Balancing Public Accountability and Nonprofit Autonomy:
Milestone Contracting in Oklahoma

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Abstract

As government agencies search for ways to work effectively with nonprofit organizations, there is a growing need for strategies that resolve the long-standing tension between the public sector's need for accountability and the nonprofit sector's desire for autonomy. This article considers the way a state agency in Oklahoma worked toward resolving this tension by restructuring its contracting system with nonprofit organizations. Different from both fee-for-service systems that require heavy auditing and simple outcome funding that can distort the complexity of programs, Oklahoma's "milestone contracting" specifies a series of distinct and critical client achievements and confers payment for this set of collaboratively defined results. This approach to public-nonprofit contracting represents a promising way to achieve public accountability while protecting the autonomy nonprofit organizations need to deliver programs that meet local needs.

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Over the past three decades, the nonprofit sector has undergone a major transformation in the way it finances its operations. Few nonprofits today can survive on charitable contributions alone. Instead, most successful agencies, particularly in the health and social services fields, depend in large measure on government contracts to supplement the fees they charge clients and the gifts they receive from donors. The effects of this financial transformation of the nonprofit sector over time have been considerable. The sector has grown rapidly in size, measured both in terms of the number of nonprofit organizations and the amount of resources devoted to nonprofit activity as a percent of gross national product (Boris, 1999). Amidst the spectacular success of the nonprofit sector, nagging questions have emerged about the costs and implications of the growing importance of government funding to the overall financial health of the sector. As the embrace between government and the nonprofit sector has grown stronger, no two issues are more critical than those of nonprofit autonomy and public accountability.

When the issues of accountability and autonomy come together they generate a simple but pointed question: How can government and nonprofit organizations work together to deliver quality services in a way that respects nonprofits' need for freedom in defining and pursuing their missions while at the same time responding to the public sector’s need for accountability? As public sector agencies and nonprofit organizations around the country search for answers to the classic problem in contracting with nonprofit organizations, a recent innovation in the way a public agency in Oklahoma manages its contracts with nonprofit human service providers represents a potentially powerful solution to this dilemma. Different from both hourly “fee-for-service” systems that require heavy auditing and traditional outcome funding that can distort the complexity of programs, Oklahoma’s “milestone contracting” specifies a series of distinct and critical achievements and confers payment for a set of collaboratively defined programmatic results. This approach represents one of the most promising ways to achieve accountability and autonomy simultaneously.

I. Background and Problem Statement

On the surface, nonprofit autonomy and public accountability seem to be in contention with one another. Nonprofit organizations want and need autonomy to design innovative programs that meet community needs. The independence that nonprofit organizations enjoy separates them from government and business organizations. Free from both the pressures of public opinion and the demands of shareholders, nonprofits are positioned, in principle at least, to act as vehicles for social experimentation and innovation. The autonomy that nonprofits enjoy can be an important tool for delivering new and innovative solutions to long-standing public problems. Many times, nonprofits working in fields as diverse as early childhood education and welfare-to-work transitions have made important breakthroughs that have influenced entire fields. Innovation is not the only justification for nonprofit independence. The autonomy of the sector is protected in order to create a realm where private visions of the common good can be pursued and where the values and commitments of individuals can find expression. The freedom that is granted to nonprofits by exempting them from taxation is thus designed to recognize their sovereignty and independence, while also giving them a subsidy to carry out their important work (Brody, 1998).

The very independence that lies at the heart of the nonprofit sector's privileged tax position can, however, be a major stumbling block when nonprofit organizations depend on direct financial support from government. In almost every case in which public funds pass from federal, state or local authorities to nonprofit organizations, the public sector establishes and communicates expectations about both program design and performance. These expectations arise out of government's need for accountability and transparency. Public funds carry with them a special burden that neither private gifts nor fees for service need shoulder. Often anchored in a core commitment to equity and access, government grants must affirm and be applied to purposes that are in keeping with the public sector's broad public agenda, one that is far wider than that of most private contributors or paying clients. Accountability is a critical value in public sector organizations because it constitutes the foundation for both the legitimacy and support that government needs to carry out its work.

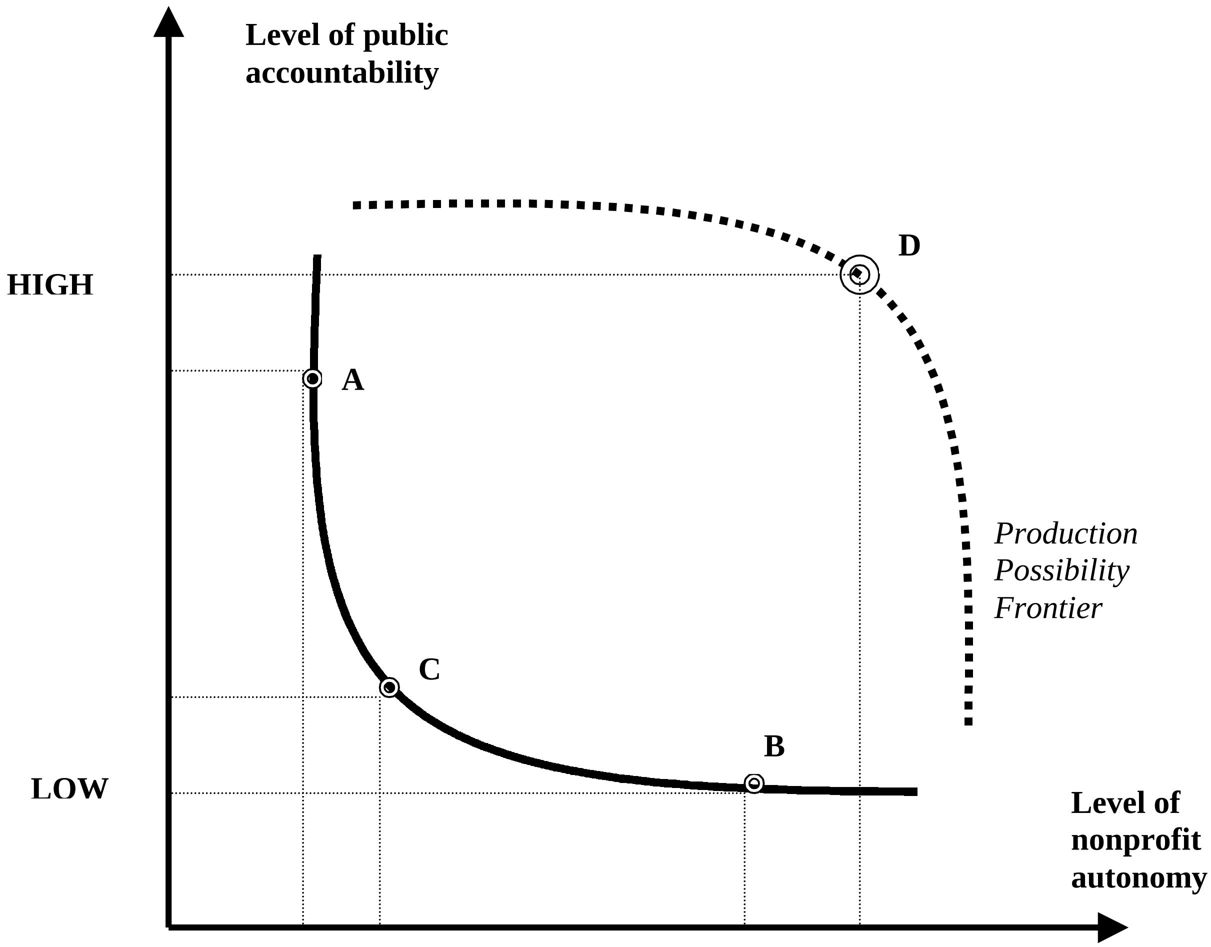
At one level, therefore, the values of autonomy and accountability seem at odds with one another. While nonprofit organizations might want to maximize the freedom they enjoy to experiment with new programs and service models, this impulse can and does come into conflict at some point with the public sector's need for a certain level of uniformity and consistency in the programs it funds (DeHoog 1984; Smith and Lipsky

1993). At the same time, while government might want to achieve very high levels of accountability in all the projects it funds, this impulse often comes into conflict with the desires of nonprofits to pursue their missions as they see best see fit (Gooden, 1998 Kearns, 1996). This tension between sectors can be depicted along a tradeoff line stretching from a combination of a high level of nonprofit autonomy and a low level of government accountability to a combination of a high level of government accountability and a low level of nonprofit autonomy. Government has traditionally staked out a position somewhere near point A on the tradeoff line, while nonprofits have gravitated more in the direction of point B (see Figure1).

In most circumstances, this classic contracting tension is resolved in one of three ways: (1) The government adheres to a given decision making process and refuses compromise fearing loss of accountability, uniformity, and fairness; (2) The nonprofit organization refuses to give in to the demands of the government and either forgoes public funding or takes the funding but does not comply with mandates; or (3) Government and nonprofits reach an accommodation of sorts that produces less accountability and less autonomy. This third solution results in both sides moving to point C in figure 1. Often, this third option represents a sub-optimal, political compromise that satisfies neither side. A central challenge for both public and nonprofit management comes down to finding a fourth alternative to this classic dilemma, an alternative that allows government and nonprofits to simultaneously maximize both the accountability and autonomy dimensions (point D in figure 1). Such a solution

Figure 1

Accountability and Autonomy in Public-Nonprofit Contracting



involves moving the production possibility frontier outward to reflect a new range of tradeoffs, a frontier on which a point can be located that both improves on the accountability and autonomy agendas of the public and nonprofit sectors.

What might this fourth option entail? How can government meet its need for control, uniformity and accountability while giving nonprofits the freedom they need to design and implement innovative programs? One answer lies in the move away from process measures inherent in traditional fee-for-service arrangements and toward a system geared to outcomes (Behn and Kant 1999; Volkman, 1999). In their contractual relations with nonprofit organizations, government agencies have traditionally focused on outputs, not client outcomes or actual results (Cline, 2000; Cohen and Eimicke, 1998; Osborne and Gaebler, 1992). Under the standard fee-for-service method of contracting, nonprofit organizations often are rewarded regardless of the outcomes of their efforts. Government simply pays out money to nonprofits based on contracts keyed to the delivery of units of service. Thus, if a social service agency provides 1,000 hrs of counseling services at $35 an hour, a state funder would write a check for $35,000 upon presentation of an invoice. Under fee-for-service arrangements, ultimate client results or outcomes are rarely tracked because they are not the basis on which the performance is measured or rewarded. The consequences of this system reveal that there are rarely positive results when outcomes are not measured (Osborne and Gaebler, 1992).

As pressure for greater efficiency in the public sector has mounted over time, interest in changing the terms of government contracting rose. A new system was needed, one that tracked the use of inputs, measured the outputs produced and, most importantly, tracked the final outcomes. By the early 1990s, the shift to performance-based contracting (PBC) began. The driving rationale behind PBC was the simple idea that public agencies need a way to ensure that they get impact for every public dollar spent and thereby ensure public support for government action (Zak Figura, 1999). Also driving a move to PBC was the sense that government could and should learn about management from businesses. The private sector has traditionally used a system of rewards to encourage certain actions and activities. When organizations are funded according to outcomes, however, they focus on performance and devote themselves to improving it (Osborne and Gaebler, 1992). The Government Performance and Results Act of 1993 (GPRA, 1993) standardized this new and different approach. It required that organizations that received federal money had to create specific goals and then post their advancement towards these ends (Buckmaster, 1999).

While much of the impetus to measure outcomes came from accountability concerns, the shift has had ripple effects on public management (Buckmaster, 1999). This new mindset created the need to rethink the structure of performance measurement. When the focus is placed on performance and on paying nonprofits only upon demonstration of results and client outcomes, accurate assessment and performance measurement become critical (Herman and Heimovics, 1994; Murray and Tassie, 1994; Osborne, 1994; and Osborne and Tricker, 1995). Outcome measurement requires new skills, including participatory planning, negotiated rules, quantitative and qualitative yardsticks, valid and reliable data collection, and a system for feeding information back into strategic planning systems. An entire field can be enhanced when outcome contracting is performed correctly and when best practices are shared (Buckmaster, 1999).

While outcome measurement procedures have been advocated as a means of eliciting better accountability and more effective program evaluation of nonprofit organizations, doubts about the efficacy of this approach persist. Five broad problems and concerns have surfaced in the literature. First, many managers resist the measurement of outcomes because they have previously seen it fail (Osborne and Gaebler, 1992). One well-known example of how an outcomes-based system can go awry is the Job Training Partnership Act of 1982. Providers were encouraged to target and train individuals who were most likely to succeed in a job, because their rewards were based upon the number of individuals that had secured job placements (Barnow, 2000). Sadly, the incentives of this program encouraged providers to select and assist people who were likely to succeed but who may not have been neediest of the services (Osborne and Gaebler, 1992). This phenomenon, often referred to as “creaming,” occurs when organizations receive payments, even when they follow the path of least resistance and avoid clients who are most in need of assistance.

A second concern with keying program payment to outcomes is related to the possible gaming of such systems (Gibbons, 1998; Lu, 1999). Defined as taking actions that increase pay-outs from incentive contracts without actually improving performance (Baker, 1992:600), gaming is a serious problem because it effectively negates the performance basis on which outcome funding rests. When nonprofits and their activities are not being tracked closely, it is easy for organizations to engage in activities that may call for payment, but that may not represent the fulfillment of the contracts real intentions. By taking advantage of the black letter of a contract, nonprofits can undermine the spirit of a program (Brooks, 2000; Lawler, 1971, 1990; Hamner, 1975; Beer et al, 1984).

Third, some worry that a shift from traditional fee-for-service contracting to performance-based contracting will create conflicts within many mission driven nonprofit organizations. These conflicts can challenge an organization's culture and identity. For some organizations, moving to fee-for-service to outcome funding raises deep questions of control and internal priorities (Williams, Webb, and Phillips, 1991). All aspects of nonprofit operation have the potential to be affected, from the location at which services are offered to the number of clients that are served (Smith and Lipsky, 1993). Some nonprofits find the shift to outcomes stressful because it brings with it a commitment not just to results, but also to programmatic scale and expansion. If outcome funding specifies both a rate of payment for a given set of outcomes and a minimum number of outcomes, nonprofits can be left scrambling to build the capacity to deliver services.

To make these adaptations harder, many nonprofits have organizational cultures that are grounded in the belief that performance targets are not appropriate for many of the human services (Light, 2000). Frequently, nonprofits have missions that are rooted in values and beliefs, and aim toward broad outcomes such as empowerment, improved quality of life, and community well-being. The fulfillment of these missions is often very difficult to measure (Brower, Abofalia, and Carr 2000; Kanter, 1979; Drucker, 1992; Thompson and McEwan, 1958; Milofsky, 1988; DiMaggio, 1988; Drucker, 1990; Salipante, 1995; in Buckmaster, 1999). Resistance to keying programs to outcomes may be strong if the chosen performance measures are seen as being detached from the broad social objectives of an organization (Stone and Gershenfield, 1996).

Fourth, outcome funding creates the concern that nonprofits will not be able to focus on the quality of their services, but instead become engrossed with the number of outcomes produced. If reward systems are keyed to the achievement of results, there is the possibility that nonprofits will be forced to abandon their traditional systems of delivering services in favor of lower cost and lower quality methods. The threat to quality is particularly acute in markets where multiple nonprofits are competing for contracts and where programs appear comparable. In such cases, cost—not quality—may become the deciding factor in which organizations receive contracts for the provision of services.

Fifth, outcome funding can place personnel and human resources demands on nonprofits. As nonprofits grow and change to meet new accountability standards, employees need to acquire the knowledge and skills that will enable them to successfully meet the challenges of their newly defined roles. Program and technical staff may need special training to adapt to the new systems. Also, as these organizations continue to expand and develop, there is a concern that there will not be enough money available to attract and hire the much-needed, well-trained staff (Blacksell and Phillips, 1994). In organizations that traditionally depend on volunteers, the push to organize and professional-ize may lead these nonprofits to bring in paid staff (Billis, 1989). The human resource challenge is rendered more acute when nonprofits are forced to compete with business firms for outcome contracts. In the field of welfare to work services (Pavetti et al 1997; Jennings, 2000), where major corporations such as Lockheed and

EDS actively pursue outcome based contracts with states, nonprofits are struggling to attract and retain the best people in their organizations. This is especially true when businesses can and will pay higher salaries (Frumkin and Andre-Clark, 2000).

While the debate over the strengths and weaknesses of outcome funding rages on, public managers need to define for themselves *in practice* how they can best structure their relationship with nonprofit service providers. As they develop contracting relations with nonprofit service providers, public managers will need to seek answers to the following question: How can the need for accountability be balanced with the need to give nonprofits freedom in program design and implementation? Instead of ignoring this question and the emerging tensions created by contracting, a new perspective on public-nonprofit relations is needed -- one that preserves some of the boundaries between sectors, that gives nonprofits as much freedom as possible, and that makes broad, multi-dimensional appraisals of their performance easier. Rather than see the nonprofit sector as the servant of the public sector that obediently executes programs, public managers must begin to take more seriously the unique visions, values, and commitments that animate the nonprofit sector itself and that lead to programmatic innovations. Moving public management to a point where the values of public accountability and nonprofit autonomy can coexist will require the development of new strategies for managing public-nonprofit relations. What would such strategies look like? An experiment in Oklahoma provides a glimpse of what a well-functioning, outcome-based system might look like (Rosegrant, 1998).

II. The Oklahoma Milestones System

Preparing people with mental and developmental disabilities to live and work independently in society has long been a dilemma for public policy. Over the last several decades, many of the old solutions, including institutionalization as well as a variety of physical therapies, have been abandoned in favor of more humane measures that aim to assimilate the disabled into the broader community. Beginning in the 1970s, the federal government mandated that the public schools educate disabled children in regular classrooms alongside other children and to prepare them to go to work after graduation. These changes did much to improve the prospects for many mentally and physically disabled young adults. But, for those such as the profoundly disabled who needed more help, there was no place to go after graduation from high school. For a long time, putting the profoundly disabled to work was not thought feasible, it thus took some time for the adult social services system to catch up with the education system. Finally, in 1986, in response to pressure from a variety of advocacy groups, the federal government passed legislation that authorized the delivery of vocational services (referred to as "Supported Employment") to people with "the most severe disabilities."

After the legislation was passed, 10 states began receiving funding to start programs to train the severely disabled. However, many other states were hesitant because they had not worked with the severely disabled before and thus required further impetus before they would respond. In 1987, in response to a lawsuit brought by the parents of children who had been residents of Oklahoma's largest institution for the developmentally disabled, Oklahoma began planning a program to train disabled adults to work in integrated jobs in their communities. In 1988, the Oklahoma Department of

Rehabilitation Services began providing employment assessment and training services for adults through community-based nonprofits (and a few selected government agencies). Eligible individuals—primarily people with mental retardation or mental illness, though people with many other disabilities were also eligible—are those for whom direct placement in a job in their community is the desired outcome. Typically, they would be paired with a job coach in order to assist them in locating and getting a job. Since they were providing a new service and did not really have any idea what it would cost, the state decided to structure the program as a traditional fee-for-service model that would reimburse the nonprofits at an hourly rate for all services provided.

A. Planning Change and Moving to Outcomes

By 1991, the program had expanded significantly, working with 20 nonprofits and serving nearly 500 clients. But, Daniel O'Brien and Rebecca Cook, two administrators in the Community Rehabilitation Services Unit of the Department of Rehabilitation Services (referred to herein as "the agency"), concluded that the program was too expensive and that it was not doing a very good job of achieving the program's stated objective, training disabled people for integrated employment in their communities. For example, in 1991, it cost the agency more than $22,000 and an average of 438 days to bring a single case to closure. They concluded that the major cause of these problems was the agency's fee-for-service reimbursement structure, which created a distortion in the way the goal was pursued. This structure put too much emphasis on the process of providing the services—on ability and skills assessments, job training, and constant supervision once employed (all of which would be billed on an hourly basis to the state)—at the expense of moving the clients as quickly as possible into stable jobs. They concluded that the system had created two competing goals, an implicit one, to maximize the number of hours spent on a particular client, and an explicit one, to get clients into employment. More often than not, the implicit goal took precedence. According to Cook, "the emphasis was not on the individual that they were serving… It was on billing hours…. We've got everything askew here. We have a system in place, but it costs too much money and it's not doing what it ought to do."

Cook and O'Brien aimed to devise a new way of paying for services that would, in the fairest and most efficient and cost-effective manner possible, put the emphasis back on the outcome. Their goal, according to O'Brien, was to create "an incentive for [the nonprofits] to find the inefficiencies in their system and to eliminate them. Within the hourly system, we created inefficiencies … by the way we paid. There was no incentive for them to find the inefficiencies and we couldn't find them because we're external to their organization." The goal was thus to construct a system that would force everyone to compete with the most efficient and effective nonprofits.

After much deliberation, O'Brien and Cook designed a system, which they called Milestones, that would reimburse nonprofits when clients reached each of a series of steps—the "milestones"—along the way to getting a job. (To qualify as a "job," federal guidelines require that the client work at least 20 hours a week and must earn at least minimum wage.) The milestones, designed to be easily observable, would involve looking at indicators such as job retention, wages, and employer and client satisfaction. The largest payment would be the final milestone, full employment for 17 weeks plus 90 days (known as "26 closure"). Milestones would reimburse the nonprofit for the “average” cost of providing the outcome of the service rather than (in fee-for-service) for the cost of staff time. The structure of the milestones would differ slightly depending on whether the clients had mental or developmental disabilities, but looked roughly like this: determination of need—10%; vocational preparation—10%; placement—10%; four week job retention—15%; ten weeks job retention—15%; stabilization—20%; 26 closure—20%.

In order to encourage the nonprofits to make good matches, the organization would only be paid once for each milestone. According to Cook, “It’s very motivating to the vendor to make a good job match to begin with.” In order to aid nonprofits in taking on more difficult clients, the Milestones system also created a two-tiered system of payments through which service providers would be paid higher fees for serving people designated as “highly challenged.” Cook notes, “We try to define who are the people who cost more money for the vendor to serve so that we can build a rate into the system that will help them say, ‘It’s OK to take a chance on this person because they are going to pay us more for him.’”

The agency solicits bids from primarily community-based nonprofits to care for a specified number of clients in the following year. To put together a bid, the nonprofit first must develop a budget that includes estimates for the number of clients they will serve and the number of staff they will need. Then they develop a bid based upon the average cost per closure from the previous year multiplied by the estimated number of closures for the contract year. Comparing the estimated number of clients to the estimated number of closures allows them to account, to some extent, for “dropouts,” people who for whatever reason will not reach closure (and thus will deprive the nonprofit of the final, biggest payment). According to O'Brien, the bidding process forces all the service providers "to compete against the average, bringing down the high, the very inefficient providers, pressuring them to move towards the average." Once the bids are received, DRS evaluates them—by looking in particular at the per-customer bid price and the average cost per closure, as well as past history and the geographical area served—and then negotiates with the nonprofit organizations to arrive at a reasonable bid. Required documentation at each stage ensures progress and triggers payment.

Figure 2

The Milestones Bidding Process

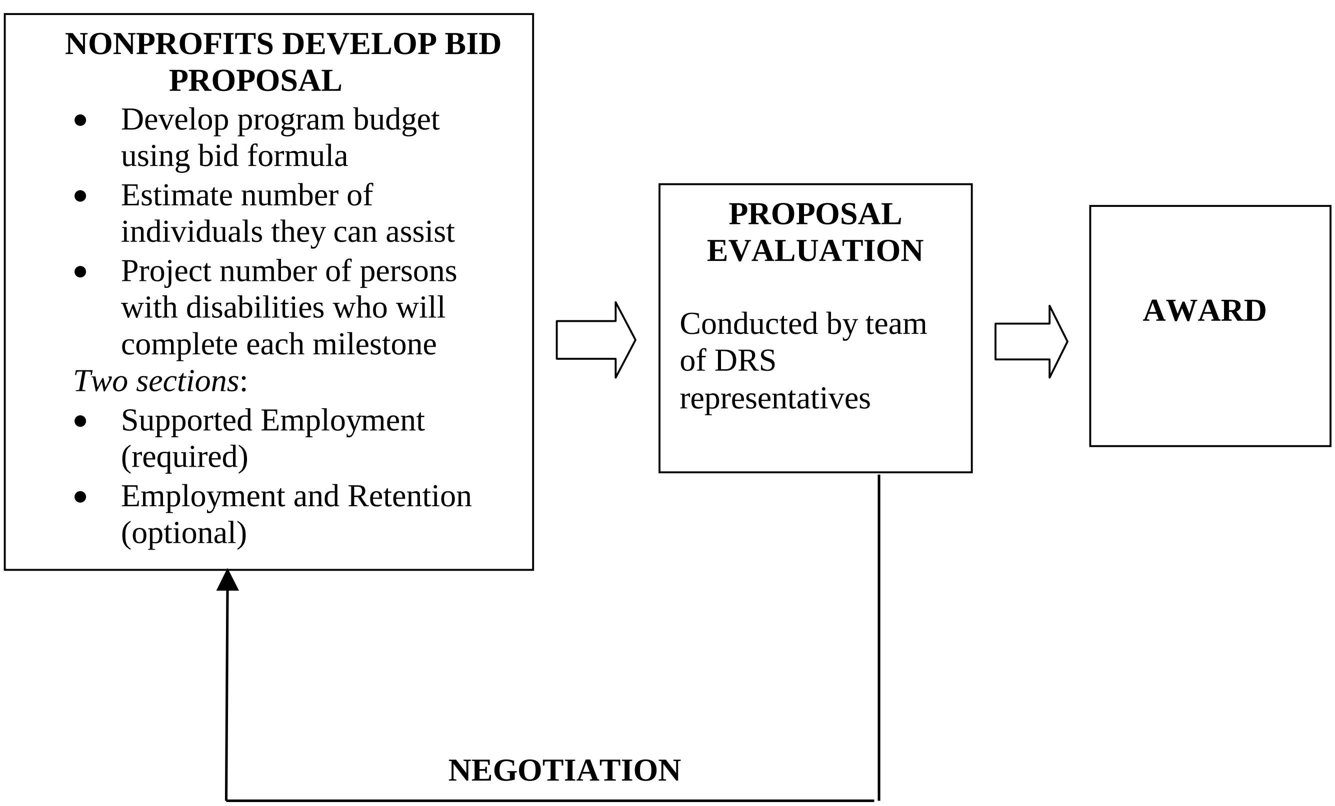


Figure 3

MILESTONE	DOCUMENTATION NEEDED*
Step 1: Determination of Needs	• Computerized Progress Report • Situational Assessment Reports and/or Vocational Assessment Forms • Summary Vocational Assessment Report or Vocational Profile Form
Step 2: Job Placement (SE only)	• Computerized Progress Report • Employment Verification Form signed by employer • Task Analysis Form • Job Analysis Form
Step 3: Job Training	• Dates and hours of attendance (attendance sheets submitted) • Consumer has completed program • Consumer has achieved 75% of pre-defined competencies
Step 4: Job Site Fading (TE only)	• Employment Verification Form (verification of continued employment and hours worked per week will be required for payment) • Employer Evaluation Form • Record of off job site supports provided • Computerized Milestone Report including summary note • Record of hours worked each week---only weeks where hours exceeded 40% of the weekly work goal and in which training or support were provided will be counted
Step 5: Stabilization	• Employment Verification Form • Employer Evaluation Form • Consumer Job Satisfaction Questionnaire • Computerized Milestone Report including summary note • Record of hours worked each week---only weeks where hours exceeded 40% of the weekly work goal and in which training or support were provided will be counted as one of the four weeks
Step 6: Transition to External Support/Closure	• Employment Verification • Consumer Job Satisfaction Questionnaire • Computerized Milestone Report including summary note • Employer Evaluation Form
Step 7: Independent Employment/Career Placement (TE only)	• Summary pages from the Vocational Interest Inventories and Job Success Plan • Job/Worker Discrepancy Analysis and Training Plan • Employment Verification • Consumer Job Satisfaction Questionnaire • Computerized Milestone Report including summary note
BONUS (This payment is only available to cases eligible for cost reimbursement to DRS by the Social Security Administration; an individual who meets the Social Security Administrations requirements for 9 months of Substantial Gainful Activity)	• Verification of Completed DRS SSA Reimbursement Forms

* source: http://www.onenet.net/~home/milestone/tecontr.html

Though the specific arrangements may differ some from one service organization to another, the process involves three key figures. First, counselors (something of a misnomer, since they do not actually "counsel" or work with clients), who are employed by the agency, authorize services to approved nonprofits. They oversee a number of different service providers and supervise the technical assistants. Second, technical assistants, who are also employed by the agency, train and oversee the job coaches. Third, job coaches, who are employed by the nonprofit, work directly with the client. They may work with anywhere from 5 to 12 (or sometimes more) clients at any one time. The job coaches try to find jobs in environments that will support the client. If a client has very restricted skills—most have at least three functional limitations—they will look for a job that requires one or two of those skills, which usually means entry level positions at low wages. By all accounts, being a job coach is an enormously difficult and low-paying job. According to one estimate, regardless of training, it takes a job coach two years to become proficient.

B. Implementation and Expansion

The earliest Milestones pilots—two nonprofits that served mentally ill individuals—were funded in October of 1992. Several other pilots followed over the next several years. In order to prepare the nonprofits to make the transition from fee-for-service to Milestones with minimum confusion, the technical assistants from the agency held numerous training sessions and retreats with managers and job coaches. These were implemented so that they would understand how the bidding procedures worked and what would be expected of them in terms of outcomes once they received contracts.

According to Cook, “We tried very hard from the very beginning of supported employment to bring vendors in as partners into the process of what we were trying to do … they were accustomed to us calling them and saying, ‘What do you think about this?’” Still, in 1997, when the remaining programs from across the state that work with the agency were converted to Milestones, they faced much trepidation on the part of the nonprofits. Many were concerned that they would be forced to spend less quality time with their clients and others were worried that the nonprofits would be forced to select clients most likely to reach closure. The executive director of one Milestones nonprofit, worrying that the quality of services would suffer, commented, “Will we really still be able to perform services in a similar manner to what we do now if it is purely outcome based?”

The changeover proved fairly painless for organizations that had been highly effective under fee-for-service. However, for many others, there were considerable growing pains. Looking back on the shift, 36% of nonprofits involved with the program said the overall transition to Milestones was challenging. Despite all the preparation, getting adjusted to the new bidding system simply took some time and adjustment. Many nonprofits had bids rejected two or even three times before the agency determined that they were eligible for funding. For some, it was a struggle to shift the focus of their organization from “process” to outcomes. It also became clear that many managers were not immediately up to the job of running effective outcome-focused organizations and many job coaches simply did not have the skills and experience to work with profoundly disabled people. According to one technical assistant who spent a lot of time working with nonprofits during the transition, many of them “didn’t have the skills for the job.” A few nonprofits dropped out because they did not believe philosophically that employment should be the only outcome available to people in the program.

Finally, the clients with mental illness raised a host of additional complications. While the founders of Milestones were convinced that integrated work in the community was just as important for the mentally ill as for the developmentally disabled, the directors of many of the nonprofits serving the mentally ill did not see employment in the community an appropriate goal for their clients. According to Cook, “We had great difficulty getting mental health centers to see beyond [the view that] the person comes in for therapy, the person takes medication, the person sits and smokes and watches television all day, and getting them to see that work is part of the recovery process.” Thus, it took a while for some organizations to come around, while many still have not and do not work with Milestones.

Under a system like Milestones, which trades some control for improved outcomes and programmatic freedom, how is success measured? Most obviously, the key measure is increased achievement of the core outcome, the placement of disabled people into stable jobs in their communities. The agency also looked at success in two other ways, the satisfaction of the consumers (meaning mainly the clients and the employers, but also the counselors and job coaches) and a reduction in the need for regulation and oversight. By these three measures, for the vast majority of those involved, Milestones has been a dramatic success. The clients are receiving the kind of support that they need and are being placed in jobs in greater numbers and with far more success and satisfaction than before. The employers are getting well-trained employees who are often more dedicated to their jobs, and thus longer lasting, than non-disabled workers, which saves the employers additional funds in training costs. The agency is getting greater impact because the system links funding with outcomes, which builds public support for the agency's mission. And the nonprofits are doing a much better job of achieving their explicit goal—and they are being rewarded for it. According to a 1997 survey, 13 of 16 nonprofits that had converted had shown improvement in all areas. Time on waiting lists was reduced by half; time before job placement was reduced by 18 percent; the cost of assessments was reduced by 9 percent; paperwork decreased by 33 percent; data entry items were reduced by 98 percent; and the cost per closure dropped by 25 percent. To give a more specific example, Goodwill of Tulsa has become twice as productive under Milestones as it was under fee-for-service: They have been able to treat twice as many clients under Milestones with the same budget they had under fee-for-service. (See sidebar.)

When asked what difference Milestones has made, most nonprofits seem to agree that the new, less-onerous reporting requirements under Milestones have freed the job coaches to spend more time—not less, as had been feared by many nonprofits—with clients. It has also freed the managers to spend more time supporting their job coaches and making sure their organizations are being run efficiently. One Milestones participant says that his organization saves three months a year in employee time because of the reduction in paperwork. One nonprofit manager echoed these thoughts when she said, "Fee for service is a headache because there is so much paperwork involved." That alone—the hours more per week that they have to work with clients—may go a long way toward explaining why Milestones has been so much more successful in achieving outcomes than the old fee-for-service system.

Most of those with experience under Milestones seem to agree that the transparency of Milestones—the idea that everyone understands their role in pursuing Milestones' main goal—makes it much easier for them to do their jobs. The clients know, from the beginning, that they will have to follow a number of steps over a period of time and, at the end, they will have a job. The nonprofits know that they have to scout for jobs more aggressively, and are encouraged to spend more time marketing—themselves and their clients—which hadn't been a priority under fee-for-service. When a job coach focuses on making sure that a placement is suitable from the beginning of the process of working with a client, it often means that the first placement fits well, meaning that both the client and the employer are happy, and the placement is a success.

In order to investigate this level of satisfaction further, a group of 20 nonprofits that participated in Milestones was randomly selected and surveyed in the fall of 2000. Three quarters of the group had been with Milestones for at least three years. The group was asked a variety of different questions. When asked about switching from their previous method of payment, 57% of the nonprofits polled said that their transition to the Milestones system was easy. In response to follow up questions about the design of Milestones, 45% of the group said that the system afforded them a great deal of flexibility and 55% said they felt they had a lot of input in fine tuning their contract with DRS. The system also perceived to be built on sound benchmarks: Almost half of nonprofits polled said that Milestones was extremely accurate in measuring client progress. When the question of creaming was raised with nonprofits by asking if Milestones encouraged them to select clients who were more likely to succeed, 65 % of the group answered no. When asked if the Milestones system increased their accountability to the state, 83 % responded yes. When the nonprofit organizations were asked to choose the method of payment they preferred, 80% chose Milestones over fee-for-service. At the end of the survey, 75% of the organizations rated their overall experience with Milestones as good or excellent. As one nonprofit manager said, “Milestones gives us a sense of accomplishment because the outcome is more clear.” These responses are particularly impressive given the fact that that in 2000 it cost the state $10,740 on average to bring a single case to closure, a substantial savings compared to an average cost in 1991 of $22,000. Milestones have thus created real savings for the taxpayers without alienating the nonprofit service providers.

C. Challenges and Concerns

Though reaction to Milestones has been largely positive, the system does have its critics, and while most of them are managers with nonprofits that have performed poorly under Milestones, some of their concerns are worth considering. From the outset, the two principal objections have been that the enhanced emphasis of the program on outcomes may potentially force the nonprofits either to provide a lesser quality service and that outcomes will lead nonprofits to screen their clients more carefully for those who are most likely to succeed. The concerns voiced by nonprofits in Oklahoma correspond fairly closely to the first and third reservations about outcome funding that we outlined in our summary in the public management and contracting literature bearing on outcome funding.

In the transition from fee-for-service to Milestones, many providers worried that they would have less time to spend with clients and thus the quality of service would suffer. A technical assistant commented, in discussions with nonprofits before the transition, “Quality of services kept coming up time and time again." But Milestones was designed explicitly to address this concern. One of the big problems of fee-for-service that Milestones aimed to correct was that once a provider got on to the list of approved providers, they were almost never removed, no matter how ineffective they were at providing services. O’Brien and Cook felt that nonprofits who were not able to deliver effective services ought to lose their contracts. Given the nature of the clients seeking to achieve Milestones, proper training and sensible placements are essential, however. Milestones made nonprofit organizations, not the agency, responsible for outcomes, thus demanding of nonprofits that they provide quality services and penalizing them if they did not. Beyond putting the onus for quality services on nonprofits, Milestones introduced careful monitoring of the end result of the service delivery system: The counselors under Milestones have been vigilant about not approving placements unless the clients were sincerely happy on the job. The service provider is thus given considerable incentive to focus on quality and to make sure the job is a good fit from the beginning.

The second concern, the selection problem of “creaming” is more serious. O’Brien has commented that creaming is the “Achilles’ heal” of outcome-based payment systems. He notes, “It is something we have to be constantly vigilant about.” One key measure to combat creaming was Milestones’ two-tiered structure of reimbursements that gives nonprofits a monetary incentive not to discriminate against harder-to-serve clients. Clients are designated as either regular (though all of these clients had substantial problems) or as “highly challenged,” and the nonprofits receive a larger payment—

typically about $1,000 to $2,000 more than the regular payment—for taking on highly challenged clients. Despite these measures, as well as the fact that their budgets are supposed to include estimates of dropout costs, some agencies appear to be hesitant to work with difficult clients because of the perceived risk involved in failing to achieve closure. After all, the largest payment is the final one. And it has been suggested by some that the larger payment may not be large enough to make it worth assuming the risk of working with the most challenged clients.

What looks to some observers like creaming may in fact be a byproduct of some remaining confusion about the purpose of Milestones. If, however, Milestones accomplished nothing else, it was able to alter the incentive structure in support of a very clear and enforceable goal. The concept of closure at the heart of this goal—integrated work for an extended period and a reasonable wage at a business in the community—reflects the conviction of its designers that everyone who is capable and wants to work should be able to do so. It also reflects that just about everyone can work if they get the right kind of assistance and support. O'Brien notes that, "Work is part of what makes you feel part of the larger community. And staff people who think work is too difficult or demanding can increase the stress clients feel and contribute to low self-esteem, low expectations, and an inability to function fully in society." He also comments, "We don't believe in sheltered employment…. We don't believe that it's good for people. It is institutionalizing…. The ideal is to put them in a normal environment, and what they start doing is acting like everyone else."

Further, they would suggest that the fact that no one who got screened out in the old system was a flaw in *that* system. The reimbursement process under the old fee-for-service system encouraged nonprofit inefficiency by rewarding organizations for accepting people who could not work and then extending the service delivery process so their budgets could get padded. O'Brien comments, "It would take two or three years really to get to the point of saying, 'OK, you're not going to make it.'" The reason for this, O'Brien contends, is that the agency had all the risks, "There was absolutely no risk in taking somebody who would never get a job." Those people who will not be able to make it to closure or who may be excluded because of their inability to work still have options available to them. Other programs—at the state as well as federal level (e.g., programs such as Social Security, Title 16)—are available to help them with their needs. But Milestones is designed to encourage work and it ought to admit people who are capable of work.

D. Managing for Outcomes

Milestone contracting was designed to weed out ineffective or inefficient nonprofits and to give providers the opportunity to devise new interventions. Thus, it should not be surprising that not every program that made the transition to Milestones has survived. But for those who have stayed and been successful, the key seems to involve two related factors, namely strong management and effective job coaches. Organizations with strong managers made the transition to Milestones with a fair amount of ease. And organizations with good job coaches have been able to make good assessments and to place their clients into suitable employment the first time out.

One of the biggest obstacles to the success of Milestones was getting the nonprofits to change the way they approached their jobs, from a process-oriented mindset to an outcome-oriented one. During the pilot phase, the agency spent a great deal of time working with the nonprofits in order to ensure that they knew what would be expected of them under Milestones. And it seems to have worked. It is interesting to note that nonprofits commonly say that Milestones forced them to act in a more business-like fashion. Analogies like this often break down rather quickly if one looks too closely, but in this case, what it seems to mean is that the nonprofits have been forced to treat potential employers as if they are customers. Nonprofits have had to learn to market themselves to those customers with a fair amount of sophistication. In order to ensure that the employer and the client are happy, they need to pay close attention to the needs of both so that they will make a good match.

But how they do so—e.g., whether they will need more or fewer staff members or what kind of training they will use—is completely up to them. According to Cook, "All we care about is, are you meeting the parameters of our contract in terms of outcomes? You figure out how you're going to do it." The additional risk they assume under Milestones is balanced by the autonomy they have over how they will operate. As long as the nonprofit meets the conditions of their contract—that is, they make (or surpass) the amount of placements they promised—they have complete freedom in determining the best way to do it. Milestones clearly affirms a fair amount of nonprofit autonomy by turning the service delivery process into an opaque, if not black, box from which outcomes are generated.

In such a situation, an organization without strong management may soon be out of business, because the freedom given to nonprofits can be used to innovate or it can be an excuse to flounder. Effective managers under Milestones have to be well organized in order to deal with the many start-up issues that come up and, because of the nature of the contracting system they must be particularly adept at managing money. Also, they have to know their "business" inside out so that they are able to recognize a good job coach from a bad one. The job coach is really the lynchpin of the whole process. One nonprofit manager noted, "The most important part in a client reaching closure is who the clients have as a job coach and how much that job coach is willing to help the client. Most people quit if there hasn't been substantial contact with the job coach." It may be worth noting that the job coaches seemed to have a better understanding of what would be expected from them under the new system than the managers did. The amount of documentation and restrictions of the rules of the old system tended to frustrate job coaches. They were also frustrated by the eternally open-ended process, with nonprofits having little incentive to "fade" the job coach to allow the client to function independently. Under Milestones, roles and goals were clarified and risk was distributed so that everyone had a stake in achieving better outcomes. One job coach commented, "We went from being caretakers to being coaches." They found it liberating. As another job coach noted, "I know if I have done my job well enough that this person is going to make it and we'll get our payments."

Milestones still has a few wrinkles that need to be ironed out. High-performing nonprofits that place their clients too quickly into employment under one contract have no avenue for going back to Milestones if they run out of money. According to O'Brien, "If you set up a system that has incentives for being productive, some people are going to go in and do that, and they're going to do it better than anybody else…. And if you don't have a way that they can grow their contract or grow their program, then, in effect, you're going to punish them for doing good." Under the current program design, they must either stop accepting new clients or operate for free until the new contract begins, neither of which is an attractive prospect. In several cases, the agency has been able to renew nonprofits' contracts early. This is hardly a permanent solution, however. One possible solution that has been proposed is to institute open-ended contracts. The constant evaluation that Milestones necessitates would seem to offer enough accountability to make such an arrangement possible. Others have suggested that Milestones might be effective as a voucher system, allowing the clients (or their surrogates) to make their own decisions about the quality of services.

Whatever the value of these and other suggested improvements, it remains true that Milestones has been a remarkably successful innovation in public management. Fee-for-service has long been *the* chosen method for governments to pay for contracted services under the modern welfare state. But Milestones has shown that there is a plausible alternative to fee-for-service, an alternative that exchanges the worst incentives of the old system—inefficiency, over-regulation, and poor-performance—for the shared risk, greater accountability, heightened autonomy, and high performance of Milestones.

A few key elements are worth some emphasis. The complexity of the change under Milestones necessitated extensive consultation on the part of the agency with the managers and job coaches or, it seems clear, it would have been a disaster. To combat creaming, the two-tiered reimbursement process gave the nonprofits incentives to take on difficult cases. The decision to set reimbursements at the average cost of a service was also crucial, giving the nonprofits incentives to root out inefficiencies within their organizations. The decision to offer a final payment only once per case gave the nonprofit an incentive to make sure that the initial placement would be the right one.

Finally, by making the final payment the largest one and by making it only apply to real work in the community, Milestones encouraged the nonprofits to not waste time on training and assessment and to place the clients in jobs they were suited for.

Perhaps the biggest obstacle to the success of Milestones was changing the mindset of the nonprofits. It was to be expected that the providers who were comfortable under fee-for-service would offer some resistance in the face of change. Managing the process under fee-for-service had been easy. Nonprofits simply needed to keep track and bill the agency for every minute of the work day; maximize enrollment, extend client assessment and training time, and stay on the job site with the client as long as possible. In the end, the dominance of this way of thinking distorted the process, causing inefficiency and poor performance. In sharp contrast, Milestones offered the nonprofits an interesting bargain: If the nonprofits do a better job of putting their clients to work, the state will leave it to the nonprofits to figure out the best way to achieve this goal. Not all nonprofits were prepared to take the public sector up on this kind of bargain, but those who did have thrived. These nonprofits have risen to the challenge and their clients are far better off for it.

III. Lessons Learned

As nonprofit organizations consider the quality and impact of their relations with government, two fundamental concerns emerge that together constitute a strategic dilemma of significant proportions. On the one hand, nonprofits must be open and accountable to the public agencies that fund them. This usually entails complying with regulations and guidelines for the provision of contracted services, as well as completing evaluations and reports on the use of public funds. On the other hand, nonprofits must jealously guard their autonomy and independence. This often comes down to protecting their distinctive missions and values in the face of pressures from outside. For public managers, the stakes involved in working with nonprofits to strike the right balance could not be higher. As devolution and privatization push more and more government functions “down” to lower levels of government, and as privatization continues to push government function “out” to contractors, the task of working effectively with nonprofit service providers is becoming ever more pressing.

We identified at the outset the difficult tradeoff that nonprofit and public managers must strike between accountability and autonomy (see Figure 1). Finding ways to satisfy both nonprofit and public agencies is clearly a challenging task. Often, contracting relations prioritize accountability at the cost of nonprofit autonomy and end up supporting obedient, if uninspired, service providers who simply implement programs as instructed (point A in Figure 1 and cell A in Figure 4). Other times, contracting systems privilege the autonomy demands of nonprofits at the cost of sound oversight and create room for nonprofit renegades to take advantage (point B in Figure 1 and cell B in Figure 4). In some cases, neither value is optimized and nonprofit simply perform poorly as unaccountable and unproductive vendors (point C in Figure 1 and cell C in Figure 4). The core challenge in public management is to promote both the values of accountability and autonomy at the same time and to allow nonprofits to act as responsive innovators (point D in Figure 1 and cell D in Figure 4). This appears to be happening in Oklahoma through the Milestones system.

Figure 4

The Four Identities of Nonprofit Organizations

		Level of Nonprofit Accountability to Public Sector Agencies	
		HIGH	LOW
Level of Autonomy Sought by Nonprofit Organization	HIGH	**The Responsive Innovator** (D)	The Renegade Experimenter (B)
	LOW	The Obedient Implementer (A)	The Detached Vendor (C)

The Milestones model is significant because it represents a clear attempt to move to contracting to an optimal mix of accountability and autonomy. From the experience in Oklahoma, it is possible to draw some simple lessons for public managers on how to go about designing and implementing milestone contracts:

A. Design Stage

1. Collaborate with nonprofits in the initial design of milestones.

Public managers should bring nonprofits into the process of designing milestones. One lesson that emerges from the Oklahoma experiment is that good communication between public and nonprofit managers early in the contracting design process is essential. Many nonprofit organizations are likely to be apprehensive of a major shift in the way public contracts are administered. Collaboration will go a long way toward both assuring nonprofit support for change and the selection of meaningful and appropriate measures of progress. Public managers need to work to ensure that nonprofits buy into outcomes that are chosen and this means giving them a voice in the development of contracting system.

2. Use a small number of milestones and use simple reporting forms.

The Oklahoma experiment demonstrates that the number of milestones should to be kept modest if the system is to work efficiently. When milestones become too numerous, the administrative oversight and reporting requirements become acute. By keeping the number of outcomes small and by placing special emphasis on the final outcome sought, public managers can create room for nonprofits to innovate by freeing them from heavy reporting requirements. While the number of appropriate milestones will vary considerably depending on the kind of service being delivered, public managers should err on the side of too few rather than too many milestones.

3. Shape incentives to avoid creaming.

Worries about client creaming were present in Oklahoma. Rather than dismiss these concerns out of hand, it is useful to confront them directly and to reassure nonprofits that incentives will be established to encourage organizations to continue to tackle the most difficult cases. By paying more money for hard to serve cases and by allowing nonprofits to get paid based on the risks they assume, public managers can move toward removing the incentives that some agencies might have to become selective in the clients they serve under a milestone payment system.

B. Implementation Stage

4. Help nonprofits make the shift from fee-for-service systems to outcomes.

Shifting away from fee-for-service clearly creates stress for nonprofit organizations. It removes a long held safety blanket from these organizations and introduces contingencies into their funding. This can be a source of cultural conflict within nonprofits, as long standing priorities and practices must be revisited in light of changes in the funding environment. To the extent possible, public managers need to be sensitive to these stresses that changes in payment systems can create and to work directly with nonprofit organizations to explain milestone systems and the rationale for moving away from fee-for-service systems. Demonstrating that milestones have the potential to both reduce paperwork and increase programmatic freedom may go a long way to ease nonprofits' concerns.

5. Be flexible and revisit milestones once a system is in operation.

Flexibility is a virtue in outcome funding. Although milestones allow the state to treat all nonprofits fairly, there is room to accommodate some variation in system. Public managers need to be ready to accommodate special cases, especially when nonprofits work with special populations or when the system is first being implemented. Once a milestone system is in place, it is important to revisit the selection of milestones to ensure that the right outcomes have been selected. This can be done in consultation with nonprofit organizations after they have had some experience with milestone funding.

6. Study effective programs and disseminate best practices for achieving outcomes.

Outcome funding is still in its infancy in nonprofit human services. A critical task for public managers is building knowledge about effective performance-based contracting systems. A critical step in this process is documenting and disseminating best practices so that others can learn and the field can continue to develop. Public managers should also be open to the possibility that outcomes may work better in some fields of social service activity than in others. Understanding exactly when, where, and why outcome funding is likely to be most helpful in improving performance needs to be illuminated through experimentation and analysis in the years ahead. Public managers should take a lead role in this work.

By breaking down some traditional boundaries and by challenging long standing operating principles, public and nonprofit managers can work together to deliver effective programs. The Milestones system in Oklahoma represents a potent tool for advancing the shared interests of public and nonprofit sectors. By holding nonprofits accountable for producing results and by giving nonprofits substantial freedom in the design and implementation of interventions, Oklahoma has gone a long a way toward defining a model that others can apply and develop even further.

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