Problems which should be considered in relation to performance contracting include: legal problems, time for planning, teachers' objections, and measurement problems. Advantages include: the learning experience of planning, Hawthorne effect excitement, and the low cost of this experimentation. (MS)
PROBLEMS AND PROMISES IN PERFORMANCE CONTRACTING*

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I want to begin by announcing, perhaps immodestly, that I am a liberated man--liberated from two of the hang-ups that seem to prevent people from giving thoughtful, objective consideration to performance contracting.

First, I am free of the anxiety, amounting almost to terror in some people, over the penetration--the contamination, if you will--of the public schools by private industry. To hear some people tell it, performance contracting is the greatest threat to public education since--well, since multiple-choice testing. We are told that "you can't educate children the way can openers are manufactured," and that "you can't write a performance contract for teaching love," and we are warned against "sacrificing children on the altar of private profit," and against the "educational-industrial complex," "the approach of 1984," and similar horrors.

Yet, as you people know perfectly well, private industry has been a part of public education virtually since its beginning. Private contractors have put up our school buildings, private manufacturers have supplied desks and pencils, private publishers have provided our books—all according to specifications that are at least as precise as those contained in any performance contract. In short, the contributions of private industry to

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public education are nothing new; and if they were going to utterly destroy the children and the schools, they would long since have done so. If they haven't, then it might make perfectly good sense to extend those relationships to instructional services as well. In fact, most large corporations already conduct educational programs for their own employees, programs that are by no means limited to vocational training. If they can do a good job for their employees, might they not also be able to do a good job for other people?

On the other hand, I am also emancipated from the idea that anything that private industry does is somehow better than anything done in the public sector. In the United States, there is a kind of sacred aura about private industry; many people believe that it is necessarily more efficient, more effective, more flexible and more responsive, quicker to change, less corrupt than any governmental agency such as a school system could possibly be, and that the participation of private industry in education is therefore bound to improve it.

I don't believe any of those things, and in the era of Nader's raiders, of poisoned soup and defective cars, of administered prices and cost overruns and railroad companies that run rickety trains that never meet their schedules and aircraft companies that have to be rescued from bankruptcy by government-guaranteed loans, I don't see how anyone else can believe them, either. Again, you people above all surely know better. For if private industry has been working for public education for a long time, you must know that it often does a pretty poor job. Improperly filled orders, failures to deliver on time, incorrect billings, boilers that don't work—I am certain that such things are familiar to all of you and that you
could give me a thousand more examples of the deficiencies of private industry. I would add, incidentally, that the quality of corporate educational programs has not been evaluated any more rigorously, or with any more clear-cut conclusions, than is the case in public education.

Having freed myself of these two contrary prejudices, then, and having determined to be neither frightened by clichés nor seduced by illusions, I like to think that I can look at performance contracting with a cold eye and a calm mind, seeking reliable answers to questions like: Can performance contracting improve public education? If so, how? What are its dangers, and how can they be avoided?

Problems in planning

Since I like to end on a happy note, let me start by mentioning what I see as some of the main problems and pitfalls of performance contracting. First of all, there are doubts about its legality. When a school system buys goods and services from private firms, certain rules apply—rules about bidding and pricing and conflicts of interest and so on. You know them better than I do. When a private firm is sought to do the actual teaching, all these rules presumably still apply, plus some additional ones—rules about the delegation of a school board's policy-making functions, for instance—and the school system's contract with a teaching organization may also be affected. These conditions vary from state to state and from one school system to another, and I'm certainly no expert on them. All I would say is: Don't assume that what's good enough for a contract with a paper supplier is good enough for a contract with an education firm; and, you'd be well advised to seek legal counsel before you begin.
Second, there is the problem of lead time. There is no doubt in my mind that more performance-contract projects have been ruined by overly hasty preparations than by any other single factor. Setting one up is a long and complicated procedure. There are the legal questions to be settled; there are fundamental issues of philosophy and policy; then there are the selection of subjects and schools and pupils and measurement instruments and payment schedules; the writing of an RFP (request for proposals), the review of responses, the choice of an instructional company and of an evaluator and perhaps a management support group and an auditor; there are negotiations with each of these and the drawing up of contracts; and finally, each organization has to be given time in which to get ready for its own tasks so that they are all in good shape to begin when the school year opens. It is no exaggeration to say that a school system ought not anticipate commencing operations under a performance contract in less than two years from the time it first starts to consider the idea. Maybe not many systems are in a position to engage in such long-range planning. At any rate, perhaps because of their eagerness to jump on the bandwagon, most systems have not allowed that much time, and the results have often been regrettable, to put it mildly.

Teachers' objections

Third, a performance contract runs the risk of antagonizing the teachers in the school system. As you may know, the National Education Association has adopted a resolution expressing a good deal of wariness about performance contracting, and the United Federation of Teachers has taken a strong stand flatly opposed to it. You can hardly blame them, for a performance contract says, in effect, "You teachers have done such a
lousy job in educating some of our children that we're going to look elsewhere to get the job done right"—and then it adds insult to injury by offering a private company bonuses which teachers were never offered, not to mention the assistance of a management support group, carpeted and air-conditioned classrooms, and so on. The teachers are naturally inclined to say, "If we were given such favorable conditions, we could do a much better job, too." And as if all this weren't enough, the teachers are often not brought in on the planning for the contract, and the private company is sometimes permitted to hire non-certified personnel at low salaries. Given all those circumstances, we shouldn't be surprised if teachers try to block the whole thing, as they have tried to do in some places.

But of course teachers don't like to say, any more than the rest of us do, that their hostility is based merely on the desire to protect their jobs against intruders, so they look for other, more respectable reasons—and such reasons are not hard to find. One that they have relied on, I think with considerable justification, is that performance contracts give excessive emphasis to training in a few low-level skills at the expense of "education" in the broader and "loftier" sense of the word. Because performance contracts require precise measurement of student achievements so that the amount of payment to the contractor can be exactly determined, they have been used mostly in subjects where such precise measurement is most readily possible, and that usually means reading and math. Subjects like social studies and science therefore may be somewhat neglected—which is what teachers are suggesting when they say "you can't write a performance contract for teaching love." Of course, that implies that teachers are now "teaching love," and that's an assumption that has not been demonstrated to
my satisfaction. Nevertheless, I think the teachers may be right in their fear that the proper balance of the curriculum can be upset by a performance-contract project in a school, especially since many of the standardized tests in reading and math emphasize things like spelling and computation rather than, say, literary sensitivity or understanding of mathematical concepts—again, because the lower-level skills are easier to measure.

Measurement problems

That brings me to the problems associated with measuring the student gains in learning for which the contractor is to be paid. I could have devoted my entire talk to those problems, but I will mention only two. One has to do with the way in which gain is measured. In most contracts, the payments depend on gains achieved by individual students—for example, the contractor receives $55 for each child who, during one year of instruction, gains the equivalent of one year in reading skills, say (which would be the so-called "guaranteed" achievement), and then a bonus of perhaps $5.50 for each additional gain of one month. I suppose this arrangement is appealing because it seems to induce the contractor to devote equal attention to each individual child. But there really is no evidence that it actually has that effect.

Moreover, let me warn you that a school system runs the risk of being taken for a ride by this kind of payment schedule. The difference between a score on a pre-test in September and a score on a post-test in June for an individual child, is, in technical terms, a very unreliable statistic. That means that a substantial proportion of children will show an apparent gain of a year or more, a gain for which the school system will have to pay,
simply by chance—that is, regardless of how much they may or may not have learned. It is true that about the same proportion of children will show an apparent loss of a year or more simply by chance—but unfortunately, few contracts include a provision that deductions will be made from the contractor’s payment for score losses. It’s as though the contracts were to read, "Heads, the contractor wins; tails, he doesn’t lose." Where individual gains are the basis of payment, contracts should include provisions for deductions in case of score losses. Better yet, payment should be determined by some measure of gain for the group as a whole rather than for individual children in it. Just what group measure should be used is a bit complicated to go into here; I would urge you to seek competent statistical advice when you are in the process of writing the RFP.

The other measurement problem I want to mention is the concern about "teaching the test"—or, in blunt terms, cheating—which has haunted performance contracting ever since its first try-out in Texarkana. Since he is paid according to how well students do on the post-test, a contractor may be strongly tempted to include test items in his instruction, even drill students on them, so that they will know the right answers on the test regardless of how much they have learned in a more meaningful and long-lasting sense. At least one contractor has succumbed to that temptation. A common method for trying to prevent this is to keep the identity of the test secret, but for a variety of reasons that is undesirable and probably doesn’t work well, anyway. A much better solution, it seems to me, is to tell the contractor what the test will be, and then write into the contract a provision that some large sum—of the order, perhaps, of $10,000—will be deducted from his payment for every test item found in his instructional materials.
Some possible advantages

Now let me look at the brighter side of things. What advantages might performance contracting offer? First, the planning of a performance-contract project can be a tremendous learning experience for the people involved—school board members, administrative staff, and teachers and parents where they are included (as they should be). It forces them to make their educational goals and objectives explicit in a way that most of them have never done before. It requires them to give close study to various teaching strategies in deciding which company to award the contract to. It demands that they learn something about educational measurement and the real meaning of test scores and a few other things as well. Even if no contract ever materializes out of their deliberations, they will—if their "instruction" has been properly guided—be wiser people and better educators for having engaged in them.

A related, and similarly "extraneous," effect is the boost in morale that can come to teachers and pupils, and the heightened interest in school affairs that can take place in the community, when a performance contract is planned and launched. This is more or less the familiar Hawthorne effect; it accompanies any major educational innovation, but performance contracting happens to be the innovation that's most "in" at the moment.

Then there is the attractive notion, heavily stressed by its advocates, that a performance contract offers a way for a school system to experiment with innovative instructional techniques at low cost. If the techniques fail, in the sense that students don't learn any more than they would have otherwise, at least the trial costs little or nothing—assuming that the contract has been written properly. If the techniques succeed, most
contractors will engage to "turnkey" it, that is, to train teachers and do the other things necessary for the system to assimilate the techniques and materials into its own instructional routines.

Finally, I must confess that I find the principle of performance contracting a persuasive one. One needn't be a cynic or a fool to believe that people are more likely to produce successful results when there is a material payoff tied to those results. Performance contracting does tie payoff to results, so, if that belief is true, performance contracting should work.

But of course the crucial question is not, "Should it work?" but "Does it work?" Do children actually learn more in a performance contractor's classroom than they do in a regular teacher's classroom? I'm sorry to have to say that we don't yet know. There were less than 50 contracts in effect last year, and the results of many of them are not yet in. Where there are reliable results, the "guaranteed" achievement levels have been met in some places but not in others. Where students have shown gains over the year, the gains have sometimes exceeded those that could "normally" be expected, and sometimes they haven't; and the per-pupil cost has sometimes been lower but more often higher than the system's usual cost—lending some credence to the teachers' claim that they could do just as well if they had the extra resources. And incidentally, if it should eventually prove to work more often than not, there will still be a lot of difficulty in figuring out just what "it" is that worked—the incentive of the payment schedule, the competence of the company, the particular instructional materials it used, the presence of the paraprofessionals, the carpeted and air-conditioned classrooms—or maybe just the Hawthorne effect.
More evidence should be available in the next few months, especially in the report on the OEO performance contracting experiment which is scheduled for release in December. When that report does come out, I would suggest that you pay particular attention to the results in Mesa, Arizona, and Stockton, California. At those two sites, in contrast to the other 18, the contractor was not a private company but a group of teachers already employed in those systems, who worked under a payment schedule just like that of "ordinary" performance contracts. It strikes me that this may be the most desirable form of performance contracting. It doesn't avoid all the headaches or drawbacks, but it does appear to minimize the legal problems, it's certainly more likely to win the support of the teachers, it gives you a lot of expertise that wouldn't otherwise be on your side, and meanwhile it gives you whatever advantages the principle of material incentives may confer. I hope we won't be so blinded by our preconceptions as to be unable to consider this strategy objectively.