part of who we are and what we've done over the years."⁵⁷

Lawler's commitment was evident when the Tennessee Department of Children's Services (DCS) was considering its package of congregate care reforms, including the adoption of its performance-based contracting system. Lawler and his organization were among the few who gave them unwavering support. According to one history of the process:

By the time [the state] started its effort to reduce congregate care in earnest, Youth Villages had been "wearing DCS out for years about [having] too many kids in congregate care." When DCS announced its move to decrease its use of group care, Lawler spoke out publicly in support of the new policy, reinforcing the Department's position. Several interviewees spoke about how critical it was to have one well respected provider on DCS's side.⁵⁸

According to a member of the Technical Assistance Committee that was set up following the *Brian A.* court decision:

[Pat Lawler was] saying 'I buy into this. It works. Let me tell you, it was hard for us to do. We had to reorient our staff. It was not easy but, I tell you, we would never go back.' And that was essentially what he said to the legislature. When the rest of the private providers were coming in telling us how bad this part of the decree was, Pat was out saying [the opposite] ... [The other providers were] making their efforts to stem the tide, but were also hearing Pat.⁵⁹

Lawler's commitment is evident in his willingness to invest his organization's limited funds in a performance system that will monitor and improve its results. It is also reflected in his willingness to subject his organization's programs to rigorous external evaluations, which expose it to reputational risk if the results are not positive.

Lawler is quick to point out, however, that his organization's success is not due to him alone. "At Youth Villages, we have an outstanding leadership team filled with better leaders than I am," he said. "Together, we make a strong team. Any of us independently might not be as good. I know I wouldn't be at all. At all levels of this organization, we have very bright people and that is what makes the difference here."⁶⁰

A 2010 report by Casey Family Programs noted the organization's willingness when hiring to look at personal characteristics, abilities and skills, rather than just credentials, and that this has made a difference.⁶¹ According to a recent study by MDRC:

[T]he organization rarely hires anyone into a supervisory position who has not worked as a frontline staff member, especially for clinical supervisory positions. Youth Villages' culture is propagated in new locations as experienced staff relocate for a period of time for the purpose of establishing the Youth Villages mission

⁵⁶ Leap of Reason, "The Performance Imperative: A Framework for Social-Sector Excellence," February 2015. Available at: <http://leapofreason.org/performance-imperative/performance-imperative-materials/>

⁵⁷ Nell Edgington, Social Velocity, "Leading a High Performing Nonprofit: An Interview with Pat Lawler," (April 2014). Available at: <http://www.socialvelocity.net/2014/03/leading-a-high-performing-nonprofit-an-interview-with-pat-lawler/>

⁵⁸ Children's Rights, "What Works in Child Welfare Reform: Reducing Reliance on Congregate Care in Tennessee," July 2011. See: <http://www.childrensrights.org/publication/works-child-welfare-reform-reducing-reliance-congregate-care-tennessee/>

⁵⁹ Ibid.

⁶⁰ Nell Edgington, Social Velocity, "Leading a High Performing Nonprofit: An Interview with Pat Lawler," (April 2014). Available at: <http://www.socialvelocity.net/2014/03/leading-a-high-performing-nonprofit-an-interview-with-pat-lawler/>

⁶¹ Casey Family Programs, "Tennessee and Youth Villages Common Knowledge Case Study," June 2010. See: <http://www.youthvillages.org/Portals/0/PDFs/TN-YV-Common-Knowledge-Case-Study.pdf>

and vision.⁶²

This view was repeated in interviews conducted for this paper. “People learn from each other,” said Hughes Johnson, Youth Villages’ Director of Performance Improvement. “It’s part of the DNA and the culture. If you become a supervisor or manager at Youth Villages you have to be able to understand and do performance management. If you can’t, you will not make it as a leader. We look for that from our leaders.”

Evidence-based Models

One of the central performance strategies of Youth Villages is the development of research-informed program models that clearly define goals, practices, and associated metrics, including adherence scores that ensure that the models are implemented with fidelity. Youth Villages has established such models for each of its core programs, including foster care, residential programs, in-home services, and YVLifeSet, a program that serves youth who are transitioning to adulthood.

In simple terms, the models represent detailed theories of change,⁶³ backed by both rigorous evidence and practical experience, and operationalized through concrete performance metrics. These structured models include several common elements:

- **Values and Principles:** Each model is rooted in a set of organizational values and principles, many of which are shared across the models. These include prioritizing family reunification over removal of children from their parents, child safety, relying on a strengths-based approach to services that emphasize a family’s existing assets rather than deficits,⁶⁴ family and stakeholder engagement, holistic approaches to service delivery (including health, education, and housing), and organizational accountability.
- **Practice Elements:** Each model includes a detailed description of its component practices, including practices that are clinical, family-focused, community-engagement oriented, operational, or staff-development-related. As described below, these practice elements are typically rooted in rigorous external evidence, internal data, or practical experience, and include considerations of cost, staff requirements, and training. The practice elements are detailed in an online treatment manual that is available to all Youth Villages staff and they are monitored through a performance management system that emphasizes model fidelity.
- **Short- and Long-term Outcomes:** Each model specifies a list of expected short- and long-term outcomes, with short-term (instrumental) outcomes monitored as part of the performance management system and longer-term outcomes monitored by the organization’s evaluation department. Monitored outcomes include child permanence, health, education, and safety as well as a variety of organizational metrics, such as staff retention.
- **Key Metrics:** Each of the specified practice elements and program outcomes is associated with one or more quantifiable metrics. Practice elements include adherence scores ranging from 0 to 100 that allow detailed tracking of model fidelity. Viewed as a whole, the metrics are a quantified version of the model’s theory of change, providing detailed data on a range of inputs, outputs, and outcomes.⁶⁵ This spectrum of interconnected data allows both rapid identification and response to problems as they arise as well as follow-up analysis to determine the effectiveness of various practices.

A visual example for one of the organization’s in-home programs, called Intercept, can be found in Figure 2. The Intercept program shares many characteristics with other in-home family preservation models, including low caseloads, services provided in the community rather than in an office-based setting, and a focus on

⁶² MDRC, “Moving into Adulthood: Implementation Findings from the Youth Villages Transitional Living Evaluation,” March 2014. See: <http://www.mdrc.org/publication/moving-adulthood>

⁶³ Research to Action, “Theory of Change: Reading List,” September 26, 2015. See: <http://www.researchtoaction.org/2015/09/theory-change-reading-list/>

⁶⁴ National Technical Assistance and Evaluation Center, “An Individualized, Strengths-Based Approach in Public Child Welfare Driven Systems of Care,” March 2008. See: <https://www.childwelfare.gov/pubPDFs/strengthsbased.pdf>

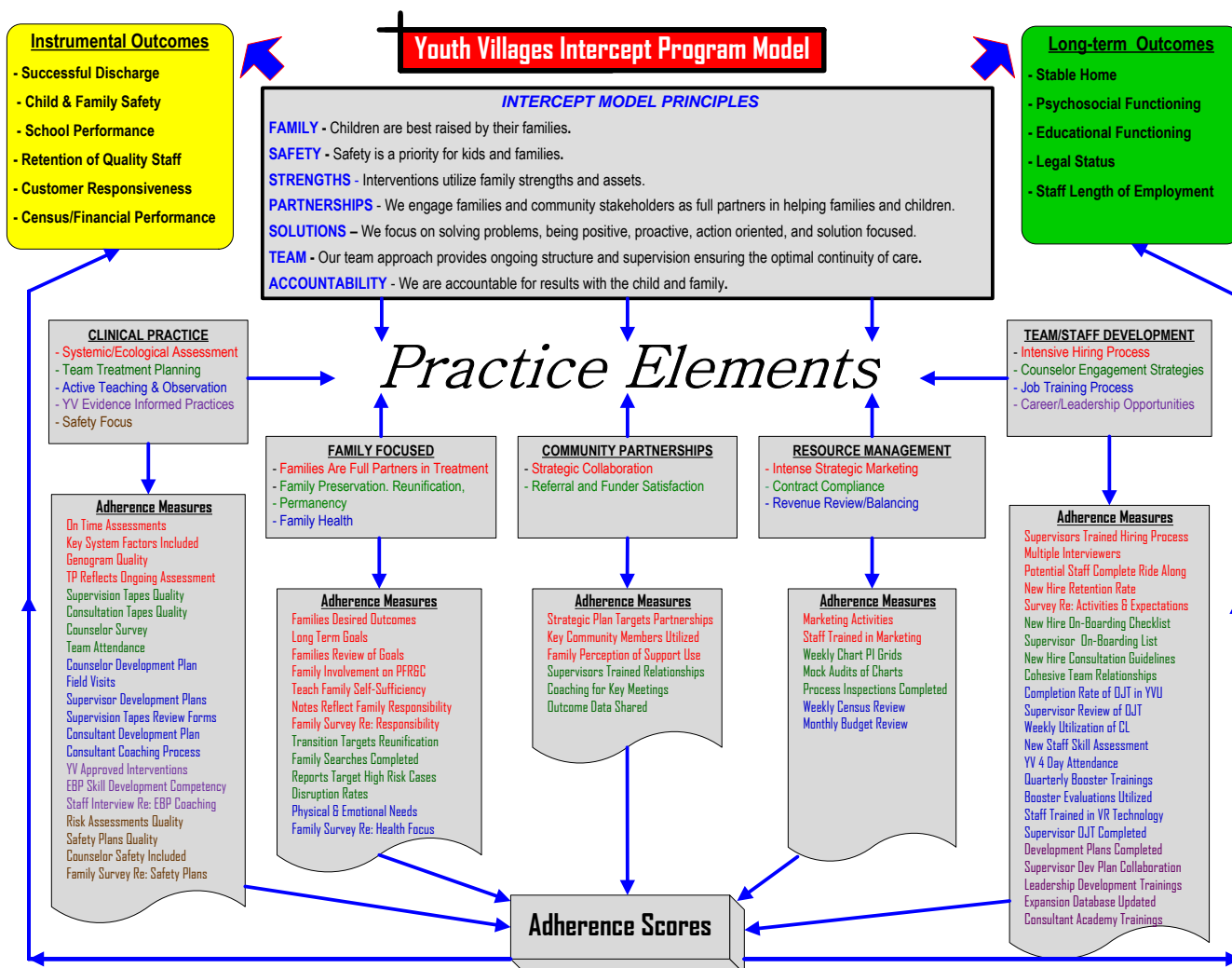
⁶⁵ This reliance on a full spectrum of data that include inputs, outputs and outcomes is further supported in the performance management literature. See Harry Hatry, “Transforming Performance Measurement for the 21st Century,” The Urban Institute, July 2014. Available at: <http://www.urban.org/research/publication/transforming-performance-measurement-21st-century>

individualized treatment that helps create lasting change within families. Intercept is used primarily to reunify youth with their families or to prevent children from entering state custody in the first place.⁶⁶

The process for building and updating the models is extensive. It is overseen by a five-person team of clinical program managers, with one in charge of each model. None of the five have day-to-day frontline operational responsibilities, which leaves them free to monitor evidence as it develops across the related fields of child welfare, juvenile justice, mental health, and brain science, including both peer-reviewed literature and the growing array of proprietary models developed by vendors. The work of the team is supplemented by a contract with PracticeWise, an external firm that provides reviews of proposed interventions.⁶⁷

The Youth Villages models are further informed by internal data, staff input, and practical experience. Because the models are closely tied to the organization's performance management system, performance problems bubble up quickly from the front lines.

Figure 2: Youth Villages Intercept Program Model



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⁶⁶ Youth Villages, "Intercept: Helping Families Stay Together," September 2014. See: <http://www.youthvillages.org/what-we-do/intensive-in-home-treatment/intercept.aspx>

⁶⁷ PracticeWise web site: <https://www.practicewise.com/>

In most of these cases, a review of the adherence scores and associated model fidelity will reveal the problem. "We spend a lot of time and energy in new locations training and explaining why the models are what they are. It is very much a collaborative effort," said Tim Goldsmith, the organization's chief clinical officer.

Other cases where fidelity is not the problem, however, may reveal new issues (like the recent emergence of heroin as a substance abuse problem) or cultural differences requiring a new approach (as has happened in work with Native American families). Longer term research by the organization's evaluation department may also reveal opportunities for improvement. In cases when a change or an addition to the model is warranted, the organization sometimes conducts a formal model review. It will also sometimes test new ideas on a pilot basis.

Performance Management

While overall direction and practice is set by the evidence-based models, day-to-day operations are tracked through the organization's performance management system. The heart of this system is a balanced scorecard, a performance tool that provides a snapshot of actionable organizational performance data.⁶⁸

Scorecards are used at the individual, team, and higher levels and vary according to the needs of the unit. They are "balanced" by drawing from multiple sources of information, including case-specific child and family information, practice adherence scores, and operational information such as financial data, regulatory compliance, and employee-related data such as qualifications and training.

Scorecards do not drive improved performance by themselves, however. To be effective, they must be coupled with action and accountability. For Youth Villages, this information drives decision-making throughout the organization, from the frontline caseworker all the way up to the CEO.

Frontline Performance: As described earlier, the overall performance strategy used by Youth Villages closely mirrors the concepts of continuous quality improvement. This circular process of planning, doing, studying, and revising is apparent not just in its overall strategy, but also in its approach to frontline casework, which includes elements of all four stages.

- **Admission / Initial Assessment (plan):** The first step in working with any new child or family is an initial assessment. This assessment determines the needs and assets of the child or family, including safety, behavioral health, and strengths, and informs the development of a treatment plan. The plan must be devised and entered into the management information system (MIS) within 72 hours, including all necessary consent forms. Within two weeks the information about all supportive adults must be entered into the system and necessary information must be requested from other agencies, including needed medical records. Because frontline staff often work remotely, visiting client homes, they will soon be equipped with tablets that will allow them to enter information while onsite and upload it to the MIS when they return to the office.
- **Implementation (do):** After initial assessment and planning, the next step is to implement the research-informed best practices outlined in the applicable model. Model adherence is scored from 0 to 100 and partly tracked in the performance management system, including measures governing quality and the timeliness of documentation. For example, safety-related measures include ratings of safety plans, including whether they reflect a complete risk assessment and how well they are implemented.
- **Monitoring and Evaluation (study):** The work of frontline staff is overseen by supervisors, who are provided updates on a daily or weekly basis. Frontline staff are organized into teams of four or five and meet weekly with their supervisor to review cases and address any problem areas. In addition, the team meets with a clinical consultant, who is a licensed mental health practitioner and who is also an expert in the program model.

⁶⁸ Wikipedia, "Balanced Scorecard," accessed November 28, 2015. See: https://en.wikipedia.org/wiki/Balanced_scorecard; IBM Center for the Business of Government, "Using the Balanced Scorecard," (February 2006). See: <http://www.businessofgovernment.org/report/using-balanced-scorecard-lessons-learned-us-postal-service-and-defense-finance-and-accounting> ; Gov Innovator, "Using the Balanced Scorecard in the Public Sector," (May 15, 2015). See: http://govinnovator.com/ken_thompson/

- **Revision (act):** Because frontline data are being collected in real time, this allows numerous opportunities for quick adjustments and midcourse corrections. Consultants often recommend alternative interventions and/or implementation strategies if the ‘study’ phase suggests that the child and family are not making progress toward identified treatment goals.

Upper Management: Information from the Youth Villages performance management system not only influences work by frontline practitioners, it also influences decisions by higher level management. Data are aggregated and roll upward through the management chain, a process called “cascading,” and are used to compare results across teams and over time.

Team-level scorecards are assembled by individual team leaders, who are responsible for collecting data from a variety of sources, including clinical documentation, human resources information, admissions and discharges, critical events, medical emergencies, and customer satisfaction. Team leaders are expected to write reports explaining the data to higher-level supervisors, a process that draws heavily from the monthly meetings with frontline staff and that provides an extra layer of accountability.

Senior leaders meet with team leaders on a regular basis. “If some are doing well and others are not then we ask why,” said Hughes Johnson, the organization’s director of performance management. “Internally we are constantly benchmarking and learning from each other.”⁶⁹

Poor performance can also draw an internal audit. “The audit team may go in and assist with a review,” said Johnson. “We assume at the front end that it is training, systems, or insufficient support before we say it is a bad staff member.”

Aggregated data flow further to the top of the organization, where lower-level information is consolidated into a combined scorecard of nine core indicators for use at the CEO and board level (see Figure 3). Data aggregated at this level allow leaders to view the organization’s overall progress without being overwhelmed by information. It also simultaneously allows them to ask questions and drill down into data when necessary. Information drawn from the system regularly informs planning and decision making.

Finally, information from the performance management system is also used for reports to external funders, including private foundations and public agencies. Youth Villages’ staff also enter organizational data directly into state data and performance contracting systems.

“We have staff who enter data into the state system,” said Johnson. “We know everything that goes into it and know the scorecard that comes out. We work with the state people and it has been a good relationship. They tell us about holes in the data and we hold them accountable for accurate data too. We talk regularly.”

The performance information also assists with government audits, a regular occurrence for nonprofit agencies working with foster children. “We no longer have paper charts,” said Johnson. “Audits are now much easier because everything is in the system.”

Performance Management Backbone: A performance management system like the one at Youth Villages requires a significant organizational investment. One is in software. When Youth Villages first began experimenting with performance management, it started with simple off-the-shelf programs like Microsoft Excel and Microsoft Access. This allowed the organization to gain experience and better understand its needs before making a larger IT investment.

It did not take long, however, to outgrow these simple tools. Organizations that handle sensitive information, like health and safety information for foster children, must comply with various data security standards, including those under the Health Insurance Portability and Accountability Act (HIPAA) and the Family Educational Rights and Privacy Act (FERPA).⁷⁰ The organization is now using Evolv, a case management system tailored to the needs of behavioral health providers.⁷¹

⁶⁹ Interview, August 17, 2015.

⁷⁰ Simone Zhang and Mary K. Winkler, “Navigating Performance Management Software Options.” July 15, 2015. See: http://www.urban.org/research/publication/navigating-performance-management-software-options/view/full_report

⁷¹ Netsmart, “Behavioral Health Software Solutions and Technology Services,” accessed November 28, 2015. See:

While specialization is helpful, however, Johnson says flexibility and adaptability are even more so. “We do not want a compliance management system that dictates to us how compliance should work. We want it to adapt to our needs,” he said.

Software is important, but so too is the ability to use it effectively. This is partly achieved by organization-wide cultural norms that value data. It is also partly due to an investment in a three-person performance management team that oversees the system, including a systems administrator and help desk staff.

Johnson says that it is important to hire IT staff who understand the organization. “We found the internal people and gave them the training,” said Johnson. “One was a counselor in our residential and in-home programs. He had computer aptitude, but he also understood the clinical side. If he was just a tech guy, it wouldn’t be the same.”

The performance improvement department also oversees privacy and data permissions. “Because we are in so many states, we manage what people can see and do based on the state, program, or the particular user,” said Johnson. “Our IT people manage the network, firewalls and security. We also handle the consent forms and oversee the ethics trainings that are given at every orientation about data.”

Figure 3: Youth Villages Core Indicators

Indicator	Why We Measure This	What it Measures	Goal
Actual Census vs. Projected Census	The number of children we serve annually plays a key role in our ability to improve existing services and add new programs.	What is the ratio of children we predicted would be in our programs to the actual number of children in our programs?	The actual census will be equal to or greater than 2% of the projected census.
OUTCOME DATA	This is the central measure of our ability to accomplish our mission of helping children and families live successfully.	How successful are the youth who leave our programs? Our Outcome Evaluation department conducts surveys to find out.	80% of the youth are in less restrictive environments one year post discharge.
STAFF TURNOVER	Our ability to retain qualified employees is one of our strategic initiatives and has a profound impact on our success with the kids and families in our programs.	How many employees are resigning from YV each month?	Monthly turnover will not exceed 3%.
PHYSICAL INTERVENTIONS	Because physical interventions are used only as a last resort in our residential programs, their occurrences should be rare.	How many physical interventions (therapeutic holds and restraints) are taking place each month in our programs?	Physical interventions will not exceed 25 per 1000 unites. (1 unit = 1 child receiving care one day)
SERIOUS INCIDENTS	Our goal is to focus attention on high-risk areas to ensure a safe and therapeutic environment for the children and staff members in our programs.	How many runaways, incidents involving law enforcement (excluding runaways), injuries to staff/youth, hands-on sexual behavior incidents, hospitalizations, Detention stays, and CPS investigations occur each month?	Serious incidents will not exceed 3.0 incidents per 1000 units.

CUSTOMER PERCEPTION OF CARE	Our customers' opinions about our programs, employees and processes help guide improvements and pinpoint success areas.	What do the youth and families in our care, our referral sources and our foster children's birth parents think about our programs?	Surveys indicate positive response to questions about satisfaction with YV service 95% of the time.
REVENUE OVER EXPENSES	In order for us to continue to grow and provide care for more children and families, we must be financially stable.	How much are we spending to take care of the children in our programs compared to the funds we are receiving?	Revenue over the expense of the organization will be equal to or greater than 2%
COMPLIANCE	Monitoring how well we meet regulatory guidelines and best practices ensures adherence to treatment plans, demonstrates our commitment to meeting customer obligations, and highlights provision of quality care to our youths.	Quality of notes / assessments and meeting of key performance indicators.	Percentage of documentation completed within designated cycle time will be 100%
SUCCESSFUL MOVEMENT	If we are successful in our efforts to help children better manage their issues, then they will be able to function successfully in less restrictive environments.	Are the moves children make moving them to less restrictive environments (living with their families, in a group home or independently)?	Percentage of movement to a less restrictive location will be 86%

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Evaluation

While performance management is effective for tracking data on children and families while they are in care, Youth Villages also tracks child and family outcomes after they leave care. Its evaluation department conducts phone, mail, and electronic surveys with all youth who were served at least 60 days. Data tracked include continued permanence for child placements, educational and employment status, involvement with the legal system, mental health services, and pregnancies.

Data from these surveys, which are conducted at 6, 12, and 24 months post-discharge, help inform the organization about the effectiveness of its services. Information is entered into the performance management system, reviewed at monthly leadership meetings, and incorporated into the nine core indicators (Figure 3).

Results of these follow-up surveys have been encouraging and have helped the organization understand the outcomes of its programs. The evaluation staff has also recently begun exploring the data to find predictors of how long children will stay in care and to determine which practice elements are most associated with positive results.

Although data on outcomes are valuable, it is nearly impossible to find comparable benchmarks against which the organization can compare its results. To assess the impact of its work, Youth Villages has worked with an independent evaluator (MDRC) to conduct a randomized controlled trial impact study of the YVLifeSet program.⁷² This study, released in 2015, found that the program increased participant earnings, economic well-being, housing stability, and some outcomes related to health and safety, although it did not improve outcomes in education, social support, or criminal involvement.⁷³ Site selection for a random assignment evaluation of the Intercept model is in the early planning stages.

⁷² Gov Innovator, "A Provider's Perspective on Random Assignment Evaluation: An Interview with Sarah Hurley, Youth Villages," October 5, 2013. See: http://govinnovator.com/sarah_hurley/

⁷³ MDRC, "Becoming Adults: One-Year Impact Findings from the Youth Villages Transitional Living Evaluation," May 2015. See: <http://www.mdrc.org/publication/becoming-adults>

Funding

Implementing a performance system like the one at Youth Villages – complete with model building, performance management, and evaluation staff – can be costly. Even for a large organization like Youth Villages, with over \$200 million in annual revenues, outlays for a division whose budget exceeds \$1 million per year is not insignificant.

How does Youth Villages, or any other child welfare organization wishing to follow in its footsteps, cover these costs? According to the organization, funding for its performance-related efforts comes from a variety of sources:

- **Government Funding:** Like most nonprofits that serve foster children, most Youth Villages funding comes from government grants and contracts. A portion of such funding covers allowable overhead, although the proportion is often small. Youth Villages decided early on to prioritize its performance functions, which it believed were just as valuable as finance, HR, and other traditional functions to which limited overhead dollars are often allocated.

Other support can sometimes be obtained through federal or state grants covering administrative costs, which can be used for continuous quality improvement activities. The organization also uses some of the flexible bonus funds that it earns through the state's performance contracting system.

- **Philanthropy:** In addition to government grants, Youth Villages also regularly seeks philanthropic support. Foundations and other sources of such funds often limit overhead charges, but they are sometimes open to directly supporting performance systems that will make their limited dollars go further.
- **Increased Efficiency:** Some financial support is justified not by new revenue, but by the efficiencies and savings generated by improved performance. For example, the performance management team has produced substantial savings by streamlining compliance and auditing processes, which not only reduces costs but also helps avoid expensive financial penalties.
- **Organizational Reputation:** Another justification for the investment in its performance systems is the corresponding improvement in the organization's local and national reputation, which in some cases has led to new opportunities. Examples include when the Edna McConnell Clark Foundation decided to make the organization one of just three to receive funding from its Growth Capital Aggregation Pilot⁷⁴ and when Marion and Multnomah Counties in Oregon decided to partner with the organization in the development of a new social impact bond project.⁷⁵

Making such investments is not always easy, but the organization's CEO, Pat Lawler, says it pays off in the end. According to Lawler:

Youth Villages' goal has always been to provide the best services for children and families. That's one of the reasons why we started collecting data, using measurement, benchmarking and total quality improvement. It was all about getting better outcomes for kids. We didn't realize how valuable our data could be until the mid-'90s when some of our state funding was at risk. Using our data, we were able to convince the state to spend money for in-home services and develop a continuum of care — because we had really good data to show them what worked and how much more cost-effective it was.⁷⁶

Lawler says it is a lesson that all funders should heed. "I believe it's a waste of money for governments, foundations or anyone to spend money on an organization that doesn't have the necessary skills, organizational structure, leadership and business planning to achieve the goals of their program," he said. "It just makes no sense."⁷⁷

⁷⁴ Edna McConnell Clark Foundation, "Capital Aggregation." Available at: <http://www.emcf.org/our-strategy/capital-aggregation/>

⁷⁵ Third Sector Capital Partners, "Youth Villages Partners with Two Oregon Counties to Advance Pay-for-Success Model to Help At-Risk Youth," March 29, 2015. See: <http://www.prweb.com/releases/2015/03/prweb12616096.htm>

⁷⁶ Nell Edgington, Social Velocity, "Leading a High Performing Nonprofit: An Interview with Pat Lawler," (April 2014). Available at: <http://www.socialvelocity.net/2014/03/leading-a-high-performing-nonprofit-an-interview-with-pat-lawler/>

⁷⁷ Ibid.

Social Impact Bonds

While performance-based contracts are widespread in child welfare, a similar approach has also begun to take hold in the sector: social impact bonds (SIBs). Like performance-based contracts, SIBs also tie payment to performance and several have been launched with a focus on children in the child welfare system.

This final section briefly reviews this emerging tool. How are SIBs similar or different? How might they learn from, build upon, or complement what has already been learned in previous pay-for-performance efforts?

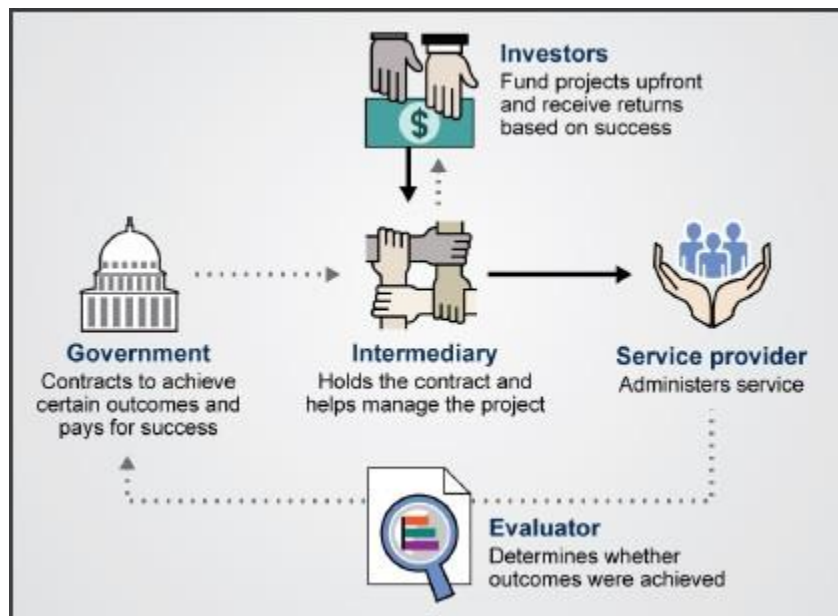
Overview

Like performance-based contracts, SIBs also tie payments to provider performance. Unlike performance-based contracts, however, SIBs usually tie most or all of their payments to the accomplishment of predetermined performance goals. Because payments are typically not made unless those results are achieved, this creates substantial risk for nonprofit providers, which typically lack the cash reserves to cover costs on even a temporary basis and for which the threat of nonpayment could present a major organizational risk.

SIBs overcome these financial hurdles through the addition of third-party philanthropic and for-profit investors. Such investors cover provider costs until payments have been made and assume the risk of financial losses in the event of nonpayment. Investors commonly receive a nominal rate of return on their investment if performance metrics are met.

Social impact bonds also commonly include independent, third-party evaluators to assess performance and experienced intermediaries who provide technical and legal advice and help with project management. These additional roles – investors, evaluators, and intermediaries – can be seen in the middle of Figure 4.

Figure 4: Common Roles in Social Impact Bond Projects



Source: Illustration adapted from Government Accountability Office, "Pay for Success: Collaboration among Federal Agencies Would Be Helpful as Governments Explore New Financing Mechanisms," September 2015.

Although the concept is still very new, social impact bonds have generated significant interest across the United States, including at the national level, where bipartisan legislation has been introduced in the House⁷⁸ and Senate to expand their use.⁷⁹ SIBs have also drawn considerable support from the Obama administration, which has helped support local projects through a variety of grant programs.⁸⁰

Several of these projects – including some both inside and outside the United States – have focused on children either in, or in danger of entering, the child welfare system. Examples include the following:

- **Homeless Parents (Cuyahoga County, Ohio):** Perhaps the first and oldest child welfare SIB project in the United States can be found in Cuyahoga County, Ohio, which announced a \$4 million project in late 2014. This five-year project will be providing housing and other supportive services to 135 homeless parents with children in the county's foster care system. Structured as a classic social impact bond, the project will be independently evaluated by Case Western Reserve University using a randomized controlled trial to determine its impact and payments.⁸¹
- **Dually-involved Youth (Illinois):** This project, the details of which have not yet been finalized, will focus on youth dually involved in the Illinois foster care and juvenile delinquency systems.⁸² The tested intervention will use a coordinated systems-of-care approach that relies on multiple nonprofit providers. It will be independently evaluated by the University of Michigan's School of Social Work. The state announced that the project was entering a pilot phase beginning in November, 2015.⁸³
- **Adoption (United Kingdom):** This national project in the United Kingdom, dubbed "It's All About Me", pays nonprofit social service providers for successfully placing children with adoptive parents.⁸⁴ The program focuses on hard-to-place children who have not been successfully placed by local authorities – usually because of their age, ethnic background, or the need to place siblings together. Unlike most SIB projects in the United States, however, this program does not include an independent evaluation. Instead, payments are made to providers upon reaching certain milestones, including at initial placement and at one- and two-year anniversaries afterward if the placement has been maintained successfully. Because payments are tied to outcomes, however, this project shares some of the characteristics and potential shortcomings of traditional performance-based contracts.⁸⁵

Strengths, Weaknesses, and Potential Synergy

Performance-based contracts and social impact bonds each have their own strengths and weaknesses, but many of them are complementary. The advantages of social impact bonds, at least as they are commonly structured in the United States, include:

- **Impact Measurement:** One of the greatest challenges faced by outcomes-oriented policies such as performance-based contracts is that improved *outcomes* do not guarantee improved *impacts*. Outcomes, like placing a child in a home, can reflect not only the work of a provider, but also other factors such the availability of foster parents, variations in the economy or local poverty rates, and

⁷⁸ Social Innovation Research Center, "Impact Bond Legislation Introduced in the House," March 5, 2015. See: <http://www.socialinnovationcenter.org/?p=1075>

⁷⁹ Social Innovation Research Center, "Hatch, Bennet Introduce Social Impact Partnership Bill," April 28, 2015. See: <http://www.socialinnovationcenter.org/?p=1369>

⁸⁰ Corporation for National and Community Service, Office of Research and Evaluation, "State of the Pay for Success Field: Opportunities, Trends, and Recommendations," May 6, 2015, pp. 25-29. See: <http://www.nationalservice.gov/sites/default/files/documents/CNCS-state-pay-success-field-2015>

⁸¹ Social Innovation Research Center, "Pay for Success in Child Welfare: A Case Study," (February 12, 2015). Available at: http://www.socialinnovationcenter.org/wp-content/uploads/2015/02/Pay_for_Success_in_Child-Welfare_-_A_Case_Study.pdf

⁸² Nonprofit Finance Fund, "Illinois Dually-Involved Youth Project," accessed November 28, 2015. See: <http://www.payforsuccess.org/illinois-dually-involved-youth-project>

⁸³ Associated Press, "Pilot Project Lets Investors Fund Illinois Social Services," November 3, 2015. See: <http://www.washingtontimes.com/news/2015/nov/3/pilot-project-lets-investors-fund-illinois-social/>

⁸⁴ <http://www.iaamadoption.org/>

⁸⁵ Emily Gustafsson-Wright, et al, "The Potential and Limitations of Impact Bonds: Lessons from the First Five Years of Experience Worldwide," Brookings Institution, Global Economy and Development, July 2015. See: <http://www.brookings.edu/research/reports/2015/07/social-impact-bonds-potential-limitations>

potential perverse effects like cream-skimming, tunnel vision, gaming, and fraud.⁸⁶

Measuring impact – the actual value-add of the provider – can sort out these effects, but it usually requires a rigorous evaluation. Such evaluations of outcomes-based funding mechanisms are relatively rare, however, and as described earlier in this paper it appears that none have been conducted on performance-based contracts in child welfare.

Such evaluations are common for social impact bonds. While most SIB projects focus their evaluations on the effectiveness of provider interventions, evaluations can also be used to determine how close outcomes-based metrics come to assessing actual provider impact. At least one social impact bond project in the United States, a supportive housing program for the homeless in Santa Clara, California, has adopted this dual approach, combining an outcomes-based payment structure with an RCT-based evaluation to confirm its effects.⁸⁷

Site-specific evaluations of this kind face generalizability (external validity) issues, but they are a start and can justify and supplement broader evaluations.

- **Suitability as Demonstration Projects:** While performance-based contracts are usually adopted at a system-wide level, social impact bonds are more commonly structured as demonstration projects. This is partly due to their differing origins. As in Tennessee, performance-based contracts are usually the result of restructuring funding streams that already exist, while social impact bonds are more often created to prove the value of a new initiative, such as preventive services.

Those different origins mean that many social impact bond projects, particularly those in the United States, feature not just rigorous evaluations to determine their impact, but also cost-benefit analyses to determine net societal benefits and potential savings to the taxpayer. At the national level, a pay-for-success initiative operated by the Social Innovation Fund is providing financial support to cover the costs of such feasibility assessments.⁸⁸ Such analyses can be valuable not just for the projects in question, but also for providing insights if the projects are taken to scale.

- **Possible Political Advantages:** Systemic changes like performance-based contracts may generate opposition from providers. Tennessee's system, for example, was established only after the state was forced to take action by a court settlement. Such favorable circumstances are comparatively rare. While social impact bonds may also draw opposition, particularly from public sector unions,⁸⁹ such demonstration projects may generate less pushback than system-wide changes.

While social impact bonds may be ideally suited as demonstration projects, however, performance-based contracts may be better suited to taking such initiatives to scale. Advantages of performance-based contracts include the following:

- **Simplicity:** While social impact bonds commonly require complex contractual arrangements among funders, service providers, independent evaluators, and government agencies, performance-based contracts are usually much simpler, with payments determined by law or regulation.
- **No Third-party Financing:** Unlike social impact bonds, where third-party investors are needed to cover provider costs until performance metrics are met and payments are made, most outcomes-based funding systems do not rely on such external financing. Like Tennessee's performance-based contracts, they commonly combine up-front base payments with bonuses or penalties assessed after the fact. Service

⁸⁶ Social Innovation Research Center, "The Other Pay for Success: The Promise and Peril of Paying for Outcomes" (November 5, 2015) <http://www.socialinnovationcenter.org/?p=1780>

⁸⁷ Third Sector Capital Partners, "County of Santa Clara Launches California's First Pay for Success Project," accessed November 28, 2015. See: <http://www.thirdsectorcap.org/santa-clara-homelessness/>; For a more detailed description, see http://www.thirdsectorcap.org/wp-content/uploads/2015/08/150811_SCC-CH-PFS_Fact-Sheet.pdf

⁸⁸ Social Innovation Research Center, "Winning Social Innovation Fund Applications Suggest Substantial Growth Ahead for Pay-for-Success Funding" (November 5, 2014). Available at: <http://socialinnovationcenter.org/wp-content/uploads/2014/11/SIF-PFS.pdf>

⁸⁹ Social Innovation Research Center, "AFSCME, Progressive Groups Criticize Pay for Success," December 15, 2015. See: <http://www.socialinnovationcenter.org/?p=1825>

providers do not typically need third party investors. If they need credit they usually have substantial experience finding it on their own.⁹⁰

- **Flexibility:** Most SIB projects spell out in precise terms the evidence-based interventions that will be used. In theory, fidelity to specified evidence-based models provides added protection for investors. However, at least one analyst believes that a SIB project in Rikers Island in New York City failed because it did not give the providers enough flexibility to adjust the proposed intervention to local conditions.⁹¹ Most performance-based contracts, by contrast, specify only the outcomes to be achieved, leaving providers freedom to decide how to meet them. Evidence contributes to provider decision-making, but it does not restrict or handcuff it.
- **Scalability:** While social impact bonds have drawn substantial interest, they may prove difficult to scale. Due to their high risk profiles⁹² and relatively low rates of return, at least some experts are questioning whether they will be able to draw enough private investment capital.⁹³ Moreover, current methods for determining success, such as randomized controlled trials, may prove too impractical and expensive once they expand beyond the demonstration stage.

By contrast, outcomes-based funding systems are already operating at scale. Broadly defined, they include value-based payments to hospitals and nursing homes, performance-based contracts with workforce providers, merit-based pay in schools, and performance-based payments to colleges and universities,⁹⁴ altogether affecting billions of dollars in annual public funding.

Taken together, performance-based contracts and social impact bonds can be highly synergistic. While social impact bonds have many features such as rigorous impact evaluations and cost-benefit studies that make them well suited as demonstration projects, performance-based contracts may be easier to scale.

Where performance-based contracts do not already exist, social impact bonds could provide proof-of-concept before rolling a pay-for-performance system out more widely. Where such contracts exist already, social impact bonds could be used to assess their impact and test potential improvements.

Despite this potential synergy, however, some final cautions are in order. First, at least with respect to child welfare-related projects, caution should be exercised with respect to profit-motivated investors. Particularly following a 2015 Senate inquiry into alleged deficiencies and possible abuse at one of the nation's largest for-profit foster care companies, philanthropic and public funds may be a safer and more appropriate source of financial support.⁹⁵

Finally, social impact bonds are just one strategy for bringing more rigor and analysis to performance-based contracting. States and localities could alternatively seek federal support for such evaluations or choose to fund them on their own without resorting to the use of SIBs. The difficulty of obtaining such alternative funding is a primary factor that makes social impact bonds a promising option.

⁹⁰ Nonprofit Quarterly, "Improving Cash Flow Management In Challenging Times: A Primer," June 21, 2003. See: <https://nonprofitquarterly.org/2003/06/21/improving-cash-flow-management-in-challenging-times-a-primer/>

⁹¹ Ian Galloway, "Perspectives on Impact Bonds: Scaling the social sector through innovation and impact bonds," Brookings Institution, September 9, 2015. See: <http://www.brookings.edu/blogs/education-plus-development/posts/2015/09/09-social-sector-innovation-impact-bonds-galloway>

⁹² An in-depth review of risk management for social impact bonds is available in Government Accountability Office, "Pay for Success: Collaboration among Federal Agencies Would Be Helpful as Governments Explore New Financing Mechanisms," September 2015, pp. 33-53. See: <http://www.gao.gov/products/GAO-15-646>

⁹³ V. Kasturi Rangan & Lisa A. Chase, "The Payoff of Pay-for-Success," *Stanford Social Innovation Review*, Fall, 2015. See: http://ssir.org/up_for_debate/article/the_payoff_of_pay_for_success and U.S. Governmental Accountability Office, "Collaboration among Federal Agencies Would Be Helpful as Governments Explore New Financing Mechanisms," September 2015. See: <http://www.gao.gov/products/GAO-15-646>

⁹⁴ Thomas Hamisch, "Performance-based Funding: A Re-Emerging Strategy in Public Higher Education Financing," American Association of State Colleges and Universities, June 2011. See: http://www.aascu.org/uploadedFiles/AASCU/Content/Root/PolicyAndAdvocacy/PolicyPublications/Performance_Funding_AASCU_June2011.pdf

⁹⁵ Senate Finance Committee, "US Senate Committee Probes Nation's Largest For-Profit Foster Care Firm," June 24, 2015. See: <http://www.finance.senate.gov/newsroom/chairman/release/?id=39e45685-8973-4269-9caa-897be45c7520>; Buzzfeed, "Fostering Profits," February 20, 2015. See <http://www.buzzfeed.com/aramroston/fostering-profits>

Recommendations and Conclusion

Advances in performance systems hold significant promise for improving outcomes for children in foster care. Many of the innovations described in this paper could serve as models for other jurisdictions and providers. Replicating these innovations, however, could be made easier if policymakers considered a number of supportive changes:

- **Performance-based Contracting:** As this and other analyses have suggested, performance-based contracting presents both potential promise and peril.⁹⁶ Rigorous studies are needed to be sure that their associated outcomes actually represent improved impacts for children. While no statewide performance-based contracting system in child welfare has yet been rigorously assessed, this should change. Congress and the administration should provide funding for such research in future authorizing or appropriations legislation.
- **Social Impact Bonds:** As described in this paper, social impact bonds can be highly synergistic with performance-based contracting. SIB projects commonly include the very impact and cost-benefit assessments that have generally been missing in the development of performance-based contracts. While some caution should be exercised, since the results of local SIB projects may not always be broadly applicable to a larger geographic area or broader population, such results would nevertheless be an improvement over what is available now and could justify more rigorous studies.

To date, Congress has made social impact bonds an optional and limited local use of funds for several federal programs, including in job training and education.⁹⁷ Congress may wish to make SIBs a similarly limited option for some child welfare funds. Given recent concerns that have been raised about for-profit providers in the child welfare field, however, Congress may wish to limit the participation of profit-motivated investors in such projects.⁹⁸

- **Evidence:** The case study of Youth Villages in this paper provides a vivid illustration of how one high-performing nonprofit has incorporated evidence into its work. Coupled with the flexibility of an outcomes-oriented funding system, Youth Villages has attained a workable compromise between those who argue that fidelity to evidence-based models is critical and those who argue that strict fidelity can undermine potential innovation and improvement.⁹⁹

A cursory reading of the Youth Villages example, however, could paint a misleading portrait of how much rigorous evidence actually exists. In fact, according to a 2014 review by the California Evidence-Based Clearinghouse for Child Welfare, only 27 of 325 child welfare programs (just 8 percent) that it reviewed met its criteria for being “well supported by research.”¹⁰⁰

At the federal level, the Children's Bureau is working to address this deficit.¹⁰¹ It is currently supporting a number of evaluations through ongoing state waivers, but authority for new waivers has expired and should be extended.¹⁰² It also has sponsored a program called the Permanency Innovations Initiative, a program similar to better known evidence initiatives like the Social Innovation Fund, but focused on child welfare. Although its early results may be announced in 2016, this relatively small program has only sponsored five research projects and more are needed.¹⁰³

⁹⁶ Social Innovation Research Center, “The Other Pay for Success: The Promise and Peril of Paying for Outcomes” (November 5, 2015) <http://www.socialinnovationcenter.org/?p=1780>

⁹⁷ Social Innovation Research Center, “K-12 Education Bill Advances Evidence-based Policy, Replaces i3,” December 7, 2015. See: <http://www.socialinnovationcenter.org/?p=1806>; Social Innovation Research Center, “New Workforce Law Provides \$300 Million for Pay-for-Success Programs,” July 22, 2014. See: <http://www.socialinnovationcenter.org/?p=79>

⁹⁸ Senate Finance Committee, “US Senate Committee Probes Nation’s Largest For-Profit Foster Care Firm,” June 24, 2015. See: <http://www.finance.senate.gov/newsroom/chairman/release/?id=39e45685-8973-4269-9caa-897be45c7520>;

⁹⁹ Social Innovation Research Center, “The Evidence Debate,” October 28, 2014. Available at: <http://www.socialinnovationcenter.org/?p=547>

¹⁰⁰ Social Innovation Research Center, “Foster Care Innovation Initiative Charts a Different Path to Evidence,” December 6, 2014. See <http://www.socialinnovationcenter.org/?p=769>

¹⁰¹ Children’s Bureau, “A Framework to Design, Test, Spread, and Sustain Effective Practice in Child Welfare,” March 14, 2014. See: <http://www.acf.hhs.gov/programs/cb/resource/framework-workgroup>

¹⁰² Children’s Bureau, “Child Welfare Waiver,” accessed January 4, 2015. See: <http://www.acf.hhs.gov/programs/cb/programs/child-welfare-waivers>

¹⁰³ Social Innovation Research Center, “Foster Care Innovation Initiative Charts a Different Path to Evidence,” December 6, 2014. See <http://www.socialinnovationcenter.org/?p=769>

- **Data and Performance Management:** High quality-data are a core component of any performance system. Data on children in child welfare are typically maintained in a state's State Automated Child Welfare Information System (SACWIS). Local providers also usually maintain their own separate internal case management systems to track their work and the Youth Villages example has shown how such data can be a basis for an effective performance management system.

Both sets of systems may soon be subject to significant change. In August, 2015, the U.S. Department of Health and Human Services issued proposed regulations that could pave the way for substantial upgrades for state data systems.¹⁰⁴ Continuous quality improvement is also being examined as part of the latest federal review of state child welfare systems more broadly.¹⁰⁵ Once these efforts are complete, Congress and the Children's Bureau may wish to review what else could be done to fund more systems like those in Tennessee and at Youth Villages.¹⁰⁶

These recommendations are only a beginning, but they are an important next step. Islands of innovation like these may be inspirational, but they are of little practical consequence if they remain isolated from the rest of the sector. Spreading these successes will require investment.

No child should face the adversities that too often confront children in the nation's foster care system. While the vision of a humming, interconnected performance machine is not yet a reality for child welfare as a whole, glimmers of real hope lie just over the horizon. Strategic investments in evidence and performance systems should make such successes the norm, rather than the exception.



About the Social Innovation Research Center: The Social Innovation Research Center (SIRC) is a nonpartisan nonprofit research organization focused on social innovation and performance management for nonprofits and public agencies. More information about SIRC is available on the organization's web site at <http://www.socialinnovationcenter.org>.

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¹⁰⁴ U.S. Department of Health and Human Services, "Comprehensive Child Welfare Information System: Notice of Proposed Rulemaking," August 11, 2015. See: <https://www.gpo.gov/fdsys/pkg/FR-2015-08-11/pdf/2015-19087.pdf>

¹⁰⁵ Children's Bureau, "Round 3 of the CFSTRs," September 10, 2015. See: <http://www.acf.hhs.gov/programs/cb/monitoring/child-family-services-reviews/round3>

¹⁰⁶ Administration for Children and Families, "Establishing and Maintaining Continuous Quality Improvement (CQI) Systems in State Child Welfare Agencies," August 27, 2012. Available at: <http://www.acf.hhs.gov/programs/cb/resource/im1207>