

# Contracting for Outcomes: A *Systematic Outcomes Analysis* approach using *Outcomes Is It Working Analysis* (OIIWA)

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[www.oiiwa.org](http://www.oiiwa.org)

[www.parkerduignan.com](http://www.parkerduignan.com)  
[www.strategievaluation.info](http://www.strategievaluation.info)

[www.outcomestheory.org](http://www.outcomestheory.org)

There are also other resources on the *Outcomes Is It Working Analysis* OIIWA approach at that site.

Any comment on this paper would be appreciated, please send to [paul@parkerduignan.com](mailto:paul@parkerduignan.com). The full reference to this document is Duignan, P. (2005) Contracting for Outcomes: A *Systematic Outcomes Analysis* approach using *Outcomes Is It Working Analysis* (OIIWA). [Available from [www.oiiwa.org/oiiwa/documents/135pdf.html](http://www.oiiwa.org/oiiwa/documents/135pdf.html) or alternatively [www.strategievaluation.info/se/documents/135pdf.html](http://www.strategievaluation.info/se/documents/135pdf.html)].

The OIIWA approach is also known as the REMLogic approach (Research, Monitoring, Evaluation Intervention Logic Outcomes approach).

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**If using any of the ideas from this paper please reference it in a footnote using the reference above.**

# Introduction

“Contracting for outcomes” (end results) rather than just “contracting for outputs” (goods and services) is something that’s either implicitly or explicitly being pursued in many sectors. It’s part of the global movement towards *managing for outcomes*, *managing for results* and *evidence based practice*. Much of the discussion and experimentation on this topic remains relatively unsophisticated due to the lack of development and dissemination of outcomes theory. Outcomes theory is the theory underlying outcomes systems (also known as managing for outcomes/results systems, performance management systems, contracting systems, results-based contracting). A treatment of outcomes theory can be found at [www.outcomestheory.org](http://www.outcomestheory.org). *Systematic Outcomes Analysis* is the practical application of outcomes theory which uses the *Outcomes Is It Working Analysis* (OIWA) approach to develop outcomes hierarchies, indicators and evaluation plans for organizations, programs, policies and collaborations (see [www.oiiwa.org](http://www.oiiwa.org) for a guide to OIWA and additional resources).

## Contracting and Managing for Outcomes

Traditionally much contracting (particularly in the public and community sector) has taken place on the basis of either contracting for inputs, or more recently contracting for outputs – specific goods and services provided by a provider organization. Using this approach has the advantage that the contracting organization (known in OIWA terminology as the *control organization*) and the provider are both absolutely clear as to what it is that the provider is expected to deliver. Due to the way in which contracts are set up under this approach, measuring whether or not a provider has delivered its outputs is relatively straightforward.

This concept relies on the contracting organization having satisfied itself that it is clear about which set of goods and services (outputs) will be the most effective to achieve a particular set of higher level outcomes. If this is the case, as it often is in simple cases (e.g. the supply of basic goods and services) then contracting on the basis of is used. It is the obvious way to go about contracting and, from the point of view of the contracting organization and the provider, it is the least problematic because it provides transparency about what the provider is accountable for delivering and, if set up in the right way, provides easy measurement of whether or not they have delivered it.

However, recently in most public sectors in the world, there has been a change in orientation towards encouraging more of an “outcomes focus” rather than just an “outputs focus” and driving thinking about final outcomes lower and lower within the system, right down to the provider level. Once embarked on this type of thinking, contracting organizations very soon start toying with the idea of

“contracting for outcomes” rather than just “contracting for outputs” and in a number of places this is currently being attempted.

In an ideal world, such thinking and experimentation would be underpinned by a clearly developed outcomes theory. Such theory would provide the conceptual basis to make sure that such systems are robust and produce the minimum number of unintended negative consequences. It would also give us the tools to talk about the basis building blocks of such systems and which elements are being implemented in different settings so we could undertake comparative analysis. However, theory in this area has only recently been developed<sup>1</sup> and many of those who are developing such systems do not have a systematic perspective on outcomes theory. The current situation is rather like a number of largely untrained people setting out to develop accounting systems for the worlds’ organizations without the benefit of accountants, accounting theory or accounting conventions. This having been said, there are a number of practitioners with knowledge in the area, although in the instance of many systems they are either not available or their advice is not listened to.

If we do turn to the recently developed area of outcomes theory and to one of its practical implementations *Outcomes Is It Working Analysis (OIWA)* what guidance can we find concerning when we should and when we should not set up contracting for outcomes systems. In thinking about this, we can distinguish two sets of cases – those in which it is easy to measure and attribute high level outcomes and those in which it is not. These two types of cases are discussed below.

## The first set of cases – easy to measure and attribute high level outcomes

In the first set of cases there’s no major difficulty in contracting for outcomes at all. These are cases where there’s total certainty about the outcomes hierarchy (the set of outcomes from the lowest to the highest level that the contracting organization is trying to achieve<sup>2</sup>); only one provider organisation contributes to changing the outcomes; and it can easily be proved that the activity of that organization caused the high level outcomes to change. In these cases, the contracting organization simply contracts with the provider organization for high-level of outcomes.

Of course, if for a moment we look at this from an accounting, rather than an outcomes perspective, the mere fact that it is easy to measure and prove that the provider organization has or has not changed high level outcomes means that changing high level outcomes can simply be viewed as a “service”. As a result, since outputs are defined as “goods or services”, this situation can simply be

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<sup>1</sup> A systematic treatment of outcomes theory is available at [www.outcomestheory.org](http://www.outcomestheory.org).

<sup>2</sup> For further information about drawing systematic outcomes hierarchies for outcomes systems see the OIWA guide at [www.oiiwa.org](http://www.oiiwa.org).

transformed into a case of contracting for outputs rather than contracting for outcomes.

This fact presents itself as a paradox to those contracting organizations that are attempting to *contract for outcomes* as opposed to *contract for outputs*. At the very moment that they attempt to move from contracting for outputs because they've found an outcome higher than the present set of contracted outputs, their chief accountant will come along and say "no problem since it's measurable and attributable to the provider organization we can just see it as an output and contract for it as usual". This apparent paradox disappears once you have a good understanding of the possible characteristics of outcomes within outcomes hierarchies as discussed below. There are situations in which you can contract for outcomes once you've considered the pros and cons of doing this (see discussion of contracting for not-fully controllable outcomes below), but they are not situations in which the outcomes are fully measurable and attributable to an individual provider organization. For the purposes of clarity, the term contracting for outcomes is best saved for use in this later type of situation rather than the easy to measure and attribute situation as described in this section.

While in easy to measure and attribute situations, seeking to "contract for outcomes" will prove to be an unreachable holy grail, there is something that contracting organizations should think about in the light of the increased outcomes focus. Such organizations should continually check that they do not have any contracts where they are contracting too "low" down the outcomes hierarchy when they could legitimately contract further up for outcomes that are still measurable and attributable to a particular provider organization.

In these cases however, the contracting organization must be careful in doing this that it is actually still contracting for an output which can be clearly specified, uncontroversially measured, and clearly attributed (shown to have been caused by) the provider organization. If this is not the case, then the contracting organization is (whether it knows it or not) moving away from contracting for outputs to "contracting for not-fully controllable outcomes". It is theoretically possible to do this latter type of contracting but as discussed below, a contracting organization is very unwise to enter into this type of contracting without having thought through all of the unintended consequences it may produce. If a contracting organization is not clear about the different types of contracting around outputs and outcomes as set out in this paper it can unknowingly slip into contracting for not-fully controllable outcomes without having any idea of the risks it is opening itself and/or its provider organization to.

In order to safely push contracting for outcomes up a particular outcomes hierarchy, a contracting organization needs a robust methodology for determining how far it can legitimately push contracting up the outcomes hierarchy. One method which has been designed for doing this is the *Outcomes Is It Working Analysis (OIWA)* approach, there may be other alternative to doing this type of analysis.

## The second set of cases – difficult to measure and attribute high level outcomes

Having dealt with the first set of cases, which are relatively straight forward (because it's possible to measure and attribute right to the top of the outcomes hierarchy) the focus turns to the difficult, just as important, cases where there's significant or major uncertainty about the outcomes hierarchy; clear attribution to a single provider **can not** be made to the highest outcomes in the hierarchy; the provider is not the only significant factor influencing high-level outcomes; and it does not automatically make sense to attempt to hold a single provider accountable for the highest-levels of the outcomes hierarchy.

A contracting organization needs to be absolutely clear about whether it's dealing with a case more like the first one or a case more like the second where everything is much more uncertain. Often high-level stakeholders and contracting organizations try to magically turn the first situation into the second by wishful thinking. This is usually done by demanding the following of a provider organization: "we will fund you, but prove to us that it worked/that you made the difference"; or, "ongoing funding is dependent on a full outcome evaluation of the program" (where the contracting organization believes that such an outcome evaluation will transform the situation they are dealing with from the second into the first type of case).

While it's certainly possible to try over time (through a coordinated effort to accumulate evaluation findings and put in place monitoring systems) to attempt to move situations from the second towards the first type, there's absolutely no guarantee in the world that all situations will ever even approximate the first type. This is because there're always likely to be things that it's just not feasible to prove; in many cases there will not be the resources available to prove them; and there's an absolute real world trade-off between insisting that provider organizations "prove" that it was them (rather than others) that caused an outcome and incentivising a number of provider organizations to work collaboratively. If a contracting organization does not get this last trade-off right, its demands for organizations to be able to attribute changes solely to their actions will force provider organizations to reduce their collaboration. If collaboration is essential to achieving a higher-level outcome, the contracting organisation's demands for proof of attribution will have, paradoxically, resulted in a less effective intervention.

Therefore the key issue in thinking about the second type of cases is: who is going to carry the risk of uncertainty which surrounds attribution of who did what? In this there's a tension between high-level stakeholders and contracting organizations that have a natural tendency to want to "risk-shift" onto provider organizations and provider organizations that will naturally tend to not want to take on additional risk, at least without being adequately compensated for it.

High-level stakeholders or contracting organizations' demands that provider organizations reduce uncertainty ("just prove it works") can only be coherent in those situations where it's feasible and affordable for the provider organizations to do so. In practice, these demands are made in many situations where it is neither

feasible nor affordable for either the provider organization, or in many cases, for anyone, to actually “prove it works”.

Therefore, before making any demands of a provider organization regarding proof, a contracting organization needs to make sure that it has in place a methodology for working out: 1) what is already known; 2) what is currently not known; and 3) what it is feasible and affordable to know. The Outcomes Is It Working Analysis (OIWA) methodology allows this to be done. In any event, once it’s known exactly how the “land lies” in regard to what is known, not known, and feasible/affordable to know, the contracting organization can then proceed to develop sound contracting with its providers. Working this out (i.e. undertaking an OIWA analysis) is likely to take a lot of time for each of the areas in which a contracting organization is involved. Therefore, it usually best to start doing this work in some of the contracting organization’s highest priority contract areas and leave other contracts rolling over in the meantime until (over a number of years) the contracting organization can work through all of its separate contract areas in a systematic manner. Rushing into “big bang” contracting for outcomes rather than outputs is a recipe for failure.

Once a contracting organization is clear about how the land lies in regard to a particular contracting area it can then determine the best type of contracting arrangements to put in place. In order to assist thinking about possible contracting approaches, it is essential to understand the different possible characteristics of outcomes within any outcomes hierarchy. The table below sets out the possible characteristics that outcomes theory identifies any outcome can have. Any one outcome can exhibit one or more of the following characteristics.

Influencible	Able to be influenced by the provider organization but it may be influenced by other factors also
Controllable	The provider’s activity is the major factor influencing the outcome (apart from in extraordinary circumstances)
Measurable	Able to be measured
Attributable	Able to be attributed to the activity of the provider organization
Accountable	The provider organization is subject to rewards or punishments for changes in the outcome

In the light of these outcome characteristics, there are three major approaches that can be adopted to contracting. The first can be termed *contracting for outputs*; the second *contracting for outputs AND for managing for outcomes*; and the third, *contracting for not-fully controllable outcomes*.

### Approach 1: Accountable for outputs only – *contracting for outputs*

This approach just requires that outputs are met where outputs are influencible, controllable, measurable, attributable and things for which the provider organization can clearly be held accountable (i.e. goods and services).

### Advantages of Approach 1

The advantage of this approach is that the contracting organization and the provider organization know exactly what it is that the provider organization is being held accountable for.

### Disadvantages of Approach 1

The disadvantage of this approach is that the provider organization may just focus on delivering the contracted outputs and not on doing everything possible to achieve higher-level outcomes. If the lower levels of the outcomes hierarchy it's working from (which will be reflected in its outputs) does not capture the full picture, then the higher-level outcomes will not be achieved. The provider organization may: 1) never even identify an amended potentially more effective lower-level outcomes hierarchy; 2) may identify one but not have any structured mechanism to discuss amending its outputs with its contracting organization; 3) may identify one, but chose not to tell the contracting organization because it suites it for some reason to just continue delivering the originally specified outputs.

### Approach 2: Accountable for outputs and also managing for outcomes/ maintaining an outcomes focus – *outcomes aligned contracting*

This approach, which requires the provider organization to be responsible for outputs as in Approach 1, but to in some way also to “manage for outcomes/maintain an outcomes focus”. Maintaining such a focus is not as strong a requirement as “being accountable/responsible for outcomes”; it just requires that the provider organization focus in a disciplined manner on attempting to work out the most effective lower level outcomes hierarchy to achieve high-level outcomes. This is in contrast to the provider organization just blindly continuing to deliver outputs regardless of whether they're achieving an effective lower level outcomes hierarchy (which is the potential disadvantage of Approach 1).

### Advantages of Approach 2

The advantages of Approach 2 are that the contracting organization can still be clear about the outputs which are being delivered at any point in time, but it has also created an obligation that the provider organization continues to critique the lower levels of the initial outcomes hierarchy it's working from. Such critique may lead to the provider organization finding better ways of achieving high-level outcomes.

### Disadvantages of Approach 2

The disadvantage of Approach 2 is the difficulty of determining whether or not the provider organization is actually managing for outcomes/maintaining an outcomes focus. This is particularly difficult if the contracting organization does not have the time, resources or expertise to assess the provider organization's effort in this regard. There are various ways that this disadvantage can be at least partially

addressed which can be tailored to the level of resources and capability of the provider and contracting organizations.

There are three ways in which a contracting organization can go about dealing with this issue when contracting with a larger provider organization as follows:

1) Just ask the provider organization to document how they are managing for outcomes and examine the documentation they produce. This is likely to result in very diverse documentation of a range of quality from different organizations. The contracting organization will be left with the task of working out the way the provider organization is grappling with structuring its system of managing for outcomes and then whether they are doing it properly.

2) The contracting organization can fund one or more technical experts to “peer review” whether the provider organization is managing for outcomes. In this case the contracting organization just needs to examine the expert’s report. If the contracting organization does not specify a particular system for provider organizations (such as OIWA) to set out their managing for outcomes documentation, the expert will face similar problems to those faced in 1 above, but because they are likely to have more familiarity with the sector/topic they may be able to more quickly assimilate the information provided by the provider organization.

3) The contracting organization can require the provider organization to structure their managing for outcomes documentation in a particular way. OIWA has been specifically designed for this purpose. Whether OIWA is used or not, some comprehensive, consistent and systematic way of structuring managing for outcomes documentation would need to be used.

For smaller provider organizations it may be unrealistic to expect them to undertake a full managing for outcomes exercise such as OIWA (although a simplified OIWA format may still be able to be used). In this case, a contracting organization may decide to do an OIWA analysis itself and just contract for outputs from individual providers. Alternatively, the contract organization may decide to contract a third party to do an OIWA analysis for a number of providers working in a common area and the contracting organization could require participation in this exercise as evidence that a provider organization is doing its best to manage for outcomes.

Approach 3: Accountable for outcomes that are not fully controllable<sup>3</sup> by the provider organization (*contracting for not fully controllable outcomes*).

This approach moves away from the provider organization just being accountable for outputs to it also being accountable for some high-level outcomes even where there is a significant likelihood that other factors will affect these outcomes. So these outcomes are influencible, not-necessarily fully controllable, measurable, and not-necessarily attributable. This approach is used, for instance, in the private sector in regard to part of the payment of senior executives (e.g. performance bonuses or options linked to the corporation's share price).

### Advantages of Approach 3

The first advantage of Approach 3 is that the provider organization is likely to be highly motivated to work out alternative lower level outcomes hierarchies that are more effective in achieving higher-level outcomes. Secondly, the contracting organization does not need to worry about specifying the lower levels of the outcomes hierarchy (and reflecting these in outputs) as the focus is just on achieving high-level outcomes in the outcomes hierarchy, regardless of what lower level outcomes the provider organization used to do this. While these are attractive advantages and may offer significant gains, the potentially large disadvantages set out below mean that the decision to take this step needs to be considered very carefully particularly in the public sector.

### Disadvantages of Approach 3

The disadvantages of Approach 3 are firstly, that all stakeholders needs to be able to live with the fact that the provider organization may end up being "punished" or "rewarded" for changes in outcomes that, if the truth were ever able to be known (which is often unlikely in many of these situations) it may not actually deserve. Secondly, the provider organization is likely to demand a higher level of payment in this situation because they are effectively being asked to "insure" the contracting organization against higher-level outcomes not being achieved. If there is an incentive payment aspect to this situation, then, if high-level outcomes are not achieved, the provider organization does not have to pay so much (or in extreme cases, anything at all). Third, while it can be seen how this approach can, and does, work in certain cases of private sector contracting and is likely to be applicable where similar conditions exist in the public sector; for many important public sector cases its cost in unintended consequences may actually outweigh its potential benefits. Cases where this contracting approach is inappropriate include:

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<sup>3</sup> Clearly no outcome even at a very low level is *absolutely fully* controllable by an intervention organization because various extraordinary factors may influence it. However, in practice it is possible to distinguish between those outcomes that are "in the normal course of events, fully controllable by the intervention organization" and those that both the intervention organization and the control organization would agree are in the normal course of events also significantly influenced by other factors.

1. Where there are multiple small provider organizations that are being encouraged to work collaboratively to achieve collective outcomes.

2. Fragile community-based provider organizations whose capability has taken years to develop and which are unlikely to be able to fully assess and accept (whether or not they offer to) significant risk around “at-risk” outcomes achievement based income.

3. Many other stakeholders who will become incensed/uncooperative at incentives being provided to one provider organization where they believe that their actions have affected outcomes at least as much.

All of these apply in many areas of contracting in the public sector and therefore this approach should only be used in carefully selected instances.

## **Conclusions and Recommendations Regarding Contracting, Outputs and Outcomes**

Moving forward to putting more focus on outcomes in contracting is a developmental process. International experts say that it can take up to a decade for the process to be undertaken. If a contracting organization rushes into it, it's likely to make serious mistakes and produce unintended consequences including reducing the possibility of it achieving the outcomes it is seeking. A lot of work needs to be done to develop the analytical infrastructure on which a focus on outcomes can be increased. Undertaking this work will lead to many other important spin-offs for contracting and provider organizations including: better strategic planning; systematic understanding of the existing evidence base; a clear understanding of what is and what is not feasible and affordable in terms of monitoring and evaluation; providing a platform for better communication between stakeholders; and all parties being clear about what risks they are and are not carrying around the accountability for achieving outcomes.

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