

# **Exploring the Potentials of Outcomes-Based Contracting: Findings from Initial Implementations**

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## **Abstract**

Outcomes-Based Contracting (OBC) ties vendor payments to performance metrics, aiming to enhance accountability in public education. This study examines its implementation in tutoring services through the Southern Education Foundation pilot program. Interviews with district leaders and vendors reveal that OBC fosters collaboration, improves service alignment with student needs, and enhances data tracking. However, financial risks for vendors and the complexity of implementation pose challenges. While OBC shows promise in strengthening district-vendor relationships, its broader adoption requires capacity building, equitable risk-sharing, and further research on long-term student outcomes.

*Exploring the Potentials of Outcomes-Based Contracting: Findings from Initial Implementations*

**Overview**

Contracting relationships between public school districts and vendors are a common feature of education provision in the United States. Contracted services in schools range from broad, essential functions such as school meals, bussing, and janitorial services to more specialized services such as analysis of student data, curriculum mapping, and professional development. The strength of these contracting relationships depends on vendors providing consistent services and payment from districts to vendors. Providers are paid with public funds, and communities may expect oversight and transparency about their effects on valued outcomes. This transparency can also help districts make decisions about contract renewals. Given the recent infusion of federal dollars through pandemic relief funds to bolster teaching and learning, the cultivation of productive district-vendor relationships is an important district-level capacity.

Outcomes-based contracting (OBC) is an emerging approach to structuring contracts between districts and vendors that has been elevated by certain policy groups and philanthropies. OBC aims to increase vendor efficacy by directly building expectations for transparency and effectiveness into legal agreements between districts and vendors. An OBC contract includes a portion of payment contingent on the attainment of agreed-upon success metrics set forth by the buyer, in this case, the school district (Corbett et al., 2023). Districts are responsible for identifying a target population with specific outcomes of interest and ensuring that services the vendors are provided access that target population for service delivery.

In theory, utilizing OBC contracts can allow for the mutual accountability and relationship building between vendors and school districts that is necessary for ensuring

high-quality implementation of learning interventions. Given the unprecedented investments in learning interventions from federal pandemic relief, OBC is a potential public management tool that can ensure that these funds meet their intended purpose of accelerating student learning.

The Southern Education Foundation (SEF) recently supported a multi-year program to develop some of the first OBC contracts between school districts and tutoring providers (Southern Education Foundation, 2022). This is one of the only systematic efforts to implement OBC in any policy context, and therefore an important initiative to study to grow the evidence base for policy makers on OBC. The SEF pilot aims to leverage pandemic relief funding for schools to effectively increase student achievement through high-impact tutoring (HIT) programs. This is an opportune time to study OBC implementation because this is an early pilot in which practices and associated policy mechanisms can be improved and refined. The SEF pilot includes professional development on creating an outcomes-based contract, continuous support with the implementation of the contract, and collaboration with a cohort of peers who are also implementing OBC frameworks for the first time (Southern Education Foundation, 2022).

We studied this program to assess the OBC framework's potential to improve education spending practices and district experiences with implementation. This work provides some of the earliest systematic evidence of OBC's potential to improve the productivity of district-vendor relationships. We asked: (1) Did the experiences of districts and tutoring providers align with the theory driving OBC? (2) From the district's perspective, what were the potential challenges and benefits of implementing OBC? (3) From the vendor's perspective, how desirable and feasible were OBC contracts? And (4) what are the potentials and limitations of expanding OBC? We investigated these research questions by seeking out the perspectives of districts and providers who both participated in the SEF program and who opted out of participating. We sought a

variety of viewpoints to understand both the potentials of OBC, the hesitations that may exist about the model, and the challenges, both real and perceived, of implementing OBC.

Our findings offer the following about early implementation:

- OBC models helped foster systems of mutual accountability and collaboration between tutoring vendors, which made these relationships more productive and aligned with the academic goals of the district.
- These benefits generally outweighed the initial discomforts of implementing new contracting structures.
- Districts relied on support from the Southern Education Foundation to address implementation pain points.
- Several vendors did express hesitancy about the OBC model, namely around the financial risks and the ways in which the OBC model creates the need to target specific groups for intervention when interventions could provide universal benefit.

Taken together, we believe these findings offer insights for district leaders and policymakers considering new models for contracting, especially if they wish to increase collaboration and productivity within their vendor relationships.

### **OBC and HIT: Maximizing the Potential of a Promising Learning Intervention**

Outcomes-based contracting falls under a larger framework of Pay for Success (PFS) public management strategies. The basic logic around PFS is that payments to a vendor should be tied to the quality of services they ultimately provide. Over the past three decades, the implementation of PFS has increased, both in the U.S. and internationally (Gibson, 2023). By tying payment of services to the performance of a vendor, PFS potentially reduces costs and encourages innovation in the public sector (Gibson, 2023). Despite the large number of projects adopting the PFS model, rigorous evaluation is limited (Emmert et al., 2012; Fraser et al., 2018; Ogundeji et al., 2016; Sanderson et al., 2018). The few studies that have evaluated PFS have found that it requires complex outcome negotiations, which can increase transaction costs (Sanderson et al., 2018), and that more research is needed to determine the risks and potentials of PFS in different settings (Fraser et al., 2018). Knowing that PFS models that are similar to OBC

models have been complex to implement, we turn our attention to offering some of the earliest evidence on the implementation of OBC models in educational settings to provide guidance on whether this model improves the productivity of contracting relationships and student learning.

The OBC model is part of a larger framework of PFS models that emphasize outcomes (i.e, the impact of tutoring on student academic performance) rather than only participation in services (i.e., number of tutors hired). Given the sizable amount of funding given to the American Rescue Plan to aid in learning recovery, Corbett and Vuong (2021) assert the importance of state and local education agencies developing the capacities to effectively contract with vendors. Building on this, Corbett et al. (2022) introduced a novel approach of OBC to the U.S. educational context with the goal of shifting the emphasis from innovating new solutions to the actual implementation of evidence-based interventions, such as High Impact Tutoring (HIT).

Unlike OBC, HIT programs have undergone extensive research, consistently showing a significant positive impact on student outcomes (Fryer, 2014; Neitzel et al., 2022; Nickow et al., 2021). However, the intended outcomes of HIT programs require fidelity of implementation (Robinson et al., 2021). The OBC theory of practice emphasizes that agreements between districts and service providers based on clear objectives can promote mutual responsibility. The shared responsibility strengthens the partnership and encourages continuous improvement, resulting in improved academic outcomes for students (Corbett et al., 2023). Therefore, HIT contracts may benefit from the OBC framework because they can ensure that implementation remains faithful to important design principles. Our findings also offer insight into how OBC contracts facilitate mutual accountability and collaboration that can promote the effective implementation of HIT programs so that they may have their intended effect of increased student achievement.

## Study Design

For this study, we conducted 23 virtual interviews totals, with 15 interviews with leaders from nine school districts and seven tutoring providers. We recruited this sample in partnership with the Southern Education Foundation, which facilitated introductions to districts/LEAs that participated in and opted out of their pilot program. We requested to interview every district and vendor who participated in the first two cohorts of the SEF OBC-HIT pilots. We did not receive responses from two districts and two vendors. One district declined to participate. Given the relatively high participation ratios (9/12 for districts and 7/9 for vendors), our data covers a wide range of perspectives about OBC.

Within our interview sample, we have eight pairs of districts and vendors working together on an OBC-HIT contract. Pilot districts participating in this study came from the four states, mostly in the South and Southwest of the United States. The number of students served in the districts we sampled ranged from around just over 20,000 to just over 90,000. To understand perspectives outside of the SEF pilots, we also included two district leaders who opted out of participating in the SEF pilot and two tutoring companies whose bids were not chosen by participating districts. Though these individuals cannot speak to OBC implementation, incorporating these viewpoints into this study will help us understand hesitations about the OBC model, given these individuals have engaged with OBC but are not currently employing it.

Interviews lasted thirty to forty-five minutes. We asked districts and tutoring providers about their broad interest in and perceptions of OBC, the process of constructing OBC requests for proposals, writing and enforcing contracts, and their partner relationships. Three researchers collaborated to transcribe the audio recordings of these interviews and code the transcripts through a deductive coding scheme developed to identify themes concerning district and vendor

perspectives, implementation challenges, and scaling the OBC model. As a research team, we then analyzed the coded data to identify findings related to implementation, district perspectives, and vendor perspectives. Our findings section follows these thematic groupings. We anonymized districts and vendors to minimize potential harm or risk for participating in this study.

### **What We Learned**

This section discusses three sets of findings relevant for policymakers to consider about OBC:

- OBC implementation required significant amounts of time and investment on the district side to change practice and to learn OBC principles.
- Districts used OBC contracts to create very targeted services for a student group of interest. They reported that their vendor relationships under OBC contracts were more collaborative and focused on student outcomes.
- Vendors were appreciative of the new-found engagement with district partners they worked with. Some vendors expressed concern over the very specific student groups that OBC contracts require, suggesting that this model is not compatible for universal programming.

### **Implementing the OBC Model**

*Writing the contract:* OBC contracts differ from traditional contracts between districts and providers because they specify the outcomes that districts expect, the data used to measure those outcomes, how districts and providers will share responsibility in meeting the outlined goals, and how payment will be commensurate with the outcomes achieved. Though the OBC contract can be a challenge to write, we find the new contract elements can incentivize aspects of effective implementation for both districts and vendors. OBC contracts are not easy to create. Participants, for example, referenced challenges with constructing the rate card, which structures the payment given to vendors at different levels of results obtained. One district leader described this process: “it was so new to me. ...it was like mind-blowingly hard because ... when you're first learning that rate card, it's like rockets.” Thus, we find that OBC models require significant effort on the front end to put into practice.

*Tracking data and building relationships:* Respondents were motivated to get through the initial difficulties of constructing the request for proposal (RFP) and the contract because they believed that the terms of the new contract would induce a paradigm shift in how districts and providers acted. Because providers need to prove their effectiveness in order to receive full payment for their services, providers reported that they were very motivated to do meaningful data tracking of their results. These findings were often shared in partnership meetings where districts and vendors would come together to celebrate wins and discuss where the data might fall short. Vendors also made themselves readily available to working district partners to troubleshoot. One district partner mentioned having the vendor’s CEO on speed dial for questions. One provider reported that this level of involvement made them feel like “an extension of the school” because of the necessary level of collaboration needed to continuously improve the tutoring services. They were able to have more control over important aspects of tutoring provision, such as scheduling.

District leaders and providers also noted that districts engaged more with program implementation under an OBC contract. One district describes their joint role in pursuing the academic goals outlined in the contract:

“...this [contract] involves skin in the game on the part of the district. We agree to do some things as well. And so there truly is in the contract a list of items that the district will do and a list of items that the vendor will do... that's a bit unusual.”

One of the primary responsibilities of the districts in OBC contracts with tutoring providers is to reflect on tutoring data with the providers regularly. As one vendor describes, these meetings served as productive spaces of joint problem solving: it is “truly a collaboration around the needs of the schools and the district and the particular project at hand.” As a result of these regular meetings, the issues identified during implementation (i.e., difficulties logging on for tutoring



sessions) could often be quickly resolved by the tutoring provider. For example, a district describes the troubleshooting services they received from a provider:

“But I think we were successful because we stay connected all the time. All the time. The day one student said they couldn't understand their tutor, I was on the phone with them. Like nothing waited.”

Partnership meetings also helped to build strong relationships between districts and providers. Relationships were particularly fruitful when the district and the provider had designated point people to build rapport and trust. One provider describes the dynamics and the productivity of their weekly meetings while identifying the importance of a project manager:

“... the vendor district relationship has been amazing. Like every conversation is focused on the work. We have a project manager that spends a portion of the time just focused on this contract to ensure fidelity and accountability measures on the district's part and the fidelity and accountability measures on the vendor's relationship.”

Ultimately, the OBC contracts appear to have increased accountability for vendors while also increasing districts' contributions to implementation. One provider describes their view of district partners under these arrangements as “joint problem solvers” who are also invested in helping to find solutions and build capacity on the district side to carry out the contract successfully. Our interviews provide evidence that OBC, while not easy, can achieve its theoretical promise of specifying outcomes, including how payment is commensurate with those outcomes and detailing shared responsibilities for meeting outcomes between both parties.

### **Early District Experiences with OBC**

District personnel recognized the potential benefits of OBC, noting the capacities needed to successfully complete OBC, especially the contract development. As one example, they needed the ability to coordinate across district departments, such as legal, purchasing, and programmatic departments, for the creation of an RFP. In addition, they needed the ability to be

specific about the student groups served and the outcomes they wanted to achieve. This specificity resulted in very targeted services. One district described how they singled out eighth graders who were not on track to be high school ready:

“What is it that's keeping you up at night, what specific group? Mine were those students that were not achieving and contributing in high school, that weren't ready for Algebra I, which we know base-10 numeration and algebraic thinking are the cursors of our high performing countries, right? Those kids by eighth grade, they are all algebra ready.”

District personnel also underscored the importance of outside support in supplementing their internal capacities. They reported that high levels of support from the SEF were essential for their OBC processes, particularly during the RFP stage and when completing a contract after selecting a tutoring vendor. A district leader described the necessary implementation support:

“So making sure that you have your metrics outlined, the target group outlined, how many kids you're servicing, when you're going to have the data ready for them to be able, meaning the vendor to be able to start having the meetings with your people, your program people on your end... those things are critical. Those things came with guidance from the Southern Education Foundation.

District personnel appreciated the opportunity to collaborate with the vendors at all stages of program implementation, such as meeting regularly to troubleshoot as issues would arise or using check-ins to engage in data dives for progress monitoring. For some districts, OBCs have fundamentally changed their perspectives about what contracting relationships can be. Instead of riding out contracts that might not be working or experiencing the same issues, they have felt like vendors are invested in continually refining their services.

Vendor responsiveness and the frequent touch points also provided the on-ramp for new practices to emerge. For instance, one district described systems put into place with the vendor to ensure that their students had consistent interactions with the same tutor and data meetings between the district and vendor, which motivated districts to improve attendance for tutoring sessions. We observed that this mutual accountability often led to actions of continuous

improvement, which aligned tutoring programs with tenets of HIT known to increase student outcomes.

Overall, district officials noted that successful implementation of OBC requires substantial capacity and coordination among district personnel and between the district and the vendor, as well as high levels of commitment from both the district and the tutoring vendor in order to be successful. Therefore, even with the reported benefits of OBC, districts may be cautious about entering into OBC contracts if they do not have buy-in, outside support or the capacity to work across departments internally, as well as collaboratively with tutoring providers.

### **Early Vendor Experience with OBC**

Tutoring providers were mixed in their assessment of OBC. Some identified the benefits of getting to showcase the positive effects they were confident they provided. Similar to the district respondents, some expressed the benefits of closer collaboration. However, others reported difficulties in the contracting process and acquiring additional financial risk. These concerns may be particularly salient for smaller providers without the ability to distribute risk.

Tutoring providers who fully supported OBC tended to express confidence in the efficacy of their services and the ability to set achievable goals with their respective district partners. They reported that OBC increased data tracking, and, as a result, they were able to show the efficacy of their services. One vendor noted they hit 178 out of 185 targets in a district contract. This type of data tracking was meaningful because it allowed the vendor to make a stronger case for why they should continue to be chosen among a vast marketplace of tutoring providers.

Providers also reported that the ability to work closely with districts and schools to understand their goals supported ongoing communication and focus for all the stakeholders

involved. Like districts, tutoring providers enjoyed the increased engagement that animated their partnerships. One provider describes the shift to shared accountability:

“It's like a two-way accountability street now built into the contract where, all right, there's criteria, parameters that the schools need to live up to in order for the outcomes to be considered for bonuses, incentives, and any things like that. And so I think the accountability piece is huge.”

Tutoring providers who expressed hesitancy for engaging in OBCs with partner districts had concerns about the risk they had to take, given that implementation challenges were outside of their control. While some of the implementation challenges that the district can control - such as making sure students attend tutoring sessions - can be built into the contracts as district responsibility, some may not. One vendor explained how internal school conditions can lead to breakdowns in implementation beyond their control:

“So yeah, scheduling conflicts... everything as goofy as... scheduled field trips or your testing...or when the computer lab is being used by the fun fair. So there's all those things. There's internal technology and the internet. Access challenges that are outside of our locus of control. So there's all these things that at the district level could impact our outcomes and then therefore our payment. So we do feel like we have an outsized share of the risk ...”

Some of the concerns that providers have about engaging in OBC could be overcome by the OBC process. For example, an implementation challenge was attendance. A provider noted:

“And what we found is if we don't have the school's cooperation in getting the students there at their tutoring sessions, and there are many reasons why they may fall short on that, then there's not a lot we can do about it.”

However, OBC contracts held that the district does not get the students to tutor (either in person or online). Thus, some provider hesitancy may be relieved by clearly understanding what contracts can include to hold districts accountable for providing favorable conditions.

Nonetheless, some provider concerns were more difficult to overcome. Tutoring providers noted that the measurement of tutoring effects is imperfect and, as a result, OBC

increases their risk, even if they are convinced that they deliver an effective product. They also mentioned specific issues with risk calculations: for larger firms, an increased risk for one program site may not substantially affect their bottom line, but for smaller programs or programs working heavily in one district, their fiscal outlook with OBC is particularly risky. Hesitant vendors pointed out the potential for OBC contracts to skew the market towards specific types of vendors and away from others based on their ability to deliver quality programs and absorb risk.

### **Important Considerations for Adopting OBC**

District and vendor respondents provided perspectives on whether districts should adopt OBC practices. They collectively identified three requirements for success: developing skills and competencies needed for a successful OBC process, constructing strong contract requirements during the RFP process, and engaging district officials as champions to motivate the implementation of OBC. Developing an OBC was not straightforward. Districts and providers need to develop an understanding of how to create effective contracts or receive direct help in the contracting process. In particular, districts reported the support provided by the SEF pilot program was integral to districts' perceptions of the success of OBC implementation. For this model to be implemented broadly, expertise would need to be gained at scale, likely with the help of outside technical support. Districts that are implementing OBC contracts may need to solicit outside expertise to gain the necessary skills and may want to join a community of practice before considering adopting these changes.

The contract requirements that are essential to the OBC model also affect the potential feasibility of OBC for vendors. For instance, OBC contracts contain inherent risks for vendors, which can be exacerbated by measurement errors in measuring effectiveness that might result in their impact being underestimated by chance. Smaller vendors faced particular difficulties in

taking on potential risks. Additionally, vendors may hesitate to partner with districts without the capacity to collect reliable data to measure program effectiveness. In this study, we observed OBC contracts within the time frame of a single school year. In reality, developing and refining the systems needed for successful future implementation could take more than one year. One vendor described this concern: “the timeline or the time frame in which schools have to ramp up or to really meet these criteria necessary in an OBC framework. It's just not realistic, especially when we think about feasibility for like year one, even year two of implementation.” Overall, the details of the OBC contract matter. Districts and providers need the skills and knowledge to align on the contract terms and to collect the data needed to reliably measure agreed-upon outcomes.

The complexity of OBC required district officials to be fully engaged with and bought into the process to pull it off effectively. The district officials we spoke to were all “champions” of OBC in their individual contexts. They were overwhelmingly positive about their experiences and more likely to be intrinsically motivated to make these contracts work. OBC was not imposed on the districts; district leaders self-selected to participate in the pilot. Expanding OBC might require a large supply of champions in districts across the country who would be motivated to gain the necessary skills and knowledge to implement this framework with fidelity. They would also need to devote a significant amount of time to aligning the necessary stakeholders within their districts around new processes with OBC and the intended goals of the OBC contract. Given that this is such a new model of service procurement, it remains to be seen if it will have broader popularity within the educational landscape.

### **Policy Implications**

This study provides early evidence that district-vendor relationships can be more mutually accountable and productive under OBC contracts. Districts and vendors reported

increased engagement throughout their contract, which was productive in helping them achieve mutually agreed-upon goals. District leaders also reported that the OBC contract helped them make more informed decisions about whether or not to renew contracts. Together, these data points suggest that OBC can increase productivity and ease oversight burdens.

Districts considering implementing OBC contracts should consider the necessary time, resources, and personnel. The contracting process was complicated and required knowledge, skills, time, and willingness to buy into the process. Some districts will not have the capacity to enter into OBC unless substantial outside support is available. They should also consider if their strategic priorities are granular enough to identify the target populations required for OBC.

Moreover, questions about how to best structure OBC processes and contracts remain unanswered questions, particularly across provider type, district context, and at scale. Our study focussed on large districts using HIT tutoring delivered by tutoring providers to improve student outcomes. Continued, systematic assessment of the OBC model across additional use cases as it expands may provide insights into how to best leverage its potential. Given the early and limited implementation of this model, we can only provide early evidence about its implementation as district leaders consider whether this could be a helpful model for their strategic priorities. There also remains the need to investigate the impact of OBC contracts on student outcomes. As its popularity grows, we hope that researchers conduct deeper analyses of the dynamics of vendor-district relationships, the more granular aspects of the OBC model, and impact studies on student achievement for students receiving services under OBC Contracts. Additionally, given the ever-changing landscape of educational needs, educational products, and education funding, the broader field of education policy research could benefit from understanding how vendor-district dynamics contribute to systems productivity and student outcomes.

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