This study of performance contracting was made in 1974-75. It differs from other studies in that it is based on a comprehensive body of data, including information about state-supported contracts in Michigan and California; it is focused on the role of monetary incentives in education rather than on the particular instructional programs; it made a special effort to collect information about teacher-contracted projects; and it is especially concerned with the long-run effects of performance contracting in the districts where it has been tried. The data base consists of interviews held in ten school districts and at three state departments of education, and with representatives of three private firms; documents furnished by the school districts and the state departments; and 42 responses to a questionnaire sent to the 79 school districts which were apparently all that might ever have had a performance contract (other than the ten in which interviews were held). The questionnaire used in the study is included. A five-page summary of the study is appended. (Author/RC)
PERFORMANCE CONTRACTING
AS A STRATEGY IN EDUCATION

Robert A. Feldmesser
Gary J. Echternacht


May, 1975
EDUCATIONAL TESTING SERVICE
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Educational Testing Service
Princeton, New Jersey 08540

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ACKNOWLEDGMENTS

A study such as this depends above all on the cooperation of the people who have had the experiences with which it is concerned. We received such cooperation in full measure. Our first debt is therefore to the staff members of the state departments of education and school-district administrations, the school superintendents, the principals, the teachers, and the representatives of private firms who took the time to arrange our visits, to talk with us, to locate documents, and to respond to our questionnaire. We hope that we have interpreted their experiences accurately and that they will feel that this report makes worthwhile the trouble they took on our behalf.

Penrose Jackson, our project officer at the Department of Health, Education, and Welfare, was interested, helpful, and admirably patient, for all of which we are grateful. Esther Ann MacCready performed many valuable tasks as research assistant, and Irma Kienitz has been a diligent and highly competent secretary, typist, and lady of good cheer.

Of course, none of these people can be held responsible for any errors of fact or interpretation that we may have committed.

R. A. F.

G. J. E.
CHAPTER 1: BACKGROUND OF THE STUDY

The idea that people will respond to monetary incentives is hardly strange to American society. On the contrary: It is at the heart of the nation's economy and is believed to be the fundamental principle of private enterprise and the free market, the connecting link between the consumer's desires and the producer's actions, between the producer's needs and the worker's behavior. Performance contracting represents the application of this idea to an institution that has generally been regarded as lying outside of private enterprise and the free market -- namely, the public school system. This study is an effort to assay the results of this application and, in the light of those results, to re-examine the premises upon which it is based.

Intrinsic and extrinsic features of performance contracting

A performance contract is essentially a formal agreement between a school district and some other organization, in which the organization undertakes to provide instructional materials and/or services to students, and the district promises to pay the organization a fee which is to depend upon the measured amount of learning acquired by those students during the contract period. While school districts have, of course, long entered into contracts for instructional materials and services with individuals and organizations, these have usually been "contracts for best efforts" (Mecklenburger, 1972), in which a district engages a teacher, for example, on the presumption that he will do his best to teach a group of students, in return for which the district pays him a fixed

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1 This section draws heavily on Feldmesser [1972a].
salary, determined in advance and thus necessarily independent of how much the students may learn. Similar arrangements have been made with textbook publishers and the suppliers of other materials. By contrast, a performance contract is a "contract for results" (Stucker and Hall, 1971). The unique provision in such a contract is that the payment for services or materials is set so as to vary with the learning outcomes; the magnitude of the payment must therefore be determined when the instruction has been completed rather than before it begins.

The contention of the advocates of performance contracting is that it can improve instruction and in other ways make the public schools more effective and efficient than they are now. Two basic assumptions underlie this contention: (1) that the primary criterion of success in teaching should be the amount of learning it induces — or, in the language that is often used, how much learning is "produced"; and (2) that, in teaching as in other activities, monetary rewards scaled according to the amount of production are a valid device for motivating people to maximize their production. It is undoubtedly "this no-nonsense insistence on results" (Mecklenburger, 1972) that made performance contracting so appealing.

It follows from what has been said that the heart of a performance contract is its "payment schedule." In this schedule, the amounts of learning which might occur among students during the contract period are listed, typically in terms of grade-equivalent score gains, and attached to each gain is the fee to be paid for each student who achieves it. Sometimes a minimum gain is specified below which no payment will be made. This is called the "guarantee" level, and
in a contract running for one year (the duration of most contracts), it is usually a gain of one year in grade-equivalent scores. A base payment -- for example, $50 -- may be made for each student who reaches the guarantee level, and premiums are paid for additional gains -- for example, $20 for each month beyond a year. Because of the consequent need to measure amounts of learning gain with a high degree of precision and objectivity, nearly all performance contracts have been limited to instruction in reading and mathematics, where the methods of measurement enjoy widest acceptance.

The same schedule of incentive payments may be used for each subject to be taught under the contract, or different schedules may be applied to different subjects. A maximum total payment is also stated, so that the district can be certain that its contract obligations will not exceed available funds.

A number of other features have come to be so commonly associated with performance contracting that, although they are not intrinsic to it in the way the payment schedule is, the concept cannot be discussed without reference to them. The most important such features are the following:

1. The organization offering the instructional services or materials, which we shall call the "instructional contractor," is usually a private

---

2 Undue importance should not be attributed to the guarantee level. The very notion of a guarantee in education has been attacked on the ground that learning is affected by a great number of forces, including many that are not understood or even known and some that are not under the control of either teacher or learner, and therefore no one can provide an "absolute assurance" that a particular student will achieve a given amount of learning in a given period of time. But the guarantee in a performance contract is not an "absolute" one; it is a conditional one, which says that if a certain learning gain is not achieved, then no money will be paid. On the other hand, the stated guarantee in some performance contracts is quite arbitrary; an equal amount of money is paid for each month of gain, and though a number of months may be designated as the guarantee level, the designation has no practical effect. In other cases, the guarantee level merely marks a threshold; payments are made for months of gain below it, but they are smaller than the payments for months of gain above it.
profit-seeking firm. Most instructional contractors either have been divisions or subsidiaries of large private corporations, often those which had previously been selling instructional materials under fixed-price contracts; or they have been private, relatively small companies established more or less specifically to take advantage of performance-contracting opportunities. Many of these contractors, however, employ the district's teachers as their instructors (they may even be required to do so by the contract). In principle, a local group of teachers may itself enter into a performance contract with its school board, and there have been several instances of that.

2. Private firms bidding for performance contracts often claim to have a "systems-engineered" approach to education, a total "package" of interrelated elements that may include diagnostic tests, hardware and software, books and worksheets, a record-keeping procedure, a strategy for the training and deployment of teachers and teachers' aides, the refurbishing of classrooms (which may be given a distinctive name, such as "learning centers"), etc. It is this "systems approach" which is often regarded as one of the main advantages that the private firm has over the ordinary teacher. In keeping with the usage in most schools, and in recognition of the facts that the "system" is not always complete or fully integrated and that not all contractors claim to have one, we will use the term "program" to refer to the contractor's approach to instruction. It should be emphasized that the performance contract is an administrative arrangement, and no particular program or type of program is inherent in it; and that a given contractor's program may vary in the different schools in which it is utilized. Indeed, since the performance contract is a contract for results,
it implies that the instructional contractor ought to be free to use whatever techniques he deems effective in the situation and even to change them as he goes along.

3. Apparently because it seems like a natural corollary of the performance-contracting rationale, instructional contractors may offer tangible rewards to teachers and/or students in accordance with learning outcomes. For teachers, the rewards may be cash, or stock in the company; for students, they are usually commodities (ranging from pencils and paper to transistor radios or even more expensive items), free time to engage in activities of their own choice, admissions to outings or entertainments, or points or tokens redeemable in one of those or a wide variety of other forms. Because these practices do reflect the basic principles of performance contracting, some critics (Shanker, 1971) have identified them with performance contracting proper. Actually, a performance contract does not at all require the use of teacher or student rewards, and conversely such rewards can be used outside of performance contracting. In any case, it should be clear that the incentive principle of the performance contract is applied to the instructional contractor, who may or may not extend it to teachers or students.

4. Most performance contracts have involved the teaching of "disadvantaged" students. It is for these students, many of whom are members of minority groups, that educational innovations have seemed most urgent, in view of the widespread failure to bring their learning up to "grade level." Again, however, there is no reason why performance contracting could not be used with middle-class students, and it sometimes has been.

5. Along with the performance contract itself, auxiliary contracts are almost always signed with an evaluator, frequently with a management support
group (MSG), and sometimes with a so-called "auditor." The evaluator is responsible for measurement of the learning gains on which the instructional contractor's payments are based and may also carry out studies of other effects of the performance-contracting project.³ The MSG helps the district administration and the agency sponsoring the project to deal with the unfamiliar intricacies of the performance contract, to identify potential bidders and assist in selecting the final contractor, to provide liaison between the district administration and the contractor, and to aid in the determination of project costs. The auditor verifies the work of the evaluator, in the manner of a fiscal auditor, and may also advise the district administration on proper evaluation procedures; but the distinction between evaluation and auditing is fuzzy, and where the district has sufficient confidence in the evaluation agency, it may dispense with the auditor. It could also dispense with the MSG, and it could conduct the evaluation itself. The MSG, and particularly the evaluator and the auditor, are more likely than the instructional contractor to be non-profit-seeking companies, because it is important that their reports be perceived as disinterested by all parties and by the community at large.

6. Most contracts require that, if the instructional company's program proves successful, the company, the MSG, or both, will help the district's

³In the literature of educational research, "evaluation" usually refers to a broad study of the effects of a program or policy. In the literature of performance contracting, however, and usually in the contracts themselves, the term has been used to refer to the narrower function of measuring learning gains, and we shall follow that usage here.
professional staff incorporate it into the routine operations of the school system, under a contract for consultation that would no longer call for incentive payments. This provision, called "turnkeying," evidently arises out of the reluctance of school districts -- perhaps even their legal disability -- to be dependent on a private company on a more or less permanent basis. Since such dependence probably would cause serious difficulties (for example, in teachers' morale, if nothing else), turnkeying comes closer to being a necessary part of performance contracting than any of the other intrinsic features. But of course a school or district always has the option of abandoning rather than adopting a company's program when the contract has been completed.

Procedures of the study

This is a report of a study of performance contracting that was made in 1974-75. A great many studies of it have been made before, and an even larger number of books and articles have been written about it. We have reviewed this body of literature, and while a comprehensive and systematic report on its content was not among the purposes of the present investigation, it will be helpful to point out the respects in which our study differs from its predecessors:

4 The term was adopted from the housing-construction industry, where it referred to an arrangement whereby public housing was built by a private contractor, who carried out all the planning, site-acquisition, construction, etc., so that the authorizing public agency had only to "turn the key" in the door to make the housing available.

5 In our judgment, the most important works have been Lessinger (1970); Carpenter and others (1971); Sigel and Sobel (1971); Stucker and Hall (1971); Battelle Columbus Laboratories (1972); Blaschke (1972); Office of Economic Opportunity (1972a, 1972b); Comptroller General of the United States (1973); Carpenter-Huffman and others (1974); and Gramlich and Koshel (1975).
1. It is based on the most comprehensive body of data that has yet been gathered on the subject, including information on the currently operating state-supported performance contracts in California and Michigan, which have not been discussed in the literature before (see below for further details on the data sources and on the California and Michigan programs).

2. It is focused specifically on the role of monetary incentives in bringing about improvements in student learning and educational change generally. Conversely, it is relatively unconcerned with the particular instructional programs that have been implemented under performance contracts. As we have indicated above, any kind of program can be introduced through the medium of a performance contract (and, as the concept of turnkeying implies, it can be retained without the support of a performance contract). Sometimes, indeed, no new program has been introduced at all, but the payment schedule of a performance contract has merely been utilized as an incentive for enhancing the effectiveness of a program already in use. We were interested in finding out how much difference the incentives have made rather than how much difference the programs have made, although of course the two cannot be treated entirely independently of each other.

3. Since most studies so far have dealt with privately contracted projects, we made a special effort to collect information about teacher-contracted projects, in order to see whether there were any distinctive conditions or consequences associated with them and particularly whether the incentives worked in different ways.

4. It is more concerned than many other studies have been (or could be) with the long-run effects of performance contracting and less so with the results a contract may show at the end of a year.
The most important source of data for the study was a series of interviews conducted in ten school districts which have had performance contracts, and at three state departments of education. In the selection of school districts for site visits, major consideration was given to four criteria: (1) Sites in California and Michigan were to be given priority, because the state-supported contracts there had not been extensively studied before. Also, these were the only two states where performance contracts were in effect in 1974-75, and we were interested in learning whether current contracting operations differed from those of the past. (2) Districts that had contracts with teachers' groups were to be preferred over those that had contracted with private firms, for the reason given above. (3) Districts that had been included in the earlier case studies of performance contracting conducted by the Rand Corporation (Carpenter and others, 1971; Carpenter-Huffman and others, 1974) were to be preferred over those that had not, in order that we might be able to examine the effects of contracting at several points over a fairly long period of time in the same district. (4) Some degree of geographical clustering was to be sought so as to economize on time and travel costs. Table 1.1 shows the ten districts chosen for site visits.

In each school district, we interviewed, wherever possible, the superintendent of schools, others on the district administration staff who had been involved in the performance-contract project, the performance-contract project director, the principal and several teachers at one or more schools that had participated in the project, the head of the local teachers' organization, and the evaluator. The average number of people interviewed at the sites was eight, and the average interview lasted for about one hour.
Table 1.1. Districts Visited for the Study

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<sup>a</sup>For explanation of OEO experiment in performance contracting, see text below.

<sup>b</sup>Included in Rand studies.

<sup>c</sup>Grand Rapids has had several different performance contracts; see Chapter 2.
(teachers were often interviewed in a group). The interviews were done in open-ended fashion, following a loose guide that helped ensure coverage of the areas of interest. We also gathered at each site such documentation on the performance-contract project as may have been available. At the three state departments of education -- in California, Michigan, and Virginia -- we interviewed departmental staff members who had special responsibility for performance contracts in their state, and we gathered additional documents. Finally, we conducted phone interviews with one representative each of three private firms that had engaged in performance contracting.

The other major source of data was a questionnaire sent to the superintendent, or a person designated by the superintendent, in 79 districts which a search of the literature (supplemented by phone inquiries to 47 state departments of education) indicated were all the districts that might ever have had performance contracts, beside the ten that had been selected for site visits. Fourteen of the superintendents responded that their districts had in fact never had performance contracts. Of the rest, we received completed questionnaires from 42 districts; seven informed us that they were unable to complete the questionnaire because of lack of time or personnel, and 16 did not respond at all despite follow-up postcards and phone calls. The questionnaire, pretested by phone in three districts (which are included in the count of respondents), attempted to cover, mostly with check-list or closed-ended questions, the same areas of interest that were covered in the interviews. A copy of the questionnaire is given in Appendix A of this report.

6 The resulting total of 75 districts ever having had performance contracts may seem surprisingly small to an informed reader, but we are quite sure that it does not overlook more than eight or ten districts. For further discussion, see below, pp. 14-18.
A brief history of performance contracting

Although the details of many performance-contracting ventures have been abundantly presented in the works cited above (see footnote 5; also Wilson, 1973), a sketch of the overall course of this mode of educational organization will be helpful in understanding the discussion in the remainder of this report. Our brief history is based both upon existing sources and upon data gathered in this study.

The first performance contract to excite national attention -- it was, indeed, the springboard for all the subsequent contracts -- was the one in Texarkana, Arkansas, and Liberty-Eylau, Texas. These school districts, which serve different parts of the same border town, entered into a joint contract with a private profit-seeking firm, Dorsett Educational Systems, for the provision of special instruction in reading and mathematics to 220 (later increased to 350) low-achieving students in grades 7-12 during the 1969-70 school year. The nominal purpose of the project was to reduce the dropout rate in the districts, and it was therefore funded under Title VIII of the Elementary and Secondary Education Act. But the unique clause in the contract was the payment schedule: Dorsett would be paid $80 for each student obtaining one grade-equivalent year of gain in 80 hours of instruction, with smaller amounts if more hours were required and larger amounts if fewer hours were required.

7The best account of this project is Carpenter and others (1971, part 3), and ours draws heavily on it.

8This type of payment schedule has not been used since, because it allows the contractor to benefit from the chance occurrence of high scores with repeated administrations of the exit test.
This clause was apparently suggested by Charles Blaschke, head of the recently founded Education Turnkey Systems, which became the MSG for the project and went on to play a major role in many other performance-contract projects. It was the incentive provision in the contract that attracted so much attention to the project, especially when, midway through the year, reports began to appear that the students were making remarkable gains. The fact that Dorsett offered students tangible rewards -- typified by Green Stamps -- for learning improvements also aroused interest, not to say controversy.

When the final report on the project was published by the evaluator, the Region VIII Educational Service Center, a publicly supported agency in Magnolia, Arkansas, it asserted that a substantial portion of the student gains were spurious, because Dorsett, as part of its instructional program, had taught students the answers to many of the items on the exit test -- so many that the tests were rendered unreliable for payment purposes. Dorsett admitted the charge in part but denied that the action had invalidated the results; litigation over settlement of the contract obligations lasted several years. Thus, this first major application of performance contracting ended under a cloud.9

9During the same year, 1969-70, there were six different performance contracts in Portland, Oregon. They involved three private firms, two groups of teachers, and one individual teacher; five groups of students from grades 4 through 8; and a wide variety of incentive provisions, including one in which a teacher staked her entire summer salary on the reading gains of her students. Most of the contracts were for the summer session only, and none lasted for the entire year, which may help explain why they never received national attention. Nevertheless, all of the projects were judged successful by the participating teachers (the district did its own evaluation, and there were no charges of teaching test items), and plans were made for expanded use of performance contracting, but they were abandoned in the aftermath of Texarkana (Holmes, 1972).
Meanwhile, however, staff members of the federal Office of Economic Opportunity had become intrigued by the notion of performance contracting. It seemed to offer a way of overcoming the educational deficiencies of the disadvantaged, which were believed to be a prime cause of enduring poverty, and to do so in a way which was consistent with the national administration's emphasis on the virtues of private enterprise. Before the embarrassing scandal had erupted in Texarkana, OEO had determined to mount a large-scale "experiment" in performance contracting during the 1970-71 school year, which was designed to be a rigorous, systematic test of the concept. Six private profit-seeking firms were selected, each of which was to enter into a performance contract with three school districts, covering instruction in reading and mathematics in grades 1-3 and 7-9 at schools with the largest proportions of low-achieving students. The participating districts were also chosen by OEO. Control groups were established at other schools in the same districts. Management support to OEO and the participating districts was supplied by Education Turnkey Systems, and Battelle Memorial Institute, a private, endowed, and non-profit-seeking organization, was engaged to administer the payment tests and a separate set of evaluation tests, to calculate the contractors' payments, and to study the other effects of the contracts. (The last of these tasks was not fully carried out.) Apparently at the insistence of teachers' organizations, two other districts were added to the experiment in which a group of local teachers would serve as contractors. The total costs of the experiment, which came to $6,000,000 (Comptroller General, [1973], p. 8) were borne by OEO.

Probably also as a result of the prematurely reported success in Texarkana, some school districts decided to try performance contracting the next year "on
their own" -- that is, independently of OEO, though not necessarily with their own funds, for most of the projects were supported at least in part out of the local share of money received under one title or another of ESEA. These districts ranged in size and location from Boston, Massachusetts, to Gilroy, California. The state of Virginia brought seven districts together with a single contractor and organized its own version of the OEO experiment, complete with control groups and Education Turnkey Systems, but funded from Title I money (see chapter 2). Statements appeared that as many as 150 or 170 districts were involved in performance contracts in 1970-71 (Bumstead, 1970; Schwartz, 1971). The number may have seemed that great because of the enormous publicity that performance contracting was getting, but it is almost certain now that the figure was closer to 50, of which 27 were the OEO and Virginia districts. That may be regarded as a considerable increase over the preceding year, but it does not indicate a breathtaking rate of diffusion.

One obstacle to the spread of performance contracting was the opposition of teachers' organizations. The American Federation of Teachers, in particular, took a vehement stand, charging that the guarantee of student achievement was a form of "quackery," that performance contracting promoted "teaching to the test" (as in Texarkana), that it would "dehumanize" the classroom through

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10Our figure of 50 was arrived at as follows: Among the respondents to our questionnaire, 26 said they had performance contracts in 1970-71. Six of the districts we visited also had 1970-71 contracts, and six OEO districts did not respond to our questionnaire. Of the remaining 17 nonresponding districts, three are known not to have had contracts in 1970-71, and we assume that half of the other 14 did, for a total of 45, to which we may add at most a half-dozen districts that escaped our search. There is a peculiar echo of the earlier higher estimates in Gramlich and Koshel (1975, p. 7), who say that "more than one hundred" districts entered into performance contracts in 1970-71. Yet the source which they cite for this figure (Hall and others, 1972) lists just 45 districts -- and two of them are duplicates!
the use of technology and student rewards, that it would undermine the teaching of subjects in which rewards were not given, and that it threatened to turn control of educational policy over to private companies (American Federation of Teachers, 1970; Shanker, 1971). The public position of the National Education Association was milder, warning against the "pitfalls" of performance contracts and urging that they not be supported unless teachers were involved at every step; but behind the scenes it, too, may have been more hostile.

There was also some concern that the use of paraprofessionals might violate teachers' agreements with school boards, if not jeopardize teachers' jobs. Having teachers serve as contractors was an effort to moderate this opposition, but it was subject to the suspicion of being an opening wedge for merit pay.

In 1971-72, the number of performance contracts declined to about 15, and it never again reached the peak of the "OEO year." Early in 1972, OEO issued a preliminary report on its experiment, based on Battelle's analysis. The report was unusual in the history of educational evaluation because of the unequivocal way in which the findings were stated:

Was performance contracting more successful than traditional classroom methods in improving the reading and mathematics skills of poor children? The answer . . . is "No" (Office of Economic Opportunity, 1972a, p. 17).

11 Thirteen respondents to our questionnaire reported 1971-72 contracts.

12 OEO's final report (Office of Economic Opportunity, 1972b) repeated this verdict, though without using exactly the same blunt wording.
This conclusion was vigorously disputed by several contractors (and by Education Turnkey Systems), and once again there ensued a lengthy period of negotiations to reach mutually agreeable contract settlements. Subsequent reanalysis of the data (Garfinkel and Gramlich, 1973; Gramlich and Koshel, 1975) confirmed that the Battelle-OEO conclusion was essentially correct (for a partially dissenting view, see O'Connor and Klein, 1973) so far as the test scores went. Further consideration of the conditions of the experiment, however, leads rather to the conclusion that it really proved nothing. Among other problems, the project had been hastily planned and inaugurated; the companies did not have adequate materials ready in time; the tests were unsuitable for many of the students; there was heavy attrition among both experimental and control students during the year; and OEO and the contractors had unrealistic expectations of what life in a school was like, failing to anticipate the frequency of student absences and many other interruptions, large and small, in the instructional routine (Comptroller General, [1973]; Carpenter-Huffman and others, 1974, pp. 41-58; Gramlich and Koshel, 1975, pp. 23-31, 52-63). Consequently, no valid conclusions could be drawn from the experiment. Among the respondents to our questionnaire, who must be presumed to be relatively knowledgeable about the history of performance contracting, one-quarter said that their understanding of the OEO experiment was that the way in which it had been carried out "prevented the results from being conclusive one way or the other." Yet even among them, another quarter said the experiment had shown "that performance contracting generally led to neither higher nor lower levels of student achievement." There is no doubt that the OEO experiment cast a pall over the performance-contracting idea from which it never recovered.
Against that background, it may seem surprising that there were nevertheless about a dozen performance-contracting districts in each of the three years following publication of the OEO report. The main reason is that — just as the OEO experiment had gotten under way before the outcomes in Texarkana were known — two states, Michigan and California, had enacted authorization for their school districts to engage in performance contracting before the OEO report had been issued. In both states, the legislation had been put into motion early in 1971, very likely under the influence of the enthusiasm that prevailed at the time, but was also part of a more general thrust toward accountability and therefore placed performance contracting on a more or less long-term footing. Because these state programs are less well known than the OEO and Virginia efforts, and because they account for all the contracts in effect in 1974–75, it is worth describing them at some length. Our information comes from documents published in connection with the programs and from our interviews with staff members of the two state departments of education.

Michigan: The Section 41 program

Michigan's interest in performance contracting, stimulated by the emphasis on accountability on the part of the state's Superintendent of Public Instruction,

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The program in Virginia was not a "state program" in the same sense as those in Michigan and California were. It was neither founded on state legislation nor funded by the state treasury, and it was not planned to last beyond the year in which it was conducted. In these and other respects, it resembled the OEO experiment, as we have indicated above, rather than the Michigan and California programs.
John W. Porter, dates back to 1970. In December of that year, the Michigan Department of Education (MDE) sponsored a conference on the subject, as a result of which it issued an "Introduction to Guaranteed Performance Contracting" (Michigan Department of Education, 1971) early in the following year. The booklet explained the concept and some of the associated terminology, discussed some of the factors a district should take into account if it was considering entering into a contract, and gave the names of several contracting firms and sample contract phraseology and payment schedules. Though it did not encourage districts to try performance contracting, it probably put them on notice that the MDE would be receptive to proposals.

At about the same time, legislation was introduced that did provide concrete encouragement. It was contained in a subsection of Section 3 (later Chapter 3) of a larger bill, and it appropriated $500,000 to be used "for grants to school districts to enter into performance contracts for instructional purposes," leaving to the MDE the tasks of defining such contracts and supervising the conduct of the program. The bill was passed in October, 1971. The following year, the same provision, with the same appropriation and substantially the same wording, became Section 41 of Chapter 4 of the State School Aid Act, and it has been known since then as the Section 41 program.  

14 The Chapter 3 program is often referred to by state education officials as a "performance pact" between the state and the local school districts, and the similarity of the wording -- and to some extent of the concept -- to the subject of the present study warrants a digression for explanation. Under the provisions of Chapter 3, school districts in the state were rank-ordered according to the proportion of their students scoring at or below the 15th percentile on Michigan's statewide assessment test, and the districts with the largest proportions were to be granted $200 for each pupil in that low-scoring bracket until the Chapter's appropriation of $22,500,000 was exhausted; 67 districts received these grants. For the next two years, however, the Chapter provided that the districts would receive the full $200 grant only for those students who had advanced at least [footnote continued on next page]
The MDE, well prepared by its previous experience, was able to issue guidelines for Section 41 proposals by January, 1972. They specified that contracts were to be limited to instruction in reading and mathematics; that the district could select its own instructional and evaluation contractors and negotiate contracts with them, but that all of these were subject to the department's approval; and that a portion of the district's Section 41 funds would be used to pay for the services of an auditor/management support group under a contract with the MDE. There was no requirement that the instructional contractor focus its efforts on low-achieving students, though that is what happened in most cases. In all of these ways, the operations of Section 41 obviously differed from those of the OEO experiment.

75 percent of a normal year's gain on a standardized test to be chosen by the district or who had mastered 75 percent of an agreed-upon set of performance objectives. The intention was to give a monetary incentive to districts to raise the performance level of their students, and in that respect the motive of the Chapter was similar to the basic idea of performance contracting. But when it turned out that many districts would lose substantial amounts of state aid because large proportions of their students had not achieved the 75 percent gain, a waiver was enacted which permitted districts to "re-earn" Chapter 3 funds by proposing a "new delivery system" for instruction of the targeted students. (The waiver was contained in Section 39a, which has become the designation for these "re-earned" funds.) All Chapter 3 districts did, in fact, make such proposals, and all the proposals were approved. Hence, the "incentive" provision of Chapter 3 never actually went into force and its possible effectiveness has never been put to the test. (For further details, see Murphy and Cohen, 1974; for a discussion of this and other efforts to tie state aid to students' test scores, see Feldmesser, forthcoming.) It is interesting to note that there was considerable opposition to Chapter 3 from teacher organizations in Michigan, but little of it was directed at Section 41 or its predecessor, perhaps because the amount of money and the number of districts involved in the former dwarfed those in the latter.

15 Several of the districts ultimately selected for participation in the program were also receiving Chapter 3 funds and using them in some of the same schools, and probably all of the districts had special programs that were supported out of other sources, thus complicating the problem of assessing the effects of any of them.
In response to the MDE announcement, about 20 districts applied for Section 41 projects. According to the then director of the program, the districts varied widely in size and socioeconomic composition and were not markedly different in type from those which usually applied for other sorts of state or federal programs. The applications were ranked by the MDE staff, with the help of an outside consultant, on the basis of the "quality of their objectives"; their feasibility, especially in terms of staff allocations; the degree of involvement of the local teachers' organizations; and cost. In April, six proposals were approved for funding, but one, from Kalamazoo, was dropped shortly afterward when closer examination indicated that the proposed measurement instrument was unworkable (the project was to involve infants and their mothers) and that the district was probably not going to be able to establish satisfactory relationships with its contractors. Representatives of the other five districts met with MDE staff to select an auditor/MSG from among competitive bidders; their choice was Education Turnkey Systems, which then reviewed all of the contracts and suggested some changes. By the opening of the 1971-72 school year, most of the details had been settled and the projects were ready to begin -- another sharp difference from the OEO experiment.

In four districts -- Detroit, Ingham County, Inkster, and Sault Ste. Marie -- the instructional contractor was a private firm. Moreover, in three of them, it was a firm which had already been supplying materials or services to the districts; this undoubtedly simplified installation of the program, but it also raises questions about just what changes the performance contracts were accomplishing (see chapter 4 of this report). In the fifth, Menominee, a group of teachers served as the instructional contractor. In all cases, the same
organization remained as instructional contractor for as long as the district received Section 41 funds. Most of the programs, including those which began in later years, were methods of increasing the degree to which instruction could be individualized. Otherwise, the projects differed considerably. For example, the amounts set aside for incentive payments varied from 19 percent of the total budget in Menominee to 62 percent in Detroit (Michigan Department of Education, 1973, pp. 6, 21). Some but not all of the programs provided tangible incentives for students. A later contract in Wayne-Westland called for the incentive payments to be shared among the contractor, the teachers, and parents.

Each proposal was approved for a one-year period, but applications were permitted for renewal for up to two years -- yet another difference from the OEO experiment, potentially important in that it has given project personnel some reasonable expectation of continuity. The MDE interpreted the legislative authorization to allow support for turnkeying the program in the second or third years, and it encouraged but did not require districts to provide for it in their renewal applications. On the grounds that start-up expenditures such as the purchase of materials and equipment have already been made and incentive payments are of course no longer required, turnkeying is supported at considerably lower budget levels, and this may have deterred some districts from moving in that direction. In any event, the Section 41 program director professed disappointment at the slow pace of turnkeying, but perhaps his expectations were unrealistically high. Programs in at least three of the original five districts had been fully turnkeyed by their third year, and two of these districts were no longer receiving Section 41 funds. On the other hand, it should be understood that
even "full" turnkeying means only that the program has been installed in the schools and grades in which it was originally tried, not that it has been installed in all the schools and grades in the district where it might be appropriate. In several districts, the second project year has been a combination of turnkey provisions in the first-year schools or grades and incentive provisions in schools or grades to which the program was being newly extended. Table 1.2 presents a complete list of the districts which have received Section 41 funds and shows the contractor and the type(s) of contract each has had. 16

On the whole, the projects have apparently run fairly smoothly, aside from the aborted one in Kalamazoo and the excessively large one in Ingham county (see footnote 16). According to MDE staff members, the problems encountered have been the same as those encountered in any program supported or supervised by the state: the quality of local personnel, the adequacy of their planning, the time pressures for the delivery of supplies and of reports. Indeed, the department has by and large tended to treat the Section 41 projects much as it treats other special programs, to the point of using the same application forms and procedures and bringing the project directors together

16 Although the auditor's report (Education Turnkey Systems, [1974], p. 12) states that the project in the Ingham County Intermediate District was completely turnkeyed in 1973-74, there is some doubt that this was the case. This was a very large project, involving more than 100 schools in the county's 12 component districts (the budget of $175,000 was the largest of the five original projects). Because of the complicated logistical problems, the central district administrators, according to the Section 41 program director, decided that they did not want the county "to be the fiscal agent" for the second year, "so the districts under it that were interested in turnkeying applied directly." It is not clear how many of them did, but it is noteworthy that, for 1974-75, performance-contract projects were approved for three districts -- Holt, Lansing, and Stockbridge -- that were in Ingham county and that proposed working with the same contractor as had served the Ingham project.
Table 1.2. Section 41 Projects in Michigan

<table>
<thead>
<tr>
<th>District</th>
<th>Instructional contractor</th>
<th>Type of contracta</th>
<th>1972-73</th>
<th>1973-74</th>
<th>1974-75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detroit</td>
<td>Intermarc</td>
<td></td>
<td>P</td>
<td>P</td>
<td>T</td>
</tr>
<tr>
<td>Ingham County</td>
<td>Betti'kit</td>
<td></td>
<td>P</td>
<td>Tc</td>
<td>--</td>
</tr>
<tr>
<td>Inkster</td>
<td>Behavioral Research Laboratories</td>
<td></td>
<td>P</td>
<td>P/T</td>
<td>T</td>
</tr>
<tr>
<td>Menominee</td>
<td>Teachers</td>
<td></td>
<td>P</td>
<td>P</td>
<td>T</td>
</tr>
<tr>
<td>Berkleyb</td>
<td>Oakland Intermediate School District</td>
<td></td>
<td>--</td>
<td>P</td>
<td>P</td>
</tr>
<tr>
<td>Grand Rapids</td>
<td>Teachers</td>
<td></td>
<td>--</td>
<td>P</td>
<td>P/T</td>
</tr>
<tr>
<td>Schoolcraft</td>
<td>Teachers</td>
<td></td>
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<td>P</td>
<td>P</td>
</tr>
<tr>
<td>Wayne-Westland</td>
<td>Ross Learning</td>
<td></td>
<td>--</td>
<td>P</td>
<td>P</td>
</tr>
<tr>
<td>Holt</td>
<td>Betti'kit</td>
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<td>P</td>
</tr>
<tr>
<td>Lansing</td>
<td>Betti'kit</td>
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<td>P</td>
</tr>
<tr>
<td>Stockbridge</td>
<td>Betti'kit</td>
<td></td>
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<td>P</td>
</tr>
</tbody>
</table>

aP = Performance contract
T = Turnkey contract
P/T = Part performance, part turnkey contract.

bThe Berkeley district is a part of the Oakland Intermediate School District.

cThere is some doubt that this project was completely turnkeyed in 1973-74; see footnote 16 in the text.
from time to time with the directors of projects in other programs. (The Section 41 program director also functions as director of the much larger Title III program in the state.) The only exception has been an extra degree of anxiety associated with the evaluation, since the test results are used for calculating the incentive payments. The Department has exercised closer supervision over the districts' choice of evaluator than over their choice of instructional contractor. In the program's second year, it laid down stricter requirements for the evaluation contracts; and even then, the auditor -- whose presence was itself partly a sign of this anxiety -- found that one evaluator had calculated the payments due to the instructional contractor as being $30,000 too high (Education Turnkey Systems, [1974], p. 8). Unlike the case with the instructional contractors, the evaluation contractors have been changed occasionally, usually at the initiative of the local district with the concurrence of the MDE.

The MDE staff believes that Section 41 has been very successful as a "program developer" for local districts and wants the section continued. On the assumption that it would be, the Department, early in 1975, invited all interested districts to submit letters of intent to participate in a performance contract for the 1975-76 year, "subject to the availability of funds." Two projects have been adopted as "models," the one in Sault Ste. Marie for privately contracted projects, and the one in Menominee for teacher-contracted projects, and the Department is particularly encouraging other districts to initiate programs that would follow one of those models. It has obtained the agreement of these two districts to provide consultation to other districts that do adopt their respective programs; the details of these arrangements have yet to be settled, but it is presumed that the districts would be paid in some way.
Continuation of Section 41 is, however, by no means assured. The composition of the State Board of Education has now changed from what it was when it first approved performance contracting, and the priorities of the State Superintendent of Public Instruction may also have changed, especially in view of current budgetary stringencies and the relatively small size of the Section 41 appropriation. As this report is being written, the legislature has not yet acted, and the future of Section 41 is uncertain.

California: The Guaranteed Learning Achievement Act

Performance contracting was authorized in California by Assembly Bill 1483, the Guaranteed Learning Achievement Act (GLAA). The bill was passed in November, 1971, with the strong support of the Superintendent of Public Instruction, and it became effective the following March. In sharp distinction from the Michigan statute, the GLAA laid down a detailed set of specifications for contract projects. There was to be one program in each of five types of districts: "a densely populated urban area, with higher than average rates of unemployment, welfare dependency, lower than average scores on statewide pupil achievement tests, and similar characteristics"; a suburban community; a rural area or a town in a rural area; and a large district (among the 20 largest in the state in terms of pupil enrollment) and a small one (having not more than 5000 pupils in all grades). The programs were to be "new and innovative approaches" to the teaching of reading and/or mathematics in kindergarten and the first six grades, which offered "a substantial chance of being transferred and duplicated by the public school system at a later date." The contracts were to provide for reimbursement to the contractor "based upon the measurable achievement and mastery of basic skills of students enrolled in the special
program" and upon retention of gains six months after the posttest administered at the end of the program. A penalty clause was to be included calling for the contractor to return money to the district "on account of each student who has not reached the level of achievement . . . specified in the contract."

Although the act referred to private contractors throughout, it defined the term to include a "teachers' association," so long as it was "organized, registered, or licensed to lawfully do business" in the state. The act was scheduled to expire on June 30, 1975, and $250,000 was appropriated for each year; districts were encouraged to add their own or federal funds to their project budgets.

The California Department of Education (CDE), less well prepared by previous efforts than its counterpart in Michigan, did not get the GLAA into operation until midway through the 1972-73 school year. Guidelines for applications were not ready until July, 1972, when they were sent to the 18 districts which had earlier submitted letters of intent. Districts whose applications had been received by the September 15 deadline were divided into the five categories mentioned in the law, and three staff members of the CDE ranked the applications according to the degree to which they met the statutory requirements and their "overall quality." Notices of approval were sent in the last months of 1972 to the districts with the highest-ranked proposal in each category: Oakland (urban area with high proportion of low-achieving pupils), Ontario-Montclair (suburban), Woodland (town in a rural area), Pittsburg (large district), and Southern Kern (small district). CDE staff then negotiated a budget with each district so that the total did not exceed the $250,000 that had been appropriated. Each district's participation was approved for only one year at a time, with no promise of renewal, but in fact these five districts
have been refunded each year, and they have been the only ones to receive GLAA funds; no other districts have sought to participate. The Department has made no effort to prod districts to turnkey their programs, and all of them have operated with incentive contracts throughout.

The choice of contractor was up to the district, and the mode of selection varied. Ontario-Montclair chose Appleton-Century-Crofts because this company had established good working relationships with the district on other services it was providing. A teacher in Southern Kern had happened to take a college course taught by the president of American Learning Corporation and had been impressed by him enough to persuade that district to engage the company as its contractor. Oakland held a "curriculum fair" at which companies displayed their programs to teachers and parents, who chose Webster/McGraw-Hill for reading and Behavioral Research Laboratories for mathematics. The only district with a teacher-contracted program was Woodland, where the teachers at the Whitehead school incorporated themselves as the "Whitehead Professional Group" in order to meet the statutory requirement of being "registered to lawfully do business" in the state. Each district's application had to include its proposed contract, which was reviewed by the CDE. The departmental staff member responsible for GLAA evaluation -- who also assumed the more general duties of program coordinator -- pointed out to us that he was familiar with the companies' capabilities because each of them (except, of course, the Woodland Professional Group) was already providing to other districts materials similar to those which were to be used in its performance-contracting project. The programs have all been one variety or another of individualized instruction. None of them has involved incentives for students.
Each district has done its own pre- and posttesting to determine the learning gains on which payments were based, but the district's choice of tests had to be approved by the CDE, and CDE staff members monitored the testing. No MSG or auditor was required, nor has the CDE engaged either of them itself; some districts, however, have employed a consultant to help in the interpretation and reporting of test scores and to conduct other forms of evaluation. These arrangements seem to have caused no particular difficulties. In general, the projects have apparently presented no serious problems; even the midyear start in 1972-73 proved not to be troublesome. The CDE has made no systematic effort to disseminate the programs, but, as we have mentioned, most of them were in use elsewhere in the state, anyway.

The general consensus in the CDE was that the GLAA will not be renewed after its scheduled expiration. The act's prime mover is no longer in the legislature; the departmental staff seems much less committed to and enthusiastic about performance contracting than is the case in Michigan; and, more definitely than in Michigan, the State Superintendent's attention appears to have turned in other directions and he may not be inclined to press for renewal of the GLAA when he is seeking approval of much more expensive programs in the usual tight-budget situation. The state's drive toward accountability will probably have to take other forms.

Whether the Michigan and California efforts to promote performance contracting can be regarded as "successful" must depend ultimately on what happened in the funded districts, which will be discussed in chapters 3-5, following brief descriptions in chapter 2 of the projects at the ten sites.
we visited. But whatever the verdict, and except possibly for some last flickers in Michigan, performance contracting seems fated to disappear from the American educational scene. That is not to say, however, that there is nothing to be learned from the experience.
CHAPTER 2: PERFORMANCE CONTRACTING AT TEN SITES

In this chapter, we will give a brief description of the history and character of performance contracting at each of the ten sites we visited. Our purpose here is simply to present a general picture of main events and long-run results and to illustrate the variety of experiences with performance contracting. Detailed observations will be brought out in succeeding chapters.

The OEO Sites

Hartford, Connecticut

Hartford was one of the OEO private-contracting sites; the contractor was Alpha Learning Corporation. Experimental-group students were located in three schools; the elementary-grade students were mostly black or Puerto Rican. Teachers for the project were selected by the central administration from among the system's regular teachers, and they remained on the system's payroll. Teachers' aides, who were extensively utilized in the program, were newly hired by the contractor's project manager from among residents of the schools' communities, and they were paid by the contractor. The program was largely a strategy for individualized instruction with student rewards. There were also incentives for teachers, but at the insistence of the Hartford Federation of Teachers, the incentive payments were made to the schools, to be used for instructional purposes, rather than going to individual teachers.

Installation and implementation of the program was accompanied by problems like those which plagued all of the OEO sites: the local project director (an

1Another of the OEO private-contracting sites, Grand Rapids, Michigan, was also visited; but it has had several different types of contracts and will be discussed below among the sites with state-supported contracts.
Assistant principal in the city system) was hired only a few weeks before the school year began, and most teachers were not informed about the project until they arrived at the beginning of the school year; Alpha's project manager was often not at the site, and his assistant was young and inexperienced; pretesting was done under hastily arranged and chaotic conditions; materials were often not ready on time or were not available at all for some students, particularly those at higher achievement levels. In addition, no plans had been made for the activities of teachers not involved in the project (and since reading instruction was a major element of the program, the elementary-grade teachers were left without clearly defined tasks), and there was a two-week teachers' strike in November.

When the contract ended, the materials were "packed up in boxes and shipped off," and the program disappeared as an instructional entity. No one had any strong feeling of responsibility for following through. There was some exploration of the possibility of purchasing the materials, but they were found to be prohibitively expensive. The superintendent and the deputy superintendent for instruction (who had been mainly instrumental in bringing the performance contract to Hartford) left the system soon afterward; the project director took a new job as principal; one of the participating schools was torn down and another one was closed, with the teachers and students being dispersed to other schools. In the minds of those we spoke to, the performance contract was dimly remembered as "just another innovation," "one of a lot of programs going on that hadn't been properly planned for." Hartford has had no other performance contract since then. There was no strong opposition to it in principle, but neither was there any enthusiasm. Too many things had gone wrong, too many questions had gone unanswered.
Nevertheless, several of the teachers had found the instructional materials or methods to be highly satisfactory and continued to use them on their own to a greater or lesser extent. One teacher said the program had changed his whole teaching style, from that of a "traditional stand-up teacher" to that of a manager of classroom activities. Some teachers retained the practice of giving tangible rewards to students, or tried to carry on with individualization as best they could (which, some pointed out, they had been doing before the performance contract as well). Otherwise, all that was left of the project was, as the project director said, "a couple of beautifully painted rooms" in one of the participating schools.

Stockton, California

The OEO projects got under way at the two teacher-contractor sites even later than they did at the private-contractor sites. Stockton was not chosen as a site until late in the summer; its proposal was written in September (in a day-and-a-half, according to the district's director of special projects), and contract details were not settled until November. To complicate matters, the district was then in the midst of negotiations with the teachers for next year's employment contract; and at the junior high school where the experimental students in grades 7, 8, and 9 were located, a new principal was appointed in October, after the groundwork for the project -- "or lack of it," as the principal said -- had already been laid.

Stockton is an industrial city in central California with a population of 116,000 that includes substantial proportions of low-income families and members of several minority groups, so that -- in the words of the present superintendent of schools -- "it qualifies for just about any project that comes along." The
The decision to apply as a teacher-contractor site for the OEO project was made by the man who was superintendent at the time. The lack of advance consultation, combined with the late date and the atmosphere of hostility growing out of the employment negotiations, led the executive board of the Stockton Teachers Association (the local affiliate of the National Education Association) to reject participation at first. However, the president of the STA personally supported the idea and persuaded the executive board to go along; and late in October, he was appointed project director -- the day after employment negotiations had been concluded and he had resigned his position as president. Once the STA had given its approval, the project was presented to the district -- again quoting the junior high-school principal -- "as pretty much of an assignment." The teachers designated for the project were those already teaching in the two schools chosen as experimental schools, and some of them, particularly in the junior high school, expressed strong resentment of the way in which it had been imposed upon them; nevertheless, none of them requested transfer to another school, although they were given the opportunity to do so.

The STA was nominally the contractor, but after appointing a steering committee it actually played very little part in the project. The contract provided that 12.5 percent of the base pay of the participating teachers -- slightly less than $30,000 -- was to be put in an escrow account, from which advances could be made to the STA or the teachers "for purposes directly related to increasing student performance." Half of this sum did not have to be reimbursed, provided only that, as the contract put it, "80% of the student participants enrolled in each grade level." The other half constituted the incentive payments, which were to depend upon the learning gains of students in the project as a whole; and if the advances against the incentive half of
the escrow account exceeded the incentives earned (which did not happen), the excess was to be returned to OEO. By vote of the participating teachers, ratified by the steering committee, the incentive payments, which came to about $8,000, were divided among the teachers according to the number of experimental classes each had taught.

The teachers were not expected to initiate any new teaching program, except that the contract stipulated that "[i]ncentives to students will be used." Most of the teachers, in fact, now seem to think of the performance contract as the "student-incentive project." No guidance was given on the use of student incentives; each teacher worked out his or her own procedures by trial and error and by informal discussion with other teachers. At the outset, many teachers were skeptical of the idea of "paying students to learn," but considerable enthusiasm for it had developed by the time the project was over, because the teachers felt that the incentives did have a favorable effect on students' willingness to work, if not on their achievements. The three elementary-grade teachers to whom we spoke, and some of the junior high-school teachers, have continued to use tangible rewards for students since the end of the project, though on a smaller scale because they now have to pay for them out of their own pockets.

There was some desultory exploration of the possibility of further contracting arrangements in the district, but nothing ever materialized and Stockton has had no other performance contracts. The junior high-school principal and most of the teachers interviewed, as well as the project director, said they would not oppose performance contracting in principle, provided that the decision was a collective one and there was adequate time for preparation. Indeed, responses to a questionnaire distributed to the participating teachers
toward the end of the 1970-71 year showed that nearly 90 percent of them would participate in another performance contract. Nevertheless, no one was apparently willing to make a strong plea for another contract, probably because of the circumstances attending the OEO project. It is noteworthy that Stockton did not apply for funds under California's Guaranteed Learning Achievement Act (see chapter 1).

Mesa, Arizona

The other teacher-contractor site in the OEO experiment was Mesa. According to the people we interviewed there, OEO had not mentioned performance contracting when the initial contact was made, but had inquired simply about participation in an experiment to test the effects of teacher and student incentives. Only after the Mesa Education Association had consented to participate did they discover, in a phone call from the office of the National Education Association, that they were involved in a performance contracting experiment. Several members of the MEA felt that they had been misled by OEO, but they decided to remain in the experiment since it was to last only one year.

Teachers from three elementary schools and one junior high school participated in the experiment. The schools with the highest numbers of low-achieving students were chosen as the experimental schools, and the control schools were those geographically closest to the experimental schools. Most of the students attending the experimental schools were low-income Spanish-speaking or Indian children.

Although the pretesting took place in October, the incentives program was not explained to the teachers until the beginning of December. Incentives
were to be given at the discretion of the teacher, rather than being consistently and methodically related to student performance. Later in the year, the incentives were to be gradually shifted toward group social rewards, such as class parties or field trips.

There was no systematic program for teacher incentives, and each school handled them in its own way. In most schools, all the incentive money was pooled and each teacher and the principal received an equal share. The incentive payments were not made until two years after the project had ended.

The school district complained of the massive amount of work that OEO required of project directors, saying that it did not improve instruction to any extent. The teachers at the elementary school regarded the experience favorably, and some of them have continued to give rewards to students, although they must now be paid for by the individual teacher. Otherwise, at the conclusion of the experiment, the program was dropped completely, simply because there was no support for continuing it. The district had entered into the agreement on the understanding that it was a one-shot experiment, and no one felt impelled to press for another performance contract.

Other Sites with Contracts in 1970-71

Gary, Indiana

The contract in Gary was born out of the desire of the newly appointed black majority of the school board to provide a dramatic signal of a changed attitude toward the school system. The superintendent, also newly appointed, shared this desire. An acquaintance of his, the president of Behavioral Research Laboratories, proposed that BRL take over an entire school and operate it for
three years on a guaranteed-performance basis, and this seemed like just the sort of dramatic move being sought. The superintendent feels now that BRL would have gone along with a fixed-fee contract if it had been asked to, but in that summer of 1970, "performance contracting was in the air." Besides, one of the leading members of the school board was a businessman to whom the notion of a performance contract was appealing because of its connotation of business-like accountability. The board approved the superintendent's recommendation that BRL's proposal be accepted, the predominantly black Banneker elementary school was chosen for the purpose, and the contract was signed almost before anyone else in the district knew what was happening. Its essential provisions were that, for each pupil enrolled in Banneker, the district would pay BRL $800 a year, its normal annual per-pupil expenditure, and that at the end of three years BRL would refund $2400 to the district for each student not then performing at grade level in reading and mathematics. The contract also included a vaguely written provision for turnkeying in the fourth year.

The first year was very nearly a disaster. Much time and energy went into fending off challenges from the Gary Teachers Union, which charged that the contract violated provisions of its agreement with the district; and from the Indiana Department of Public Instruction, which contended that it did not conform to various legal and administrative requirements and which withdrew the Banneker school's state accreditation for a brief while. There were overtones of racially and politically motivated conflict. BRL did not have a full range of materials ready for all students (especially those at higher levels of achievement) even in reading and mathematics, let alone in other subjects,
and the materials it did have were not always ready on time; yet the company did not want the teachers to use other materials. BRL's project manager had no experience in education and irritated the teachers with his high-handed manner. Visitors, numbering in the thousands, were a continual interruption; while many of them were attracted by the unique conditions of Gary's contract, there was some suspicion that BRL was bringing many of them in for the sake of promoting sales of its program elsewhere. The year-end report of the independent evaluator, the Center for Urban Redevelopment in Education, showed remarkable gains in student achievements as well as reduced costs, but there was strong criticism of the data and of the way in which the data were presented.

Nevertheless, many of Banneker's teachers liked the BRL program -- it was an approach to individualized instruction, part of which had previously been used in several schools in the district -- and in the second year, with the appointment of a new project manager who quickly won the teachers' respect, they cooperated in reshaping and supplementing the materials to make them more generally suitable. Everything went more smoothly, except for a 22-day teachers' strike in May (unconnected with the performance contract) which made the scheduled post-test impossible.

By the fall of 1972, when the third year of the contract began, the atmosphere had changed considerably. The report of the OEO experiment had been issued, dampening enthusiasm for performance contracting. The superintendent had learned that BRL was "hustling" its program in other districts without giving proper credit to the contribution of Banneker's teachers. Some people believe that BRL had come to anticipate heavy losses

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2 For a fuller account of the events of the first year, see Wilson (1973).
when the final assessments of achievement were made in the spring of 1973. In December, a group of teachers proposed to the superintendent that BRL be dismissed and the teachers be permitted to carry on the program on their own (with no performance guarantee). Their suggestion was accepted and, by mutual consent of the district and the company, the contract was terminated as of December 31, just as abruptly as it had begun. It was two more years before BRL and the district reached final agreement on a contract settlement. Gary has had no other performance contracts, and there is a general consensus that no one in the district would want to try another one.

The teachers whom we interviewed were virtually unanimous in saying that Banneker was now "a very different place" from what it had been before the performance contract, more satisfying for both teachers and students. The principal, who had been an informal leader among the teachers during the contract period, said "there is no doubt that the performance contract broke the ice for us." The BRL materials were everywhere in evidence at the school, and the practice of employing teachers' aides, which began with the contract, was now firmly established. No permanent damage seems to have been done to relationships among the parties concerned; neither the teachers nor the head of the GTU displayed any bitterness toward the superintendent (who, unlike the state's Superintendent of Public Instruction, has remained in office), and for his part the superintendent had only praise for what the teachers had accomplished and said he had found the union was "not interested in beating a dead horse." Furthermore, he insisted that he "would do it all over again even if I had to make the same mistakes," because the ultimate results were worth it. He pointed particularly to the fact that Banneker's students in the first three grades, who had mostly received instruction with the BRL materials but
after BRL had left the school, were now among the highest-performing students in the city. The upper-grade students, who had been in the first three grades while the contract was in effect, continued to score below their counterparts in the city's other schools.

Norfolk, Virginia

Early in 1970, the Virginia State Board of Education, on the recommendation of the Superintendent of Public Instruction, authorized the state's Department of Education to undertake a project in performance contracting. Permission was obtained from the federal Office of Education to use a portion of the state's ESEA Title I funds for the purpose. The services of Education Turnkey Systems were engaged for managerial assistance, and the project emerged looking something like a small-scale replica of the OEO experiment, except that a single contractor served all the participating districts or "divisions," as they are called in Virginia.

Seven divisions with high proportions of low-income families were selected for participation, and one elementary and one junior high school in each of these divisions were selected on the same basis. Representatives of the divisions and schools were invited to a meeting at which performance contracting was explained; all agreed to participate. Because funds were limited, the decision was made to restrict the project to instruction in reading only.

A request for proposals was sent to 117 companies, and from among the eight responses, Learning Research Associates was chosen as the contractor by joint agreement of the representatives of the divisions and the schools, the Department of Education, and Education Turnkey. The Bureau of Research of the University
of Virginia's School of Education was chosen to administer the pre- and post-tests and calculate payments. Thereafter, the Department played little active part in the project. Contract negotiations were conducted by Education Turnkey. This entire process extended into the beginning of the 1970-71 school year. During the last week of October, LRA held a training session for the teachers and teachers' aides, and the project got under way early in November.

The invitation to participate in the project was a welcome one to the assistant superintendent for instruction in Norfolk. The city's school system was just completing a two-year self-study, a major result of which was a recommendation that a "performance-based curriculum" be developed. The performance contract, he believed, would provide an opportunity "to find out if we could operate a performance-based curriculum structure, without going through the agony of doing it ourselves initially." LRA seemed to have the kind of program he was looking for: a procedure for individual diagnosis and prescription, keyed to a wide variety of materials, with objectives-referenced test items to match, and without reliance on exotic hardware. The company also intended to use a fairly elaborate system of student rewards, but at the assistant superintendent's insistence, this was de-emphasized (at least in Norfolk); however, students were given paperback books for completing the reading of a certain number of books in class, and the teachers also awarded certificates whenever they felt a child merited one. There were no special incentives for the teachers.

Implementation of the program apparently went smoothly. This may have been partly because only two teachers were involved, and they had volunteered for the job; each one operated a learning center in each building, where groups
of 25 children came in succession to receive reading instruction. (Each had one aide, hired out of project funds.) Except for the burden of record-keeping, they were highly satisfied with the program, and they believed that LRA's methods for individualizing instruction and for making a child's progress visible, together with the books and certificates used as rewards, were very effective in stimulating students' interest in learning. There was little problem with materials, since the teachers were able to use whatever was already available in their schools. They found that both LRA's representatives and Norfolk's project director were competent and helpful. The only hitch was in the test administration, which was done by graduate students who were not properly trained and evidently did not take their responsibility too seriously.

Still, when the test results were in, they were, in the assistant superintendent's words, "disappointing to say the least." Students' learning gains were no greater than they had been in the past, and no greater than those of control groups. Outcomes were similar in the other divisions. In those circumstances, it was felt that it would be pointless to ask the State Board for a renewal of the performance-contracting authorization. Neither Norfolk nor the other divisions have had any other performance contracts.

The assistant superintendent and the teachers were convinced, however, that the LRA program had produced favorable changes in students' attitudes. They contended that the disappointing test results could be attributed to the poor fit between the tests and the program's learning objectives, to improper test administration, and to the brief period of time during which the program was in use. Again using Title I funds, Norfolk purchased the LRA program (so did other divisions, with the result that, according to state officials, the
company broke even despite the poor showing in learning gains), and it is now in use in several schools in the city, along with other similar programs.

Sites with State-Supported Contracts

Woodland, California

The only district with a teacher-contracted project under California's Guaranteed Learning Achievement Act (see chapter 1) has been Woodland, a town 20 miles west of Sacramento with a population of 22,000. The locus of the project has been the T. L. Whitehead elementary school, which is an unusual school in a number of ways: Though located in a middle-class neighborhood, about 40 percent of its 540 students are bused in from lower socioeconomic areas (about 13 percent of the student body is Mexican-American, the only substantial minority group); it is organized in "learning centers" -- clusters of modular activity spaces -- rather than in self-contained classrooms; it is ungraded; and its principal is a gifted organizational leader who had developed a staff with a visibly strong esprit de corps. This last characteristic, in particular, is directly relevant to the school's experience in performance contracting.  

In the summer of 1972, Whitehead's teachers had attended a locally sponsored workshop on language arts and had decided that they wanted to try the Wisconsin Design for Reading Skill Development. The principal pointed out

3 The fact that the school is organized in ungraded learning centers was also relevant, in a different way. The GLAA application forms asked for a great deal of information about the contracting school -- the numbers of classrooms, students, teachers, etc. -- in categories of grade levels. Whitehead's application had to give an explanatory note about the learning centers and substitute that term wherever "grade" appeared on the forms. For purposes of testing, each pupil was assigned a grade which was "no . . . more than 1.0 years away from" the grade normally attended by students of his or her chronological age.
that GLAA funds had just become available and might be used to support the installation of this innovation in the school. The possibility of contracting with a private firm was discussed, but the teachers felt that they knew their students better than any commercial company could and that with "a little more know-how and some additional materials" (as the project director later put it), they could accomplish as much as a private firm. Viewing the opportunity as a challenge to their professional skills, they voted to apply for GLAA funds with themselves as contractor.

This decision caused some friction. The superintendent and school board had become aware of the GLAA, too, but they, along with several principals, were interested in having a contract in the district with a private firm. Whitehead's principal, however, had a strong commitment to supporting the initiatives of his staff. On the other hand, the Woodland Education Association, local affiliate of the NEA, opposed performance contracting in general; it was unfavorably disposed toward the superintendent because he came from a business rather than an educational background and "wanted to run everything on a business basis," and it saw performance contracting as another instance of this orientation. It therefore objected to Whitehead's proposal on the grounds that it meant "going along with the superintendent's ideas," even though no private firm was involved. The upshot has been that other schools in the district were cool toward Whitehead's program for some time; the principal told us that for a while he was treated as a virtual "outcaste."

In order to comply with the statutory requirement that a contractor be "registered to lawfully do business" in the state, Whitehead's teachers, with the advice of the county counsel and of a parent who was a lawyer, incorporated
themselves as the "Whitehead Professional Group" and drew up a proposed contract which was submitted with their application. They elected the principal as president and named other officers and a project director from among their own ranks. All the officers are nonsalaried. Although in a sense the corporation has been merely a legal fiction without effect on the day-to-day life of the school, it has held regular meetings at which the teachers exchange information and ideas and make decisions about such matters as the spending of project funds, and these meetings seem to have reinforced the staff's feelings of cohesiveness.

The project funds have been used to pay the half-time project director, who has functioned chiefly as a locator of resources in response to teachers' requests; to increase the number of hours of employment for teachers' aides; to purchase new or extra sets of materials and some items of new equipment; to pay for teacher-training services (including, e.g., registration fees at professional meetings); and to pay for the services of a consultant on evaluation, who has not simply administered the tests which determined the incentive payments but has also assisted the teachers in learning about evaluation generally and was regarded by them as one of the most important contributors to staff development under the program. The opportunity to acquire these materials and services, the teachers said, was the "real incentive" in the performance contract. Indeed, the incentive payments called

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4 There was no consultation with the teachers in Stockton. In fact, it is rather remarkable that, until the interviewer for this study mentioned it, no one at the Whitehead school knew that Stockton, 60 miles to the south, had had a teacher-operated performance contract just two years previously.
for by the contract were devoted to the same purposes, rather than being paid as "bonuses" to the teachers personally. The teachers contended that this was an advantage over a contract with a private firm, for in the latter case the incentive money could not be applied to meeting the school's needs.

In the contract for the first (abbreviated) year, the guarantee was that the average monthly gain in reading for the student body as a whole (except kindergarten pupils) would be 0.8 of a month in grade-equivalent units, or 25 percent greater than it had been in the preceding year. When the evaluation consultant pointed out that this type of guarantee could best be met by concentrating effort on the higher-achieving students (because of the usual positive correlation between pretest score and gain), the guarantee for the second year was changed to require that 51 percent of the students be at or above grade level by the end of the year, compared to 44 to 48 percent (for different groups of students) at the end of the preceding year; in the third year, this was raised to 52 percent. For the first year, the payment for fulfilling the guarantee was $9,000, on an all-or-nothing basis; in the second and third years, the payment was scaled in proportion to the degree to which the guarantee was met, but the maximum amount remained $9,000. The guarantee was met in the two years for which data are available, though just barely so in the second year (see chapter 3).

The teachers are uniformly enthusiastic about the project—mostly because of the extra money it puts at their disposal, but also because they take considerable pride in the fact that they are making the decisions about the expenditure of the money. Yet, midway through the 1974-75 year, they, as well as the principal and the project director, felt quite sure that the

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5 No material rewards for students were provided; apparently the issue had never even been raised.
GLAA would not be renewed, and together they were casting about for alternative sources of funds. Among the possibilities being considered were other state programs and some sort of guaranteed-performance agreement with the district school board. It is also worth mentioning that the school board has accepted the recommendation of a district-wide committee that funds be provided to make the Wisconsin Design materials available to all schools.

Detroit, Michigan

The private firm for Detroit's performance contract under Section 41 of Michigan's State School Aid Act (see chapter 1) was not a typical contractor. The firm, called Intermarc, had no instructional program of its own but was essentially a local distributor for the Hoffman reading materials, which consisted of reading machines and supporting software. Several of these machines had been in use at the Pierce school, a middle-class and lower-middle-class majority-black school that had been selected as the project locus, and the teachers there had been highly satisfied with them. Detroit's proposal called for the purchase of additional machines and software to permit the establishment of a reading center at the school which would complement classroom use of the equipment. Intermarc provided no consultation or training services. During the first two years of the contract, Intermarc was paid according to the reading performance of the students; the district,

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Detroit had also submitted a proposal for a performance contract with Behavioral Research Laboratories, but the price of that was more than $100,000, and it was not funded.
however, referred to the arrangement not as a performance contract but as a "conditional sales agreement," in the belief that this would avoid conflict with the teachers' organization. Administration of payment test and calculation of payments was done by Person-O-Metrics, another local company. The third year was a turnkey year, involving a much smaller and noncontingent fee.

The reading-center teacher had already been on the staff of the Pierce school; her salary was, and continued to be, paid out of Chapter 3 funds. She was trained in the use of the machines by the Hoffman company itself, at a workshop in California. Four aides have been hired for the reading center with Section 41 funds. Each class has gone to the center (located in the school auditorium) two or three times during the week, where they are divided into small groups for instruction. Other materials have been added to supplement the Hoffman materials. Reading instruction continued to be given in the regular classrooms, in part with the use of the Hoffman machines.

The school staff expects to continue to operate the reading center even if Section 41 funds should no longer be available. The reading-center teacher has been paid with other funds, anyway, and the machines have already been purchased and use very little in the way of consumable materials.

Inkster, Michigan

Inkster is a predominantly black suburb of Detroit with one of the lowest per-capita property evaluations in the state; the school system's physical plant is aging and many of its curricular materials are 15 years old or more. It received Section 41 funds for a performance contract with Behavioral Research Laboratories. The Brick, Frazier, and Parkwood elementary schools
were chosen for initial participation in the project because their student composition had recently changed toward a lower socioeconomic group, and because, unlike the other three elementary schools in the district, these three were not receiving Title I funds. Low-achieving students in grades 7 and 8 of the Fellrath middle school were also included.

In the project's first year, the contract covered some 1500 students in both reading and mathematics under incentive provisions. In the second year, the program in both subjects was turnkeyed in the three original schools and extended to 1400 students in the other three elementary schools. A fixed fee was charged for instructional services for students in mathematics, but an incentive provision was applied to 1000 of them in reading ($37.50 for a grade-equivalent gain of at least five months but less than seven months, and $50 for a gain of seven months or more); services for the other 400 students in reading were charged at a flat fee of $15 each, except that varying proportions of these fees would be refunded according to the proportion of the incentive students who achieved a gain of seven months or more (Education Turnkey Systems, [1974], pp. 12-13). The rationale for this complicated arrangement was not clear (nor was the method of differentiating between the 1000 incentive and the 400 flat-fee students), but the effect appeared to be that the contractor was almost certain to receive the maximum amount of incentive funds available under the contract. In the third year, the entire program was turnkeyed at all schools.

The BRL materials in Inkster, similar to those used by the company in Gary, are a version of individualized instruction in programmed format. The teachers reported that the company was quite willing to make revisions in its materials in accordance with their suggestions, but that it was reluctant —
as it had been in Gary -- to have the teachers integrate other materials into their instruction. The teachers are given training in the use of the materials at the beginning of the year and consultation services -- which they found to be quite helpful -- throughout the year, and teachers' aides are extensively used. The district also employed reading coordinators to help transfer the program to the three new schools in the contract's second year.

Most of the people we spoke to believed that the program had been successful in improving students' achievement levels, self-esteem, and interest in reading. They hoped to be able to continue operating it with the help of federal funds and of state funds from other sources if Section 41 was not continued. In the early life of the project, there had been opposition from some teachers, led by members of the local affiliate of the American Federation of Teachers, one of whose national leaders lives in the district; but most teachers were receptive to the project and the opposition subsided as they worked with the program and as they discovered it was not being used to evaluate their work.

Menominee, Michigan

The principal of the Central Elementary school in Menominee -- a largely blue-collar town of about 10,000 in Michigan's Upper Peninsula -- had become interested in performance contracting upon learning about Texarkana's program. He was convinced, however, that teachers could accomplish as much as a private firm could, or more, if they were working under similar conditions. The Section 41 program looked like an opportunity to test his belief, and with the
support and cooperation of the district superintendent, he drew up a proposal for a project in which the contractor's role was to be played by the teachers in his school. Oddly enough, it was not until after the proposal had been approved that he recruited the participating teachers, but his relationships with them -- he himself was project director -- nevertheless were good, because he selected teachers with whom he had worked especially well in the past. As evaluator, he hired a small company called Needs, Inc., headed (if not constituted) by a faculty member at the University of Wisconsin in nearby Green Bay.

The project covered only mathematics, because the principal thought that his teachers would make the best showing in that subject. Students in the project were in grades 1-5, and were mostly white, middle or lower-middle class, and of average achievement. At the suggestion of the evaluator, a control group was also established in the school. The chief features of the program were that each teacher was assigned a teacher's aide for half a day and was given a budget of about $200 for the purchase of materials.

During the first year, the project went well and the teachers earned the maximum incentive payments possible under the contract. The money was not paid to the teachers individually, but was deposited in a savings account for use in meeting future needs of the school. In the second year, five more teachers joined the original ten; since the total operating budget remained the same, each teacher's budget for materials was reduced. The student performance requirements were raised, but the teachers still earned all but $40 of the maximum incentive payments. In the third year, the project was turnkeyed, which meant that Section 41 funds were only one-third of what they had been
previously. The use of aides and the materials budgets have been continued, however, by using Title I and other outside funds and some of the money from the incentive payments. The Menominee project was chosen by the Michigan Department of Education as its model for teacher-contracted programs, and this may result in some additional income (see chapter 1). Over the long run, the superintendent said, "the burden of accountability will shift to the school board and it will have to decide whether the results are worth the increased costs."

The participating teachers as well as the principal feel that the program has proven its effectiveness and they are enthusiastic about it. The Menominee Education Association (NEA) opposed having private firms as instructional contractors or paying incentive to teachers directly -- its position was that that would have amounted to a form of merit pay -- but it has supported the way in which performance contracting has operated in Menominee.

Grand Rapids, Michigan

Probably no district in the country has utilized performance contracting as extensively as Grand Rapids. It has had eight one-year contracts involving incentive payments of various kinds, and in addition has had a number of contracts without incentive payments, some of which were for the purpose of turnkeying programs that had started under performance contracts and some of which have been independent of performance contracts. Recently the district created the unique position of "director of contract learning," to coordinate and facilitate this range of activities.
Grand Rapids' engagement in performance contracting began early in 1970, when the then superintendent heard of the Texarkana venture and thought that his district might benefit from something similar. With the enthusiastic support of others in the central administrative staff, he not only applied to have Grand Rapids included in the OEO experiment but, in the belief that the district would not be accepted, he also initiated negotiations with two companies, Westinghouse Learning and Combined Motivational and Educational Systems (CMES), for separate performance contracts. As it turned out, all these efforts were successful, and so the district had three performance contracts in 1970-71. In the following year, it had a fixed-fee contracts at several schools and performance contracts at two schools (including one for educable mentally retarded children) with Alpha Learning Systems, its OEO contractor; and a renewal of the performance contract with CMES. (Later, CMES went out of business, and Grand Rapids bought out the company's entire stock of materials, which it continues to use, though considerably modified, under the aegis of the contract learning office.) A new superintendent vigorously continued what his predecessor had begun, and by 1974-75, the contract learning office was in charge of eight different programs which were in operation in more than 40 schools.

The only 1974-75 program being run as a performance contract is one which the district calls Project Target. This is an effort to "do for ourselves what all those companies had been doing for us," as the district's program development specialist put it. It began in the summer of 1973, when the predominantly black Henry and Sigsbee elementary schools contracted with the district, under Section 41, to develop an instructional system in reading and mathematics.
that would include a set of performance objectives keyed to the instructional materials available in the buildings (new materials were purchased where necessary), test items corresponding to the performance objectives, and a record-keeping procedure to permit the use of these resources in individualized instruction. The system was used in 1973-74 for instruction of 350 students at each school, and incentive payments were based upon the proportions of students who at the end of the year passed at least 75 percent of the objectives-referenced test items that were designated as being appropriate to their grade level. (This is the only performance contract we know of in which norm-referenced tests have not been used to determine incentive payments.)

In addition, each school would be paid a fixed sum for the production of a manual that would show teachers at other schools how to compile a similar "encyclopedia of resources" for their own buildings. The money would be paid to the schools for instructional purposes decided upon by their respective faculties. In 1974-75, Section 41 funds were received to turnkey Target at the Henry and Sigsbee schools and to install it, under incentive provisions, at the middle-class Eastern and Beckwith schools.

There are a number of other, more or less unusual aspects to this project. A private firm, Howard M. Lesnick Associates (headed by a former employee of Education Turnkey Systems and located in Fairfax, Virginia), has been engaged at a fixed fee to provide "technical assistance" in developing the system, to expedite the delivery of materials and supplies, and to make interim evaluation studies. The teachers at Henry and Sigsbee conducted in-service training for the Eastern and Beckwith teachers in the summer of 1974 and provided consultation services to help the latter implement Target at their schools.
Administration of payment tests and calculation of payments is being done in 1974-75 by an employee of another Michigan school district, under contract with Grand Rapids' Office of Curriculum Planning and Evaluation (which did this work in 1973-74 itself). Finally, rewards for students are used at each building, but in various ways, as determined by their respective faculties. In some cases, students can use the points they earn to gain admission to school-sponsored entertainments, or to buy items at a school store or bid for them at an auction; at Beckwith, where the teachers felt that small individual rewards would be relatively ineffective, a portion of the points are used to buy materials for the classroom or for the school, in the belief that students would take pride in having helped acquire something that could be used by the entire student body.

There is every likelihood that Grand Rapids will expand the use of the Target program. The teachers we spoke to were highly pleased with what it enabled them to do, and they took evident professional pride in having worked out the system largely through their own efforts. If Section 41 is discontinued, the district's program development specialist will seek funds from another source -- and he has been very effective in finding funds in the past.

More generally, the use of contracts -- not only performance contracts, but "contract learning," as the district calls it -- seems to have caught on in Grand Rapids. Both external and internal contractors are used in flexible ways adapted to the needs at hand, to the length of a given school's experience with a program, and to the wishes of the faculty. A recent variation was to invite the teachers in the district to submit proposals of
their own which would be supported with district funds; many more proposals were received than could be funded. Several people we spoke to said an "atmosphere of change" had been created in Grand Rapids, and some of them attributed at least its beginnings to the first performance contracts — "they were an incentive to get things started." But it is also true that Grand Rapids has had two successive superintendents dedicated to educational change, and performance contracting may simply have been a conveniently available vehicle for their energies.
CHAPTER 3: ACHIEVEMENT AND ATTITUDBINAL OUTCOMES OF PERFORMANCE-CONTRACT PROJECTS

Our examination of outcome data for performance-contract projects will concentrate on the state-supported programs in California and Michigan. The data on the OEO experiment and the Virginia program are already well known and have been thoroughly analyzed and reanalyzed (Battelle Columbus Laboratories, 1972; O'Connor and Klein, 1973; Garfinkel and Gramlich, 1973; Carpenter-Huffman and others, 1974; Gramlich and Koshel, 1975), and the basic results have been referred to in preceding chapters of this report. The difficulties with the achievement data in Gary have also been mentioned. An item concerning the percentages of students who "achieved or exceeded minimum gains" was included in our questionnaire, but it proved unproductive. The answers often made vague references to other documents or gave suspect or uninterpretable figures (such as negative percentages). In a number of cases, no answer was given at all. This confirmed our observation, at the sites we visited, that project directors and teachers were quite frequently ill informed about the precise learning gains of project students and were unable to produce written reports. Their judgments about project success tended to be based not so much on measured achievements as on their professional opinion of the quality of the contractor's program or their impressions of student reactions. However, because of the necessity of reporting achievement outcomes to the state department of education under both California's GLAA and Michigan's Section 41 programs, we do have reasonably good data for the performance-contract projects in those states for 1972-73 and 1973-74. These data will be supplemented by figures on other items in our questionnaire and by information gathered in interviews during our site visits.
General measurement considerations

In nearly all performance contracts, including those reported by 95 percent of our questionnaire respondents and those at all but one of the sites we visited (the exception being Grand Rapids' Target program), student learning gains—and hence contractors' payments—have been measured by the difference between scores on standardized tests administered at the beginning and end of the contract period. This practice has been criticized on the ground that standardized (or norm-referenced) tests do not adequately reflect a particular contractor's instructional objectives. Criterion-referenced tests are often suggested as preferable alternatives, since they can be designed so that they do match a given set of instructional objectives. Yet mastery of these objectives is, after all, only the means toward an end: Criterion-referenced tests may provide valuable interim and supplementary information about a student's progress through a learning program. But if the goal of a performance-contract project is to improve the student's ability to read, or to solve mathematical problems, and not merely to have him or her learn what a contractor has chosen to teach, then norm-referenced tests still seem to be the most persuasive method of assessing attainment.¹

Another drawback of criterion-referenced tests is that, precisely because they do match a specific set of instructional objectives, their scores cannot be compared across different projects, complicating the problem of determining

¹For further discussion of the role of criterion-referenced tests in performance contracts, see Lennon (1971) and Feldmesser [1972a]. For suggestions on combining criterion-referenced and norm-referenced measures in the calculation of contractors' payments, see Hentschke and Levine (1974).
relative effectiveness. In this connection, it is curious to note that, at the end of the first year of the Section 41 program, the MDE recommended both the increased use of criterion-referenced tests, "eventually replacing the norm-referenced tests presently used for performance-based payment," and "increased standardization of evaluation information for each project" (Michigan Department of Education, 1973, pp. 4-5). These goals would seem to be mutually exclusive. Perhaps the Department believed they would be reconciled by carrying out another of its recommendations, that "each performance contract project's performance objectives" be made more "comparable" to the "minimal performance objectives" that were being drawn up by the Department itself. Actually, the probable effect of carrying out this last recommendation would be to convert the criterion-referenced tests into norm-referenced tests. In any case, as we have noted, Grand Rapids has been the only district to use criterion-referenced tests exclusively in the determination of incentive payments, and it is interesting that the auditor suggested that the district may have set its objectives too low (Education Turnkey Systems, [1974], p. 27), implying that they were below some implicit norm.

It is at once an advantage and a disadvantage of norm-referenced tests that their scores can be expressed in grade-equivalent units. A grade-equivalent score is obtained by computing the mean raw score of students at a given grade level. Thus, if students at the beginning of the fourth grade average 25 in raw-score points on a given test, then the score of 25 is said to have the grade-equivalent value of 4.0 on that test. Test scores have customarily been converted into grade-equivalent units because of their apparent simplicity and ease of interpretation. In performance-contract projects, learning gains have
nearly always been expressed as the simple arithmetical difference between the grade-equivalent scores on the pretest and the posttest or as the grade-equivalent gain in months for each month of instruction in the program.

The problems in the use of grade-equivalent scores and score gains have been discussed in much of the literature on educational measurement (Angoff, 1971). Most of them can be traced to two defective assumptions on which such scores are based. First, grade-equivalent differences are not the same at all grade levels. That is, the difference in "reading skill" between an average second-grader and an average third-grader, for example, is much greater than the difference between an average eighth-grader and an average ninth-grader, yet in both cases the difference is one grade-equivalent year. Because reading skill improves less and less with age, the effect of using grade equivalents is to overestimate the actual gains made by students (Tallmadge and Horst, 1974).

Second, achievement in a subject is not as smoothly related to grade placement as the grade-equivalent score seems to suggest. Many students exhibit a tendency to regress in reading skills during the summer, thus scoring lower on a test given in the fall than they would on the same test given in the preceding spring. Test publishers gloss over this fact by smoothing growth curves from one year to the next, so that there are no decreases in grade-equivalent scores over the summer (Tallmadge and Horst, 1974). The result is that two students may make equal gains between fall and spring over a period of years, yet the achievement level of one may be falling relative to that of the other because of systematic differences in their experiences during the summers.

The use of grade equivalents may also have led to unrealistic expectations of what performance contractors could accomplish. Some of the early optimism
on this matter was based on the apparently spectacular gains that had been produced by private firms in Job Corps and similar programs with the techniques and materials that were to be applied in the schools by these same companies. But these gains were in grade-equivalent units, and such gains are easier to achieve with adolescents and young adults than they are with young children because, as we have pointed out, the difference in the skill level represented by two grade-equivalent scores is smaller for older persons than for younger ones. To assume that gains in grade equivalents achieved by young children will be the same as the grade-equivalent gains achieved by adolescents using the same instructional approach is to fall victim to the assumption that grade equivalents form a linear scale.

Reasonable solutions to these problems are available. The proportion of students scoring above some designated percentile could be used instead of the grade equivalent. The minimum guarantee in both the reading and the mathematics contracts in Oakland's GLAA program was that, at each grade level, the proportion of students scoring above the national median (50th percentile) for that grade level on the posttest would be two percentage points greater than the proportion on the pretest (Emrich, 1974). There was a similar provision in the second and third years of the Woodland contract. The GLAA requirement for retention testing six months after the posttest was an effort to take summer losses into account. The results of the first retention tests varied from about one-third of students retaining their 1972-73 gains in Oakland to virtually all students retaining their 1972-73 gains in Southern Kern (California Department of Education, 1973), thus illustrating the importance of this type of measure. Similar provisions could well be employed in future contracts.
Student achievement outcomes

Whatever may be said about their desirability, grade-equivalent scores are all we have to work with in evaluating achievement outcomes for most of the Michigan and California performance-contract projects. Table 3.1 presents the grade-equivalent gains for these projects during their first two years. Because the number of months between pretest and posttest varied at different sites, all gains have been expressed in grade-equivalent months per month of instruction between the two tests.

The data in Table 3.1 show that the gains in the California and Michigan projects were generally one grade-equivalent month or more for each month of instruction. This is about twice as great as the gains of the OEO experimental students which were about 0.5 months in reading and 0.6 months in mathematics (Garfinkel and Gramlich, 1972). Among the possible explanations are that both school districts and contractors had more time to plan and prepare for installation of the California and Michigan programs than they did in the case of the OEO experiment; and that they could expect to be working together over a longer period of time than just one year. However, the gains in 1973-74 tended to be somewhat smaller than those in 1972-73, which would argue against either of those explanations. Other differences between the California and Michigan programs and the OEO experiment are that, in the former, the districts chose their own contractor and, when the contractor was a private firm, it was often one that had been supplying materials or services to the district before; these circumstances might have made for better working relationships than in the OEO experiment, where contractors were assigned to school districts which had no say in the matter and with which they were unfamiliar. On the other
Table 3.1. Achievement Outcomes of Performance-Contract Projects in State-Supported Programs in California and Michigan

<table>
<thead>
<tr>
<th>District</th>
<th>Grades</th>
<th>Contractor</th>
<th>1972-73</th>
<th>1973-74</th>
</tr>
</thead>
<tbody>
<tr>
<td>CALIFORNIA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oakland</td>
<td>1-6</td>
<td>Webster/McGraw-Hill Reading</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Behavioral Research Labs Math</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Ontario-Montclair</td>
<td>2-6</td>
<td>New Century Reading Math</td>
<td>1.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Pittsburg</td>
<td>1-6</td>
<td>Behavioral Research Labs Reading Math</td>
<td>1.5</td>
<td>1.3^a</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2.1</td>
<td>1.5^a</td>
</tr>
<tr>
<td>Southern Kern</td>
<td>5-6</td>
<td>American Learning Corps. Reading</td>
<td>3.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Woodland</td>
<td>1-6</td>
<td>Teachers Reading</td>
<td>1.5^a</td>
<td>1.5</td>
</tr>
<tr>
<td>MICHIGAN</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Berkley</td>
<td>4-6</td>
<td>Oakland ISD Math</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detroit</td>
<td>1-6</td>
<td>Intermarc Reading</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Grand Rapids</td>
<td>1-6</td>
<td>Teachers Reading</td>
<td></td>
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<td></td>
<td></td>
<td>Math</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Inkster</td>
<td>3-9</td>
<td>Betti'kit Reading</td>
<td>1.4</td>
<td></td>
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<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2-6</td>
<td>Behavioral Research Labs Reading</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Math</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Menominee</td>
<td>1-5</td>
<td>Teachers Math</td>
<td>1.9</td>
<td>1.3^a</td>
</tr>
<tr>
<td>Sault Ste. Marie</td>
<td>K-2</td>
<td>Newman Visual Reading</td>
<td>1.6</td>
<td>1.4^e</td>
</tr>
<tr>
<td>Schoolcraft</td>
<td>1-12</td>
<td>Teachers Language arts Math</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td></td>
<td>K-6</td>
<td>Ross Learning Reading</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Math</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

^a Gain from spring 1973 to spring 1974 testing; all other gains are from fall to spring of the same school year.

^b No Section 41 contract.  ^c Used criterion-referenced tests only.  ^d Program turnkeyed.

^e First grade only.

Sources: California Department of Education (1973, 1974); Michigan Department of Education (1973); Education Turnkey Systems [1974].
hand, the superior gains in the California and Michigan programs may be in part simply artifacts of the kinds of students involved; in the OEO experiment, the lowest-scoring -- and therefore presumably the most difficult-to-teach -- students were deliberately selected for participation, whereas no such effort was made in California or Michigan.

A judgment about whether the month-for-month gains in California and Michigan have been greater than could be expected with these kinds of students and in these instructional conditions would of course require comparison with the gains of similar students being taught in similar conditions except for the absence of a performance contract. Such data as we have give mixed results. Only the Menominee project had a group of control students in anything like the classical sense (random assignment aside). There, students in ten performance-contracting classrooms achieved an average gain of 1.9 months per month of instruction in 1972-73, while students in five other classrooms at the same school achieved an average gain of only 1.4 months (Michigan Department of Education, 1973); the difference in 1973-74 was quite similar (Education Turnkey Systems, [1974]). In Detroit, end-of-year reading-test scores obtained by students in the performance-contract school were compared with end-of-year scores obtained by students in two other schools in the city that used the same instructional materials; in 1973 the scores were virtually identical at all three schools, but in 1974 the scores in the performance-contract school were three to six months higher in three of the four grades for which data are reported (Milchus, 1974a). In Oakland, the grade-equivalent gains of students in the GLAA program were compared with the gains made by students in other Oakland schools which had been designated by the state as "compensatory
education schools" (Emrich, 1974); the latter consistently showed gains that were one to two months higher. It would obviously be unwarrented to draw any general conclusions from these fragments of inadequate information. It should also be borne in mind that, as we have pointed out before, schools with performance-contract projects (and the schools with which they were compared) were usually offering other kinds of special programs as well at the same time, so that such differences as existed could not be attributed to performance contracting alone in any case.

The student achievement data do not clearly indicate whether performance contracting is more successful under some conditions than under others, either. Contracts in smaller districts do seem to result in higher gains than those in larger districts (mean gain of 1.8 months in Southern Kern, Woodland, Menominee, and Sault Ste. Marie, as against 1.1 months in Oakland and Detroit), but this may be a function of the characteristics of students enrolled in large and small districts rather than of the size of the district per se. Teacher contracts do not appear to have brought gains that are conspicuously higher or lower than those in private-firm contracts, and gains in reading and mathematics are about the same.

When asked about the long-run effects of performance contracting in their districts, about the same proportions of the respondents to our questionnaire said that student achievement in the subjects of instruction covered by the contract was now better than it had been before as said that it was neither better nor worse (48 percent and 43 percent, respectively). Because concern has been expressed over the possible effects of performance contracting on subjects of instruction not covered in the contract, we also asked about that,
and the results were reassuring: only two percent said it was worse. Interestingly, 17 percent said it was better (the rest of those who answered said it was neither better nor worse). These responses are almost certainly based on impressionistic observations rather than on systematic data. The only study of the matter that we know of was conducted in Woodland, where the performance contract was in reading but students took the mathematics sections of the payment test as well; the gains were approximately the same as those which normally occur on this test. The evaluator, who reported this information to us during an interview, said his conclusion was that "math learning was not suffering because of the program," but he nevertheless felt disappointed. He had expected the scores to show more than usual gains, if only because students whose reading had improved more than usual should have been able to "read the math test better!"

Student and teacher attitude outcomes

A few of the districts we visited had conducted studies of student or teacher attitudes as part of their evaluation of performance-contracting projects. Twenty percent of the respondents to our questionnaire also said such studies had been made. The studies no doubt varied considerably in their aims and in their rigor, but on the whole they found favorable changes toward the subject area on the part of students and positive attitudes toward the contracted program on the part of teachers.

In Menominee, a "Survey of School Attitudes: Math Scale" was administered to students in the performance-contract and control classrooms in the fall and again in the spring. Improvements in attitudes toward mathematics (which
was the only subject covered by the Menominee contract) were larger for the performance-contract group, but both groups showed substantial improvements.

A specific project objective in Inkster was that students in the contractor's program would average no less than the fourth stanine on subfactors of the "Self Concept and Motivation Inventory," an instrument designed for administration to young children. During the second year of the contract, the evaluator gave this inventory to students in one school, and he found that those in grades 2, 4, and 5 scored "significantly above average" on both the "motivation" and "academic" subscales. Since first-graders scored lower than students in other grades, the evaluator inferred that "the self-concept and motivation levels may be partly due to interaction with the BRL program" (Milchus, 1974b, p. D-3).

Most of the teachers we interviewed said they believed their students' motivation and interest in school had improved as a result of the contractor's program. Some went so far as to say that some students were eager to learn for the first time in their lives. Most of the teachers also indicated support for performance contracting as it had been implemented in their schools, even though they might oppose it "in general" (perhaps because of the positions taken by the national teachers' organizations).

Among the 25 questionnaire respondents who reported that the performance-contracted program in their district had been turnkeyed, about 60 percent checked "teachers liked it" and "students liked it" as being among the most important reasons, and more than 90 percent checked the reason, "Key people believed it had improved student motivation." On the other hand, 7 of the 12 respondents from districts where the program had not been turnkeyed said that
the belief that it had failed to improve student motivation was one of the most important reasons for the decision. (This answer was second in frequency only to the nine answers that "Key people believed it had failed to increase student achievement.") Only four and two of them, respectively, said the program had not been turned on because teachers or students did not like it. Among all respondents, about 30 percent reported that performance contracting had brought a long-run improvement in student morale, and 20 percent, in teacher morale; virtually all the rest said that their districts were now neither better off nor worse off in these respects. There did not seem to be any characteristics of the contracts or the districts that were consistently associated with improvements in morale.

Summary

Student learning in nearly all performance contracts has been measured with norm-referenced tests, and despite the criticisms that have been made of these tests, they are probably still the most suitable instruments for the purpose. Problems arising from the use of grade-equivalent scores can be overcome and have been in some contracts.

Grade-equivalent gains in the California and Michigan performance-contracting programs have been about twice as great as those in the OEO experiment, but the reasons are not clear. While the difference may be related to differences in the ways the projects were mounted or run, they may also be artifacts of the types of students involved. The data do not permit confident statements to be made about conditions that enhance the effectiveness of contracts in increasing
gains. On the whole, however, the gains in California and Michigan have been respectable and fairly consistent but not dramatically great. Data on attitudes give some reason for believing that student feelings about the subject matter covered by the performance contract had become more favorable and that -- perhaps for that reason -- teachers had liked the contracted programs.
CHAPTER 4: PERFORMANCE CONTRACTING, THE PRIVATE FIRM, AND EDUCATIONAL CHANGE

One of the virtues that has most often been attributed to performance contracting is that it would serve as a "catalyst" to promote structural and programmatic changes in the educational system. According to this view, schools have become ponderous bureaucracies, bound up in tradition and regulation, resistant to fresh ideas from the "outside world." Among the reasons for this situation, it is argued, are the financial costs and the political risks of innovation, and the fact that the public-school system is, to a large degree, a monopoly in its community, where its educational practices are unchallenged by competing organizations (except for religious and independent schools, whose appeal is limited to certain segments of the population). By opening up the system to the private sector, through the mechanism of the marketplace, the performance contract would confer upon the schools the immediate benefits of the inventiveness that has characterized the private firm; and once the superiority of the newly introduced methods had been demonstrated, the schools would find it easier to make changes thereafter (see especially Lessinger, 1970). If the new methods proved not to be superior, the cost of having tried them would be low, because of the payment schedule, and it would be "the contractor . . . , rather than the school, [that] 'failed'" and would have to take the "political heat resulting from the experimentation" (Blaschke, 1971b, p. 52); school personnel would therefore feel freer to try out new ideas. In this chapter, we will consider the extent to which these expectations have been borne out.  

1In its reliance upon the market mechanism, performance contracting is similar to the concept of the "educational voucher" (Center for the Study of Public Policy, 1970), and thus much of what we have to say in this chapter and the next is relevant to it as well. However, performance contracting is a more limited "intrusion" of the market into education.
Changes and non-changes

It seems accurate to say that, in many or even most of the schools where performance contracting has been tried, some enduring changes have indeed occurred. The clearest cases are the adoption of new instructional materials, especially materials for use with low-achieving students; the adoption of programs of individualized instruction; and — closely connected with the latter — the utilization of teachers’ aides. These were frequently mentioned to us or observed at the sites we visited, and the trends were corroborated by our questionnaire: When asked about the long-run effects of performance contracting, two-thirds of the respondents — the highest proportion among the 32 areas we inquired about — said their district was now better off, "as a result of" that experience, in the "instruction of students who are at low levels of achievement"; and nearly as many said their district was now better off in the individualization of instruction and in the use made of paraprofessionals or teachers' aides (57 and 60 percent, respectively). Also mentioned often both in the site-visit interviews and in the questionnaires, though somewhat less so than the preceding three, were more receptive attitudes toward experimentation on the part of both teachers and administrators, and a greater acceptance of the concept of quantitative evaluation of instructional programs.² (Evidence for the latter is only indirect in the questionnaire, since it was not included as an explicit item.)

² Many of these same tendencies toward change were noted by Carpenter-Huffman and others (1974), pp. 81-82, 101, 136-137.
While these changes would probably be universally regarded as desirable, there was one other change which seems to have occurred fairly often at the sites we visited but whose desirability would be more doubtful in the minds of many people. This is the use of "tangible" rewards for students. Several of the programs conducted under performance contracts have used such rewards as a motivational device; upon completion of an assigned task, or perhaps upon completion at a specified level of accuracy, or sometimes for "good behavior," students were awarded books, toys, pencils and paper, movie tickets, restaurant meals, a certain amount of time in a "free room" or "recreation room" supplied with games or books, or a number of points that could later be turned in for one of these or a wide range of other rewards. (We refer to them as "tangible" in order to distinguish them from grades, gold stars, and verbal praise, which, of course, have long been used by teachers for motivational purposes.) It is true that only 19 percent of the questionnaire respondents reported that the contract program in their district employed "incentive payments for students dependent upon their achievement," but judging from the site-visit interviews, the practice had considerable staying power once it had been tried. In four of the five districts where student rewards had been instituted under the contract program, they were still being used, even though the teachers had to bear the costs themselves; in the fifth, Grand Rapids, the contract was still in effect, but the teachers told us they were determined to continue with student rewards when it was over. In Stockton, it was the only element in the program that had been retained.³

The more "structural" aspects of the educational system seem to have been much less affected. The schools and school districts that we visited did not seem to be operating in any noticeably different ways as a result of their performance contracts, except for Grand Rapids, which was making extensive use of contracts with private firms (see chapter 2). At least 70 percent of the questionnaire respondents said their district was now neither better off nor worse off in implementation of the principle of accountability or support for it among administrators, teachers, or the community, and in the costs of administration, the costs and cost-effectiveness of instruction, and practices in calculating the costs of instruction.

Even with respect to those changes that did take place, however, several qualifications must be made. One is that they seemed often to be restricted to the particular schools, or even the classrooms, in which the performance-contracting program was installed, rather than spreading to other schools in the district. Of the 25 questionnaire respondents who said the contractor's program had been turnkeyed, only eight said it had been adopted "in some classrooms where it had not been used under the contract," and only 5 said it had been "adopted generally throughout the school system where it was appropriate." The evidence from the sites visited was very much in the same direction, again with the exception of Grand Rapids, and to a lesser degree.

4 The questionnaire item (no. 45) about the long-run effects of performance contracting, the responses to which were cited earlier, did ask about changes in "your district," but it is probable that many respondents did not make a sharp distinction between changes in some schools and changes in the districts as a whole -- and after all, if there had been changes in some schools, it was reasonable to say that there had been change in "the district."
extent of Norfolk. In some cases, this limited diffusion was due to the fact that the program was expensive (and the district may have had to pay for it out of its own funds once the project had ended). In other cases -- notably Gary, Hartford, Stockton, and Woodland -- it was apparently due to a feeling of distaste toward performance contracting, and hence toward any program that was introduced under its aegis, on the part of nonparticipating teachers, either as a matter of principle or because of their colleagues' experiences with it. Several people in Gary told us that the entire community was now "a little cooler toward innovations" than it had been before the altercation over performance contracting there. Thus, the very mechanism that was used to initiate a process of change was sometimes an obstacle to further change.

The performance contract as a "cause" of change

A second qualification is that the long-run changes that occurred were not always the direct result of the performance-contract project per se, or may have occurred despite it. Teachers sometimes came to feel that the materials or methods they had used in the contract program were potentially effective, even if they disapproved of performance contracting in principle or resented the way in which it had been imposed upon them, and even if the program's possible qualities were obscured by the conditions under which it was implemented -- the late starts, the contractors' failure to have a sufficient variety of materials or to have them ready on time, the incompetence or insensitivity of some contractors' representatives, the chaos in test administration. This is the experience that was reported to us by teachers in Gary and Stockton, and in a milder form in Inkster, and it evidently was
the experience in several of the OEO private-contractor sites as well. The teachers believed that, given more time to prepare and the freedom to supplement the materials and modify the program in other ways (a freedom which the contractors were often unwilling to give them), they could build upon such experience as they had had during the contract year and make the program work, whatever the test results might have shown.5

In one sense, it might be said that this is precisely the way in which performance contracting was supposed to work: Teachers would be exposed to new instructional practices, in spite of themselves as it were, and they would then adopt for continued use those which they felt could be effective.6 Another interpretation, however, is that the lack of change in the school system may be due not to habituated resistance to change but to a scarcity of better programs. It is odd that, in the search for explanations of this lack of change, one hypothesis that seems not to have been seriously entertained is that teachers have rarely been provided with anything that is reliably superior to what they already have. They may be more willing than is usually thought to change their ways — when they are offered improved ways. A teacher in Hartford told us, "Teachers just want ideas and materials that work. They don't care whether

5 Of the 25 questionnaire respondents who said that the contractor's program had been turnkeyed, only four reported that the program as adopted was "virtually identical" with what the contractor had used; 11 reported that "some modifications were made," two that "major modifications were made," and eight that "individual teachers made modifications of varying degree."

6 This phrasing, though, glosses over the fact that proponents of performance contracting contend that one of its prime virtues is its reliance upon rigorous measurement of results for proof of effectiveness rather than upon the "feelings" of teachers. Gramlich and Koshel (1975, p. 50) comment upon the irony "that performance contracting, demanding as it does that performance be measured in hard quantitative ways, should appear to be most successful when evaluated by a much softer and more impressionistic standard."
they get them from a private company or anywhere else." If this is true, it might not be necessary to resort to performance contracting at all. Of course, none of this suggests that present-day instruction cannot be improved on. It suggests, rather, that not every change is an improvement, that educators may sometimes be able to distinguish between change and improvement, and that we may not yet know how to make improvements in education that are consistently great enough to be worth the costs that change inevitably entails.

A third qualification about the changes that followed on performance contracting -- and one that reinforces what we have just said -- is that some of them were "in the wind" and would have taken place, anyway. The instructional contractors in Gary, in most of the Michigan Section 41 districts, and in several of the California GLAA districts, had already been supplying -- to those districts and others -- materials similar to those they used in their performance-contract programs, but under more conventional arrangements. Moreover, there is no doubt that some schools altogether unaffected by performance contracting have nevertheless moved toward individualization of instruction, utilization of classroom aides, and quantitative evaluations. Obviously, we have no data that would allow us to determine whether these changes have occurred more frequently or lasted longer in contracting schools than in noncontracting ones; but we do know that, at several of the sites visited, change was already under way before they ventured into a performance contract, and it would be more accurate to say of them that the contract was an effect of the change than to say that it was a cause. Aside from specific changes, there was, in Gary, Grand Rapids, Norfolk, and Woodland, a person or group actively seeking an opportunity for change, or the creation of a "climate for change," and the advent of performance contracting
merely provided the funds to make it possible or, as in Gary, a dramatic impetus for it. At each place, it seems highly probable -- at some, we were told this explicitly -- that the change would have been introduced even in the absence of the performance-contracting vehicle, using some other source of funds such as Title I or Title III. These observations give rise to two other hypotheses about educational change which, like the one suggested above, are mundane if not simple-minded yet are often overlooked: Change is more likely to take place and to endure (1) when extra funds are available to support it, and (2) when someone at the local level is prepared to serve as a change advocate.

There is a reverse side to this coin, too. A theme in some site-visit interviews was that the district had agreed to enter into a performance contract merely because it was a supplemental source of funds for a financially hard-pressed school system. In these districts -- Hartford, Stockton, and Inkster are the clearest examples -- the concept of performance contracting, and the particular program innovations that might come with the contract, were largely matters of indifference to the local decisionmakers. They needed the money, and any respectable source would do. The assistant project director in Hartford told us that the performance contract there had been "one of a lot of programs going on that ... were just ways of bringing in federal money." In Inkster, Section 41 funds were used as "consolation" for schools that had not received Title I money. The teachers in Woodland told us that, to them, the really important part of the performance contract was the operating budget, not the relatively small amounts of incentive payments that might be earned. The program development specialist in Grand Rapids, asked whether the teachers there were "coming forward more frequently with ideas for things that they
wanted to do" since performance contracting had begun, replied:

Yes. Two million dollars in Title I money made a difference. A million dollars of Chapter 3 state money made a difference. Title III of ESEA made a difference. Funds had never been there before to experiment in education. I'm sure that if we looked into the history of school districts, a lot of teachers had a lot of ideas, but there was no money to implement them.

Reference to the financing of innovation brings to mind the claim that performance contracting is a low-cost way of experimenting with new programs, since a school pays less for those that are not successful. Our data do not permit a convincing test of this claim. However, in one district, Inkster, the contractor managed to combine the usual performance guarantees with flat-fee services for an additional number of students, the net result being that the company was able to receive close to the maximum payment specified in the contract almost irrespective of the achievements of the "guaranteed" students. The most meticulous study that has been made of the OEO experiment concludes that, because of the payment adjustments that had to be made for students who entered the programs late or exited them early, and for teachers' strikes, lack of proper test scores, and other complexities, the contractors actually ended up getting much more than they would have earned on the basis of measured student gains alone (Gramlich and Koshel, 1975, p. 60). Thus, this supposed advantage of performance contracting may not have been realized in practice.

7When asked about the reasons why their district had entered into a performance contract, one-third of the questionnaire respondents cited as "one of the most important reasons" that "funds were available for performance contracting that couldn't be used for anything else." However, it must be added that other reasons were more frequently reported as being among the most important: 55 percent checked the answer, "Principle of paying according to student achievement might lead to higher levels of achievement"; 43 percent, "Performance contracting would stimulate thinking about new ways of doing things"; and 36 percent, "Performance contract would promote principle or concept of accountability."
It is true, nevertheless, that performance contracting as it has typically been conducted probably appears to the local district to be a low-cost method of experimentation, simply because in most cases the costs have been paid not out of locally raised funds but by some outside source — OEO, Title I or III of ESEA, or the state performance-contracting appropriations in California and Michigan. As one administrator in Norfolk said, the materials provided by the contractor were quite expensive, but "not while Uncle was paying for them." It hardly needs to be pointed out that this same "advantage" attaches to any externally supported program, not only to performance contracting. When Norfolk extended its contracted program into other schools, the costs were paid with Title I money.

The argument that performance contracting involves low political risk, because the contractor rather than the school system's own personnel would take the blame for an ineffective program, can only be called meretricious. It would normally be expected that the teachers or administrators in a school system would select the contractor themselves — and this is in fact what happened in all cases except for the OEO experiment, which cannot be regarded as typical in this respect — and they would therefore bear as much responsibility for the results of its program as they do for the other instructional programs they decide to use. Furthermore, few if any instructional programs are "teacher-proof"; their outcomes depend in part on how they are implemented by the classroom teacher. In every district we visited — even Hartford, which had been one of the OEO sites, and Gary, where the superintendent and school board engaged a contractor for the Bank:eker school without consulting its staff — the teachers treated the contractor's program as if it were their own and seemed
to try their best to make it work. There was no evidence that either they or the administrators had tried, or were preparing to, disassociate themselves from the program in case it failed — nor is it likely that the public would have permitted them to.

On the other hand, opponents of performance contracting have pointed to its possible political liabilities, in the form of concern over unconscionable profit-making tactics that some contractors might use, of illegal contract provisions, and of teachers' fears that their jobs might be jeopardized. The most spectacular cases in point, of course, are Texarkana and Gary. On the whole, though, performance contracting does not seem to have generated a great deal of political controversy. There had been no citizen opposition to the principle at any of the sites we visited. There had been no organized teacher opposition, either, except in Gary and, to a lesser extent, Stockton, and in both those places, it subsided without lasting damage. In Inkster and Mesa, it was reported to us that representatives of the national teachers' organizations had brought pressure to bear on the local teachers to reject participation in the performance-contract project, but the pressure had no effect.

Among the questionnaire respondents, none said that either parents or the school board was generally opposed to performance contracting. While 14 percent said that teachers in the district were "somewhat opposed" and two percent that they were "strongly opposed," 19 percent said they were "strongly favorable" and another 19 percent that they were "moderately favorable"; the rest said that teachers were "neither favorable nor opposed," had "sharply differing attitudes."

Cf. Carpenter-Huffman and others (1974), p. 150: "In general . . . we believe it difficult to attribute any important adverse outcomes to resistance by teachers. Those involved in the programs supported them well in general, despite whatever misgivings they might have had."
or "did not make their attitude known." Two-thirds of the respondents said that "no serious disputes" had occurred in carrying out the provisions of the contract. Interestingly enough, more of the disputes that did occur were over the calculation of the contractor's payments (15 percent of the respondents) than over any other single issue. Concerning one aspect of performance contracting that has provoked particular anxiety, 88 percent of the respondents said there had been "no indication that the contractor had included test items in his instructional program." All in all, the political implications of performance contracting appear to be neither favorable nor unfavorable.

The advantages of the private firm

Whether or not it was a low-cost or low-risk way of introducing change, performance contracting would still be a valuable device if it brought to the schools whatever advantages private firms might have. The contractors themselves, of course, including the representatives we interviewed, claimed that their companies could make important and unique contributions to education, chiefly in the form of techniques for the individualization of instruction. Even -- or perhaps especially -- in those districts that had already begun to move in that direction, school administrators seemed to agree. Judging from their actions as well as their words, administrators apparently believed that private firms had made great strides in the development and "packaging" of an individualized approach — diagnosis of the student's needs, prescription of learning tasks, use of technical equipment, in-service training of teachers, and procedures for managing the formidable task of systematic record-keeping that is required if each student is to be given materials appropriate to his
or her "learning style" and day-to-day progress. Moreover, they evidently felt that, precisely because this technology was unconventional, an "outsider" would be in a better position to introduce it than would the district's own teachers. Among our questionnaire respondents, 31 percent gave, as "one of the most important reasons" why their district had entered into a performance contract, that it was "easier for [a] private firm to introduce new instructional technology than for local teachers to do so," and 26 percent that a "private firm might be better able to take a 'systems' approach to instruction"; and 69 percent said that their contractor's program had included the "use of distinctive equipment (tape cassettes, audio-visual devices, computer terminals, etc.)."

There may well have been some justification for these beliefs, since private firms had been unencumbered by educational tradition and probably had had greater resources at their disposal. As events turned out, at least some of the companies had exaggerated their readiness to apply the technology of individualization in the setting of a public-school classroom. The superintendent in Gary conceded that his "assumption that BRL had a package of materials all ready to go [was] terribly wrong," and we heard similar statements at other sites, as well as complaints that company representatives had had little experience in teaching, especially in inner-city schools.\footnote{The project director in Hartford told us: "The contractor complained that he didn't have good conditions for teaching here; kids were ringing the fire alarms sometimes 20 or 30 times a day, and a couple of smoke bombs were thrown -- but I told the contractor that these were the conditions that our teachers were working under all the time. Why should it be different for him?"}
defenders may also quite possibly have exaggerated the instructional effectiveness of the technology, at least at its present stage of development (see chapter 3). Nevertheless, as we have noted, teachers who first became acquainted with it during their performance-contracting experience were often gratified at what it enabled them to do and continued to work with it after the contractor had left.\footnote{In fact, some of the credit for whatever effectiveness the technology may have displayed must go to the teachers who tried to remedy its deficiencies. In Norfolk, some of them "bootlegged" supplementary materials into the program; in Grand Rapids, several of the early private contractors turned to the teachers for help "in refining their own systems"; in Gary, the teachers at Banneker cooperated with BRL to produce what was virtually a new program. Gramlich and Koshel (1975, p. 72), observing that students in the OEO experimental groups did as well as those in the control groups, suggest that, "given all the problems that were encountered in the first [year], one might even consider it remarkable that inexperienced private firms did as well as the experienced regular classroom teachers in such a short time." This comment overlooks the fact that, in most cases, the programs of the private firms were being implemented by "the experienced regular classroom teachers." Nearly two-thirds of our questionnaire respondents said that the teachers for the performance-contracting program were "drawn from among personnel already employed by the district."}

Another advantage that the private firm may have had as an "outsider" was that it could engage in some practices that might be awkward if teachers were to engage in them on their own initiative. The chief example of this is the use of tangible rewards for students. The assistant superintendent in Grand Rapids has said (quoted in Asbell, 1972, p. 60):

Philosophically and ideologically, the reward system [for students] is the biggest problem we've had. That's one value of having private companies in. It gives us a chance to try something that we might be hanged for if we tried. When a company does it, it doesn't seem as bad.

Why "it doesn't seem as bad" when a private company gives tangible rewards to students is not altogether clear. Indeed, in Mesa and Stockton, student rewards were introduced by the teachers while they were serving as contractors in the...
OE0 "incentives-only" sites; and there and elsewhere, many teachers continued to use them after the contract had ended, as we pointed out above, without repercussions. We shall explore this subject further in the next chapter.

A third advantage that has been alleged for the private firm is that it would be able to respond more quickly to the immediate needs of the classroom situation, since it was not "constrained by regulations, procedures, custom, etc." (Blaschke, 1971, p. 135), such as those that hamper the regular teachers. As one administrator has put it, the company "can circumvent the district's procurement red tape" (Carpenter-Huffman and others, 1974, p. 155). A number of examples of this responsiveness and flexibility were given to us during the site-visit interviews. 11

But we also found some contrary evidence. The teachers at the Banneker school in Gary said that, during the first year of the performance contract there, they were unable to provide even obviously needed supplementary materials, because the BRL project manager was determined to prove the worth of the company's own program. The teachers in Norfolk said they were also discouraged from using additional materials for the same reason, though they did so, anyway. The teachers in Grand Rapids encountered a similar problem but offered a somewhat different explanation: The company wanted its program carried out without modification "because it worked well at the last school where it was tried." In Hartford, a teacher told us that, whenever he asked the contractor for help, "they'd look it up first to see if the contract required them to give it." At several sites, we were told that working with a private firm sometimes slowed things up, because the firm's representatives were not always on hand and yet insisted on approving all major instructional

decisions. A contractor's representative himself complained to us of the schools' unrealistic expectation that "we could deliver materials overnight."

In Gilroy, California, where the contractor was Westinghouse Learning Centers,

One administrator said that in dealing with Westinghouse the school found it difficult to make the changes that all participants felt would be beneficial to the program. He ventured the opinion that WLC's structure locked the concern into a framework that sometimes prevented implementation of logical solutions to problems because WLC felt that it was necessary to "stick to the agreement." For example, early in the 1970-71 program, both the on-site manager and the program teachers wanted to change the class sizes. There was a long time lag before the switch was made because the decision had to be made at a central level rather than on the site. (Carpenter-Huffman and others, 1974, pp. 136-137.)

Thus, it needs to be recognized that private companies, particularly the larger ones, are bureaucracies, too, and have their own restraining interests and their own kinds of red tape.

Even if the private firms were more flexible and responsive than teachers could be, a question may be raised as to whether they should be. On the one hand, the legal and administrative regulations that govern, e.g., the purchase of materials, were presumably enacted out of the public's interest in controlling the use made of public funds and, more broadly, in controlling educational policy. To the extent that a private firm is spending public funds and managing an instructional program in the public schools, as it is in a performance contract, it would seem proper that these regulations should apply to it as much as to teachers. (It may be noted that only seven percent of our questionnaire respondents said that one of the most important reasons why their districts entered into a performance contract was that a "private firm would have more freedom to operate than local teachers would.") On the other hand, insofar as the regulations may have been elaborated beyond what
is really necessary and have become "red tape" in the worst sense of the term, there is no reason why teachers should be subjected to them any more than a private firm; unnecessary regulations ought not be imposed on anyone. It may well be that teachers could work more effectively if, consonant with their professional status, they were given wider discretion in the use of educational funds than they now enjoy.

Summary

The stimulation of change was supposed to be one of the major functions of performance contracting, and several important changes have indeed been attendant upon it -- most notably, new materials for the instruction of low-achieving students, individualization of instruction, utilization of teachers' aides, greater receptivity toward experimentation, emphasis upon quantitative evaluation of programs, and the employment of tangible rewards for students. However, these changes in the contracting schools do not seem to have triggered a general process of change in the district as a whole, and it may have been performance contracting itself which prevented that. Furthermore, the changes may not have been caused by performance contracting, or not by it alone; and if they were brought about at low cost to the district, it may have been the state and federal treasuries rather than the private contractor that paid the extra costs of experimentation. Performance contracting neither reduced nor increased the political risks of innovation, and the fact that it brought private firms into education was not always a clear-cut advantage.

Insofar as performance contracting did produce change, some elements of the concept which were apparently responsible could probably be separated
from it if that were desirable on other grounds. To put it differently, there are "functional substitutes" for some of its change-stimulating properties. One might well be simply the development of instructional programs which are substantially and reliably superior to those presently available -- a course of action which is obviously desirable in any event. Another would be to increase the sums of money at the disposal of schools and school districts for experimentation -- e.g., through more ample funding of the various titles of ESEA, which in fact actually made possible some of the changes that have accompanied performance contracting -- and to free teachers from whatever unnecessary regulations may currently hamper them in the use of this money.

Still, when all is said and done, it does appear that private firms have had -- and may again have -- important contributions to make to public education, and perhaps the incentives of a payment schedule are the most serviceable mechanism for obtaining them. Also, two of the changes that have taken place in conjunction with performance contracting seem to be more closely connected to the very nature of the concept and thus perhaps to lack functional substitutes that would be equally effective. Quantitative evaluation is intrinsic to performance contracting because of the need for precise measurement of learning gains in order to determine the contractor's payments. Tangible rewards for students are not logically necessary to performance contracting but, as we have explained (see chapter 1), they are a natural extension of the concept. All of these questions involve issues of the effectiveness and wisdom of monetary incentives in education, too, and we will consider them at greater length in the next chapter.
CHAPTER 5: MONETARY INCENTIVES AS MOTIVES IN EDUCATION

The distinctive feature of the performance contract is its payment schedule: the provision that the contractor's fee will vary according to the measured amount of learning that students acquired while in the contractor's program. We shall refer to this provision as the "incentive principle," or "payment by results." Its purpose was to furnish an incentive to a contractor -- whether it was a private firm or a group of teachers -- that would induce it to put forth maximum effort. It was evidently the most attractive aspect of performance contracting: That the "principle of paying according to student achievement might lead to higher levels of achievement" was cited by 55 percent of our questionnaire respondents as being one of the most important reasons why their district entered into a performance contract -- a higher proportion than cited any other single reason.

Monetary incentives of private firms

We made many inquiries about the effects of the incentive provision on the behavior of the private contractors or their representatives, seeking to learn exactly how it influenced their actions. The unanimous opinion -- of administrators, teachers, project directors, and contractors' representatives -- was that it had had no effect at all. The GLAA coordinator in California, for example, said,

When these companies come into a district, they have a package . . . and it's no different when they offer the package under Title I or some other funding from what it is under guaranteed learning.

The assistant superintendent in Norfolk expressed the belief that the contractor for the Virginia project had been chosen because its representatives were primarily interested in "getting good materials into the schools"; the rival
company was rejected because it was perceived as being "a slick merchandiser." He added, significantly, that the contractor's behavior "was not basically different from that of a textbook publisher or a producer of audio-visual materials." None of the teachers we spoke to had detected any actions of the contractor that they thought arose out of its desire to increase incentive payments. In short, it was universally agreed that the private firms acted just as they would have if they were receiving a fixed fee for their services without regard to student achievements.  

There seem to be several explanations for this. Contrary to expectations, it was not payment by results that drew the private firms into performance contracting in the first place. The three contractors' representatives whom we interviewed said, rather, that their company's main motive had been to gain "exposure," "visibility," or "stature and image" for their instructional programs. Thus, they were not concerned with the company's earnings on any one performance-contract project so much as with familiarizing teachers and the educational community generally with their instructional capabilities, presumably in the belief that further sales of their programs would follow.

1 See also Mecklenburger and Wilson (1971), p. 590, and Gramlich and Koshel (1975), pp. 54-58. The latter do suggest the possibility that BRL may have taught only reading and mathematics in the first few months of the Banneker project because those were the only subjects it was being paid for, although it was responsible under the contract for instruction in all subjects. They add, however: "Conceivably BRL could merely have been slow in developing and implementing its instructional programs" in subjects other than reading and mathematics, and our interviews strongly supported that view. As far as the OEO experiment is concerned, they conclude that "there is no evidence suggesting that the specific incentives of the . . . contracts had any effects."

2 For a similar statement on the part of another company's project manager, see Mecklenburger and Wilson (1971), p. 590.
whether on a "guaranteed" basis or not. Many school administrators and teachers perceived the companies' behavior in the same way. Several people in Gary, for example, told us they thought BRL was using the Banneker project to promote its materials, by bringing in visitors and sending the project manager out to make speeches. The companies may well have believed that they would make more money from multiple sales of their programs than from payment-by-results contracts, and that payment by results was not likely to be a long-lasting practice in any case. This might help account for the fact that the companies were apparently willing to promise unrealistically high learning gains in their performance contracts.

A second explanation for the apparent ineffectiveness of the incentive principle is that the incentive payments were to be paid to the contractor, while the actual instruction was being conducted by the teachers who, as we have noted, were in most cases the school district's regular teachers. Understandably enough, the teachers were not moved by prospects of greater profits for the contracting company; they made their instructional decisions on whatever grounds they had used in the past, and sometimes were even resentful if a contractor's representative or project manager intervened or attempted to "give advice."

It might be thought that, if this were so, payment by results would have greater force either where the company applied it to the teachers, paying them bonuses in accordance with their students' achievements, or where the teachers were themselves the contractor. We will return to this subject shortly; for now, we will simply observe that only 14 percent of our questionnaire respondents said that "incentive payments for teachers dependent upon student achievements" were part of the contractor's program in their district.
More generally and more fundamentally, performance contracting probably ascribes more power to monetary incentives than they actually have. At the very least, their efficacy as motivators for human behavior has been seriously questioned, even outside of education. One comprehensive review of monetary incentives in industry concluded — in 1966, well before the advent of performance contracting — that the "evidence in support of money as a generalized conditioned reinforcer is, at best, limited and inconclusive" (Opsahl and Dunnette, 1966, p. 129). The point is not that workers are indifferent to the monetary consequences of their behavior, but that their behavior is also influenced — and sometimes predominantly so — by other factors. Prominent among these are the nature of the worker's peer group and his status and role in the group, factors whose importance has been noted at least since the famous Hawthorne studies of 50 years ago. If the principle of monetary incentives is the heart of performance contracting, then the performance contract may be an idea whose time had already passed before it was introduced to education.

Perhaps, indeed, it never arrived. It is difficult to think of any company that ever sold its products or services at a price that varied with the results obtained by the buyer. The product guarantee, which was presumably the analogue for the "guaranteed learning" of the performance contract, is a much coarser device than payment by results. The automobile manufacturer, for example, offers to correct defects that show up before a certain number of miles and that can be clearly attributed to him, but it has never been suggested that he is entitled to higher prices from owners who drive their cars for more miles than are specified in the guarantee. One wonders why that concept should be applied to the sale of educational products or services.
Payment by results in education

Both the practicality and the efficacy of monetary incentives are even more dubious in education than they are in industry. First, the results of effort in industry can be reasonably well measured in the form of physical products; yet even there, as Yordon (1971, p. 5) has pointed out, "The fact that less than half of the employees in manufacturing are paid on the basis of piece rates suggests that business firms have not found it feasible to measure manufacturing output in a manner reliable enough" to warrant that form of payment by results.

In education, of course, measurement of the output — i.e., student gains in learning — is even less precise, a subject we have discussed in chapter 3.

Second, educational outputs are produced not by a physical but by a social process, and they are therefore affected by many variables — such as students' attendance at, entry into, and departure from the instructional program — that are not easily controlled by the contractor as their "producer." Settlement of many performance contracts was long delayed by disputes over the adjustments in payment to be made on account of these variables, for which the contractors disclaimed any responsibility. The picture conjured up by Gramlich and Koshel (1975, p. 63) is bound to give one pause:

... the difficulty that OEO, with its large program and legal staff, has had in reaching agreements with the contractors [about final payments] raises the specter of school boards around the country tied up in endless litigation with educational contractors, paying large sums in legal fees, and probably eventually being forced to make quite expensive settlements.

On the other hand, efforts to cover all contingencies in advance bring their own difficulties. In Michigan, each contract went through three successive critiques, an expensive and time-consuming process. Contract negotiations could seriously delay the start of a program; a report on the Norfolk project
noted that that had happened there and added the wry comment, "It may be said that performance contracting would be greatly improved by the elimination of the contract" (Norfolk City Schools, 1971, p. 2).

It is in anticipation of these and related problems that school boards are usually advised to engage the services not only of an external evaluator who will measure gains in a disinterested fashion, but also of an educational auditor to verify the calculation of payments, and of a management support group to help draw up the contract and make the final settlement but these arrangements of course add to the cost and complexity of performance contracting (Levine and Uttal, 1973). Moreover, it should be borne in mind that the vast majority of performance contracts have been restricted to the subjects of reading and mathematics, where measurement techniques are most widely accepted and reliable, and have included relatively small numbers of students (of the 62 different contracts reported by our questionnaire respondents, 57 involved fewer than 1000 students).

Thirdly, the links between daily actions and ultimate outcomes are far more obscure in education than they are in industrial production. Neither a contractor nor a teacher can know with certainty just what will maximize the learning of a particular child in a particular situation on a given day; and if that is so, the power of a monetary incentive to induce either of them to take the "right" action is obviously limited. Likert's observation is pertinent to this point. Even though he contends that "[t]here is clear-cut evidence that . . . direct pressure for productivity can achieve, typically, significant increases in production if the operations are highly functionalized and if standard procedures have been established," he adds that "Direct pressure for

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3 Nearly half of the questionnaire respondents said their district had hired an educational auditor, and more than 40 percent a management support group. An auditor was required by OEO and by the Michigan program, though in the latter the functions of auditor and management support were combined in the same organization.
increased performance does not seem to yield even short-run improvement in jobs, such as conducting research, which have not been or cannot be highly functionalized and standardized" (Likert, 1970, p. 214). Teaching is clearly in the same category of non-standardized work with the conduct of research.  

All of these reasons why payment by results is likely to be especially ineffective in education apply with equal force to those cases in which a group of teachers served as the contractor. And indeed, as with the private contractors, we found little evidence that the behavior of teacher-contractors was changed by the prospect of greater income for greater student gains. Our inquiries to the teachers about this were generally met with amusement, or with remarks to the effect that "if we knew any way of increasing student learning, we would certainly have used it, whether it meant more money or not!" Nor was there any sign that teacher-contractors were impelled by the monetary incentive to make efforts they would not have made otherwise to seek out methods of instruction they had not tried before. The only exception to these generalizations was the opinion voiced by two teachers in Mesa, who said that "some teachers were working harder" because of the incentive; but even they asserted that it had not affected them. While these statements from the teachers may be regarded as self-serving, they were convincing to us, and they were not contradicted by anyone else we interviewed.

Furthermore, performance contracting by teachers differs fundamentally from performance contracting by private firms, in ways that make it still less likely that incentive payments for teachers could be effective in increasing student performance.

4It is worth adducing Likert's further comment that, even where short-run increases can be brought about by direct pressure, they "are obtained at a substantial and serious cost to the organization," in the form of lowered morale and reduced interest in the work, which will eventually result in diminished productivity (Likert, 1970, p. 214).
learning. Teaching is a profession, and one of the defining characteristics of the professional role is that it is "other-oriented" -- i.e., the professional is expected to put the interests of his client ahead of his own, whenever there is a conflict between them. As Kadish (1968, p. 162) has phrased it, the relationship between the professional and those he serves is "fiduciary rather than commercial." In the case of the teacher, what this means is that he or she is expected to act so as to maximize learning and other educational outcomes for the student, "whether it means more money or not." That is, while it is socially legitimate for a private company to treat instruction as a profit-making venture, a teacher's behavior is not supposed to be influenced by its monetary consequences. The suspicion that a private contractor was (or would be) so influenced was one of the main reasons why teachers were often uneasy about performance contracts with private firms. "They just don't have the same commitment to the kids that we have" was the way it was often expressed.

It is congruent with this role-orientation that, at all of the teacher-contracting sites we visited, the incentive payments did not depend on the achievements of the students in an individual teacher's class, or were not made to individual teachers at all. At three of the sites -- Grand Rapids, Menominee, and Woodland -- the incentive payments were put into an account to be used for instructional purposes. This was also done in one of the experimental schools in Mesa. In the other three experimental schools in Mesa, and in both of the experimental schools in Stockton, the incentive payments were received by the teachers personally, but the amounts were calculated as "shares" of the total

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5 Another characteristic of the professional role is that its activities consist not of routinized procedures but of the application of the general principles in a specialized and more or less technical field of knowledge to the specifics of a particular situation -- in other words, it is non-standardized work.
payments earned by all the teachers in the school. In Stockton, for example, each teacher's share depended only on the number of classes he or she had taught in the program, regardless of the learning gains in each class. Even at that, the Stockton teachers, during our interview, engaged in some rather sheepish bantering about the payments each had received, insisted that they did not remember the amounts, and evinced no desire to continue with the arrangement. At the only site, Hartford, where a private contractor offered incentive payments to the teachers, it was agreed that the money would be paid to the school and "teachers could use it for the benefit of the school's students." This is not to say that the teachers were indifferent to the amounts of the incentives because the money did not inure to their personal benefit. As the project director at the Whitehead school in Woodland said, "The teachers do benefit or suffer" from incentive payments made to the school: larger payments enable them to acquire more materials or to have more help from aides and so make the teachers' work more pleasant and satisfying.

Neither does the other-oriented nature of the teacher's role mean that every individual teacher, as a person, is a paragon of altruism. However, to the extent that a teacher is motivated by considerations of monetary gain, incentive payments are apt to be ineffective in increasing student achievements, anyway. A teacher's work is distinguished from that of other professionals (e.g., engineers) in that its product, student learning, depends to an important degree on the quality of the interaction between professional and client -- i.e., teacher and student. The element of this interaction that is decisive for its success is that the student accept the legitimacy of the teacher's demands, and this acceptance in turn rests upon the student's belief
that the teacher is acting out of concern for the student's welfare. As Spady (1974) has said, in the culmination of a carefully developed line of reasoning, "Perhaps the most important component of the teacher's repertory of abilities . . . is the capacity to establish a sense of rapport with students by caring about them as individuals . . . ." This rapport is sure to be damaged by a feeling on the part of students that their teacher regards them as instruments for his or her own monetary gain. Of course, if there were no conflict between the teacher's concern for his students' welfare and his concern for his own income, there would be no problem -- but in that case, neither would there be any point to offering monetary incentives to teachers. 6

Conversely, a teacher may very well be motivated by the anticipated outcomes of his work for the learning achievements of his students without regard to the monetary payments that may follow. This is, of course, an expression of other-orientation, and we found a number of instances of it during our interviews. For example, the consultant for evaluation in Woodland said of the teachers at the Whitehead school,

When I would go up there to present the score analysis, they were really sweating it out. But that wasn't because of the money; they just wanted those scores to go up so bad.

6 It would obviously be absurd to conclude that teachers would be willing to work without receiving any income at all. In fact, it should be added that the weight of the evidence is that higher salaries for teachers do generally lead to higher performance by students, though it is not clear exactly what attributes of teachers are "bought" with these higher salaries (Spady, 1973). But what is necessary to attract competent people into a job and hold them there (whatever "competent" may mean in the present instance) is not necessarily what will motivate them to perform well once they are on the job. Concerning this difference, see Deci (1972), who also presents data in support of "cognitive evaluation theory," suggesting that payments contingent upon performance may actually decrease the intrinsic motivation for high productivity, even among nonprofessionals.
In this respect, the importance of the performance contract -- whether with a group of teachers or a private firm -- may be that it does call attention to the measured learning gains of students. The head of the teachers' organization in Grand Rapids said that, as a result of the experience with performance contracting there, "A whole school started centering around those reading programs as opposed to [centering] around the physical plant or the bus schedule or what have you." In a similar vein, the project director in Stockton said that "the fact that the teachers were in the spotlight is what really made the difference." This publicity lends a kind of forcefulness to the expectation of other-orientation that it might not otherwise have. As Whitehead's principal said, "... the staff's public commitment to certain objectives is an important part of performance contracting; their objectives are out there where everyone can see them, and a lot of people will be watching to see if they reach them ... their reputation is on the line.

Interestingly enough, many of the difficulties in the way of paying for results in education do not apply to the practice of giving students tangible rewards for their achievements. The "production" expected of the student is his or her own learning, not that of another person, and is thus more directly under his or her own control. Moreover, it is almost in the very nature of the young to be self-oriented rather than other-oriented, and also to have a time perspective in which the future value of learning has little intrinsic present meaning. "Extrinsic" rewards for increased learning may therefore be highly effective with students. As we pointed out earlier, they have long been used, in such forms as grades and gold stars.\footnote{The very fact that these rewards are extrinsic rather than intrinsic has provoked criticism of their use, for reasons which are, upon analysis, not very defensible (Feldmesser, 1972b). A succinct response to this criticism was made by the project manager of one of the private-firm performance contracts in Grand Rapids (quoted in Mecklenburger and Wilson, 1971, p. 593): "We hear from people that the 'kid should want to succeed. Well, goddamn it, yeah, he should. But he doesn't." The project manager's argument was, quite reasonably, that extrinsic rewards "get him started."} All that is involved,
then, is their transformation, in part, into recreational time and facilities, or money, or the kinds of things that money can buy—a transformation which should enhance their effectiveness with the low-income students who are the targets of most performance-contracting projects. There would still be the problem of measuring learning gains for the purpose of determining the amount of the rewards, but this can be handled in a way that is not feasible with adults—viz.; keeping the maximum reward relatively small (for elementary-school children, certainly less than $50 a year or its equivalent), so that measurement error would not have dire consequences. In any case, the teachers in those districts where student rewards were tried—Grand Rapids, Hartford, Mesa, Norfolk, and Stockton—were generally enthusiastic about the results, especially in making students more interested in their studies; even those who had misgivings admitted that "they worked." That seems like a clue that ought not be ignored.\(^8\)

**Summary and comments**

The incentive principle as embodied in the payment schedule of performance contracts seems not to have been an outstandingly effective way of eliciting maximum effort from contractors, whether private firms or groups of teachers, and there are sound reasons why. Private firms were more interested in increasing sales volume than they were in increasing their profits through payments by results. Even in private enterprise, money may be a less powerful motivator than is sometimes thought, and its effectiveness in education is

\(^8\) For further discussion, see Cohen and Filipczak (1971) and Effrat, Feldman, and Sapolsky (1971).
still more questionable because of the problems in measuring output and the many difficult-to-control variables that intervene between the application of resources and effort and the eventual results in learning. Where teachers were the contractors, individual incentive payments were incompatible with their professional role. Perhaps the most important aspect of the payment schedule was the heightened emphasis it gave to measured student learning.

Again, functional substitutes may be proposed for accomplishing the effort-maximizing objective of performance contracts. One is the simple device of fixed-fee contracts: purchases of a private firm's materials or services at a specified fee that is independent of the student achievements that may result. This is, of course, already a very common arrangement, in the purchase of everything from textbooks to floor wax. What is being suggested here is its extension into such areas as record-keeping and other equipment for individualized instruction, diagnostic testing, consultant help or in-service training for teachers, or whatever else a school may find it more desirable to obtain from "outside" than from its own resources (Stucker and Hall, 1971). There is every reason to believe that private firms would be more than willing to enter into fixed-fee contracts. This was the superintendent's belief about BRL in Gary; and as we were told in both Michigan and California, most private performance-contracting companies are also providing programs to school districts under fixed-fee contracts, and for most of them their performance contracts are in fact but a small part of their business. The advantage of the fixed-fee contract is that it avoids many of the anxieties and complications that arise when large sums of money ride on the measurement of learning gains.
Yet fixed-fee contracting does have an important incentive element, in that companies will presumably compete for sales -- as they do now -- and the greatest profits will go to those companies whose materials or services are most often bought. Grand Rapids has used fixed-fee contracts for instructional services far more than any of the other districts we visited: the program development specialist there remarked, "After all, they're profit-making companies, and if they don't do a good job, then they're not going to be here. That's enough incentive . . ." He added, by way of illustration:

The competition is really something between Plan and Westinghouse and Learning Unlimited. It gets to be kind of fun around March, when they're all in there marketing.

If the views of the company representatives whom we interviewed are any guide, the prospect of larger sales volume would actually be a greater incentive than the payment provisions of performance contracts have been. All of this is entirely familiar: We are merely describing the way in which the free-market economy is supposed to work.\footnote{It is thus difficult to understand the statement by Carpenter-Huffman and others (1974, p. 154) that, because of the demise of performance contracting, "a mechanism that will make the educational marketplace more generally competitive remains to be discovered." It hardly needs to be added that the free-market economy does not always work the way it is supposed to -- but its failures would not affect fixed-fee contracting any more than they would affect performance contracting.}

There is no reason why fixed-fee contracts should be written only with private firms. A school or district ought to have the widest possible range of options. Universities and other nonprofit-seeking organizations may also
have valuable services to offer (indeed, a number of districts engaged individual faculty members to conduct the evaluation for their performance contracts); so may a group of teachers in another school, in the same or another district, where a particular program has already been tried out. In the latter case, the fee would be paid to the school, and it is hard to imagine a better incentive for schools to experiment with new programs and for districts to encourage such experimentation — not merely because of the additional income it would bring but also, and perhaps primarily, because of the public recognition of their success which would be implied. This seems to be the direction in which Michigan's Section 41 program is heading, with the adoption of the Sault Ste. Marie and Menominee programs as "models" for other districts. A school's faculty, or some part of it, ought even be able to propose a fixed-fee contract for itself; this would be tantamount to applying for money to the innovation fund of a district, a device which we alluded to in the previous chapter.¹⁰

In fact, there might be considerable benefit from merely allocating small amounts of discretionary funds to teachers without a contract, so that they could have some of the same flexibility in meeting immediate needs that private firms were alleged to have (cf. Carpenter-Huffman and others, 1974, p. 155). Admittedly, there is potential for abuse in all of these arrangements, but

¹⁰Grand Rapids exemplifies many of these possibilities. It has entered into a contract with Western Michigan University for the joint operation of a Center for Educational Studies to conduct research in the district, and its Office of Curriculum Planning and Evaluation is authorized to contract out for evaluation studies it cannot staff itself. Part of its Section 41 contract was that the teachers at the Henry and Sigsbee schools would prepare, at a fixed fee of $3,000, a manual on their Project Target for use by other teachers. A group of teachers at Central High School entered into a contract with the district to develop a reading program for their school. The district placed one principal on half-time so that he could serve as a consultant to other schools that were installing a program (originally privately contracted) that had operated successfully in his school, and the district provides to other districts the computer services needed for the individualized learning systems of two private contractors.
the risk is no greater than that which is entailed in performance contracts, while on the other hand they have the virtue of treating teachers like professionals and thus of increasing the likelihood that they will conform to the expectations of the professional role.

For both motivating teachers and calling public attention to measured student performance, a functional substitute would be a formal accountability program, in which explicit and measurable learning objectives are drawn up and published and tests are administered to determine the extent to which the objectives have been met, but without attaching any monetary consequences to the results. This kind of feedback information might well serve as an incentive in itself (Lipe and Jung, 1971); but in addition, publication of the objectives would confer upon them the status of a moral obligation for teachers, and publication of the results would begin to give the community a means of evaluating the success of its school system in terms of student outcomes rather than of resource inputs (Wynne, 1971). At the same time, separating test scores from monetary payments would not only be consistent with the expectation that teachers behave like professionals but would also permit public discussion of the scores, and of the explanations for them, without entangling them in the issue of how much money is to be paid for them, and would help avoid the inferences that the scores are the only criteria to be considered in evaluation and the measurement of student learning is as precise as the counting of dollars and cents.

The only residue of payment by results that seems to emerge from our analysis as a valid concept is the practice of offering students tangible rewards for their learning achievements. There does not appear to be any equally effective functional substitute for it; on the contrary, it is itself a functional substitute for the less effective student incentives that have been used so far. There are many questions associated with it, but it does seem worth further exploration; we shall discuss some of the directions this might take in the last chapter.
CHAPTER 6: CONCLUSIONS AND RECOMMENDATIONS

Performance contracting has had a brief life span. From small beginnings in 1969, it reached its peak of popularity -- and a rather modest peak at that -- in 1970, and then abruptly declined. It survives now in only a dozen districts in California and Michigan, under state programs that were enacted during its palmier days. The California program will very likely expire this year, and while there may be some flickers of performance-contracting activity in Michigan for a few more years, they, too, will probably die out in the not very distant future.

Some of the reasons for its early demise are adventitious. It was probably oversold to begin with, and that had several consequences. Many projects were rushed into being before contractors and school districts were ready, before there was time for full communication and consultation with all concerned (especially the teachers who were involved), and before contract provisions had been carefully thought through. There was inevitable disappointment when the learning gains were not as great as had been promised. Many educators suspected that performance contracting was just another "gimmick" whose real virtues were less than its advertised ones.

But if all this had not happened, there would still be ample grounds for doubt about the merits of performance contracting as an educational strategy. Even where it was tried under more favorable circumstances, the learning gains it has produced have not been markedly greater than those produced by other methods. Its ability to stimulate educational change has been questionable; its supposed advantages in reducing the costs and risks of innovation are largely illusory, and many performance-contract projects have merely been ways of
funding changes that were already in the making. The performance contract itself has proven to be a clumsy device, necessitating the diversion of energies into the drafting of complicated provisions and the negotiation of post-contract settlements. Most important, performance contracting is based on an assumption that is less sound than it may have seemed and that is especially inappropriate in education: the assumption that the effort contractors would make to attain an outcome was directly proportional to the amount of money they would receive for attaining it.

Hence, our first recommendation is:

1. It would be neither desirable nor possible to revive performance contracting on a large scale.

On the other hand, a performance contract might be quite useful in some circumstances. The decision about whether it is must ultimately be made by the school board, administrators, teachers, and citizenry who are best acquainted with those circumstances. In some communities, it may be a path-breaking step toward heightened emphasis on the measured performance of students, or a private firm or teachers' group may want one as a dramatic way of calling attention to its program or capabilities. Hence, our second recommendation is:

2. If a school district\(^1\) wishes to engage in a performance contract, it should not be prohibited from doing so, and it should be able to use federal, state, or local funds for the purpose.

\(^1\)Throughout these recommendations, "school district" should be understood to mean the local decisionmaking unit, which in some cases may be a particular school.
In those cases where a district does decide to enter into a performance contract, experience has indicated that it should be guided by the following principles:

2.1. Ample time should be allowed for preparation of the project.

The teachers and administrators in the trial schools — including those who will not be involved in implementing the program as well as those who will — should be fully consulted from the outset, and their professional judgment should be a major factor in selection of the contractor. It should not be taken for granted that the contractor has a fully developed program; both the quality and the quantity of materials should be carefully examined. Other aspects of the proposed program, such as the use of student rewards, should also be studied for their acceptability, as should the particular provisions of the contract. A district need not feel constrained to utilize a contractor's total "package"; it should be free to select those elements it considers most effective and suitable (with, of course, the contractor's advice about the possible consequences). Any necessary refurbishing of classrooms (for example, to accommodate the contractor's equipment) should be done well in advance, and there should be a clear understanding about who will pay the costs. Arrangements for in-service training should be made. All of these preparations should be completed before the close of the school year preceding the one in which the project is to begin.

2.2. Consideration should be given to contracting with a group of local teachers, the incentive payments being made to the schools in which they are working.

The advantages of contracting with teachers over contracting with private firms are (a) it ensures that decisions about program implementation are made
on professional rather than financial grounds, (b) it is a sign of the community's confidence in its teachers, (c) it helps bring a school staff together for the exchange of information and ideas, (d) it facilitates the turnkey process, and (e) it allows the incentive payments to be added to the schools' resources rather than going "outside." However, a school's staff may not always be "ready" for this kind of venture. The principal of Woodland's Whitehead school, which has had a teachers' contract strongly supported by the staff, expressed these cautions:

A staff that goes into performance contracting has to have a lot of confidence in itself -- enough to be pretty sure of what they're doing, enough to be willing to take some risks and to face the possibility that they may make a lot of mistakes and may even fall flat on their faces. And they have to be able to endure the whole thing without attacking each other when things go wrong. And the staff needs to have administrative and public support for that confidence; they have to know they're valued and appreciated and won't be jumped on for every mistake.

It hardly needs to be said that such conditions will not be found everywhere, or that a community ought not impose a performance contract on a group of unwilling teachers. It should be pointed out, too, that we found no evidence that contracts with teachers were consistently more (or less) successful, in terms of student achievements, than those with private firms. In any case, the selection of a contractor should in the last analysis rest on a judgment of the quality of the proposed program and of the degree to which it meets the perceived needs. In some cases, it may be possible to have both a teacher-contracted and a privately contracted project and to compare their effectiveness. Paying teacher incentives to the schools is more congruent with the professional role than is paying them to teachers individually, and avoids any implication of "merit pay."
2.3. The contract should run for two or three years.

Repeatedly we were told that one year was not a long enough period of time for proper evaluation of a program. This is a plausible proposition even when projects are begun more smoothly and with better preparation than many of them have been. It is unreasonable to require that a decision about turnkeying a program be made before even one year's results are available, and two or three years would be a sounder basis for the decision. Formative evaluation should be conducted at intervals during the life of the contract, so that difficulties can be spotted and corrected, and accordingly, the contract should include provisions for renegotiation and termination when they are desirable. Whenever possible, the final or summative evaluation should be in longitudinal terms -- e.g., the incentive payments for a program begun with fourth-graders should depend on the performance of the sixth-graders two years later.

2.4. The contract should be as simple as possible.

The point of this recommendation is to minimize the time and energy devoted to writing the contract and negotiating the post-contract settlement. Among the ways of simplifying contracts are these:

2.4.1. The payment schedule should be an all-or-nothing one rather than one involving varying payments for varying amounts of gain.

2.4.2. The incentive payments should be based entirely on scores on norm-referenced tests rather than using criterion-referenced tests.

Stating gains in small amounts not only leads to undue complications in calculating payments; it also gives an unwarranted impression of the precision of the measures. As for criterion-referenced tests, they are not readily available; and while they may measure a student's mastery of the contractor's objectives (and so may be useful indicators in a formative evaluation),
the score on a norm-referenced test remains the best measure of a student's achievements in the subject matter, which are the true aim of instructional programs. As a technical matter, scores should be expressed in proportions of students exceeding the test-publisher's norm for their grade, to avoid the use of grade-equivalent scores. Thus, combining these two recommendations, a payment schedule might call for a specified fee to be paid if 60 percent of the students score above the norm at the end of the contract period, and no fee would be paid if that figure were not reached. If this seems like too stringent a demand to make of a contractor, a compromise would be to pay a fixed fee for operating costs, regardless of student achievements (see recommendation 3 below), and to add the incentive payments to this fee when it is earned.

2.4.3. There should be no provisions permitting adjustments of payments for student absences or other routine occurrences, or claims for such adjustments should be explicitly precluded.

Contractors should be expected to operate under the normal conditions of the school and to be realistic about what they can accomplish under those conditions. This should include instructing students in the school's normal form of organization; basing payments on selected students within classrooms, for example, should not be tolerated.

2.4.4. There should be no need for an auditor or a management support group.

The district should have sufficient confidence in its evaluator to be able to dispense with verification of his work; and if it feels unable to handle the project without the help of a management support group, it probably should
not enter into a performance contract at all. In cases of disputes, the contract could call for binding arbitration by the state department of education. An independent evaluator probably would be desirable, for the sake of public credibility for the results, but the evaluator should be expected to conduct formative as well as summative evaluation and also to assist teachers in improving their own evaluation techniques.

2.5. Before entering into a performance contract, the school district should give careful consideration to alternative ways of achieving its goals.

These alternatives have been discussed in previous chapters, and we will recapitulate and expand upon them in the recommendations that follow.

3. School districts should be encouraged to make greater use of the instructional programs and services of private firms and other "external" organizations through the medium of fixed-fee contracts.

A fixed-fee contract -- i.e., one in which the payments are stated in advance and do not depend on measurements of student performance -- would enable a school district to take advantage of whatever instructional improvements may have been made in the private sector, and of whatever benefits may flow from the presence of an "outsider," but without the anxieties and complications arising out of a payment schedule, and hence without the need for an auditor and for special management support services. It would also avoid the misleading implication of performance contracts that the measurement of learning is as precise as the counting of dollars and cents. It does, however, retain an important element of incentive, in the form of competition among companies for contract volume. Indeed, this competitiveness
could be heightened, and even wider resources could be drawn on, by opening up the possibility of fixed-fee contracts not only to private firms but to nonprofit-seeking organizations such as universities, other school districts, and schools in other districts; or there could even be contracts between two schools in the same district. A fixed-fee contract could still contain a goal for student achievement, but as a statement of intent rather than being tied to contract payments, and evaluation could (and should) be conducted to determine the degree to which the goal was reached, thus helping to serve another function of performance contracts -- calling measurements of learning to public attention. Many of the recommendations we have made with respect to performance contracts should also be applied to fixed-fee contracts: ample time for preparation of the project; consideration to be given to a contract with the district's own teachers; a contract period of two or three years, with formative as well as summative evaluation and with provisions for renegotiation and termination; and simplicity of provisions.

4. Districts should make available to their schools and teachers, funds for experimentation and innovation, and discretionary funds for meeting immediate needs.

This would make it more possible than it is now for school staffs themselves to do one of the most important things that performance contracts were supposed to do -- stimulate change in the educational system. A grant of innovation funds to a staff or a group of teachers (or even to an individual teacher) should be based on a proposal and should be made in the form of a fixed-fee contract, as described in recommendation 3, including especially a requirement for careful evaluation. In those (probably numerous) cases in which a district is unable
to provide adequate support for local innovations out of its own funds, its resources might be supplemented by grants for this purpose from state or federal agencies. An alternative would be for the district to join a regional consortium of districts that would pool their funds. Every district, however, should be able to make available to its professional staff small amounts of discretionary funds to be used at the staff’s discretion, without a contract and without unnecessary encumbering regulations. This would give to the staff itself the kind of flexible responsiveness that was supposed to be one of the main advantages of private firms. There is potential for abuse in this arrangement, but if a district does not have sufficient trust in its staff to allow that risk, then it has problems that will not be solved -- or may even be exacerbated -- by a contract with a private firm.

5. Districts should initiate formal programs of accountability.

There is now an extensive literature on educational accountability, and we can hardly review it here. In the context of the present study, the functions of an accountability program would be to accomplish some of the goals that performance contracting was supposed to accomplish -- making the student-learning objectives of the professional staff explicit and public and

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2This resembles the intent of Title III of ESEA, over the success of which there has been considerable controversy. This is not the place to review that controversy, much less to settle it; all we can say is that (a) statements of measurable objectives, accompanied by careful evaluation, might help; and (b) what Title III hasn’t accomplished, performance contracting won’t accomplish, either.
emphasizing the importance of measuring the attainment of those objectives — but, again, without the apparatus of the payment schedule. Indeed, in keeping with what we have found about performance contracts where teachers were the contractor and with what we have said in previous recommendations, and consistent with our emphasis on the characteristics of the teacher's role as a professional, it would be well not to attach any monetary consequences to the program at all (for the design of such a program, see McDonald and others, 1972). This would free public discussion of student achievements, and of the explanations for them, from the entangling issue of how much money is to be paid for them; it would help avoid the inference that achievement scores are the only things that really matter; and it would reinforce the message that the measurement of student learning is far from precise. Development of an accountability program is complex and time-consuming; another role for state and federal agencies, therefore, would be to provide districts with supplementary resources for this purpose.

6. Experimentation should be stimulated in the use of tangible rewards to students for their learning achievements.

Of all the forms of payment by results, this one emerges as having the most validity or at least the most promise. By "tangible" rewards we mean those that are valued by students for their own sake, as distinct from rewards such as grades which are valued only by students who are already concerned about their schoolwork. The student is more nearly in control of his own learning than is any other person, yet because he is young, the value of what he is learning may not be apparent to him; hence, "extrinsic" rewards could be highly effective in increasing his effort. At the same time, the
inconsistency of payment by results with a professional role obviously is irrelevant to the student's role. Although student rewards were by no means universal in the performance contracts at the sites we visited, we did find that teachers who had used them were uniformly impressed by their effects in motivating students to take an interest in their studies, and that teachers had continued to use them after the performance-contracting projects had ended, even when they had to pay for them out of their own pockets.

Extrapolating from our interview data, we can suggest a few guidelines for the use of tangible rewards to students for their learning achievements. A wide variety of rewards should be employed, to suit the characteristics of different kinds of students and different sorts of situations. The rewards should be relatively modest, so that the desire to earn them will not create excessive pressures and the failure to earn them (which may sometimes be due simply to measurement error) will not have dire consequences. They should be noncompetitive, in the sense that the amount of one student's rewards should not depend on the amount of another's (except in the case of collective rewards). In order to discourage students from artificially depressing their "pretest" score (or whatever measure may be used as the basis of expectation for later achievements), the same score should be used both as the basis for determining the amount of the reward and as the basis for setting the achievement level expected in the future.

But it is more important to stress that there are many questions surrounding this practice, and they should be thoroughly explored in an experimental framework before urging that it be widely utilized. Some of
the general issues have been dealt with in the research on motivation, which
of course should be brought to bear on the design and conduct of the
experiments. Among the specific questions that need to be answered are:
(a) What are the types and magnitudes of rewards that would be optimally
effective for various kinds of students and of learning situations?
(b) What is the optimal periodicity of rewards for students of various
ages or other characteristics? (c) To what extent should the "payment
schedule" be formalized, as in a contract, and to what extent should the
reward system be at the discretion of the teacher? (d) How are rewards to
be given for subjects in which accomplishment is harder to measure than
it is in reading and mathematics, or what might be the effects of offering
no rewards in those subjects? (e) What are the likely long-run as well as
short-run effects on student attitudes? (For a review of some pertinent
studies, see Lipe and Jung, 1971.)

It might be thought that the objections of parents to "bribing students
to learn" would present an insuperable obstacle. We believe there are
answers to these objections that would be sufficient to persuade many
parents to accept the experiments. It is suggestive that there were no
serious parental objections to student rewards in any of the districts
we visited where they were tried. Nevertheless, it goes without saying that
experimentation with the idea should proceed only in districts where the
informed consent of the community has been obtained. This would not bias
the experimental results in a way that had practical import, since only
such districts would be likely to implement the practice of student rewards,
anyway.
7. If there is to be further experimentation with performance contracting, it should be in the framework of a thoughtfully conceived design that permits comparison between performance contracting and its functional alternatives.

Perhaps the most unfortunate consequence of the nation's experience with performance contracting has been the contribution it made to the disrepute of large-scale experimentation in education. But the need for educational improvement is great, and a carefully designed series of experiments, initiated after preparation adequate to make the results meaningful, may yet make amends. It may be futile, or too late, to include performance contracting in them; if so, there is still much to be learned from studies of fixed-fee contracts, innovation and discretionary funds for teachers, programs of accountability, and tangible rewards for students, and from comparisons among the various forms they might take. The search for better ways of helping students learn must not cease.
REFERENCES


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QUESTIONNAIRE ON PERFORMANCE CONTRACTING

Educational Testing Service
Princeton, New Jersey
December, 1974

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1. First of all, we would like to know something about the history of performance contracting in your district. How many separate performance contracts has your district entered into (including any that may be in effect this year)?

Number of separate contracts

2. On the other side of this page, please give the following information about each contract, starting with the earliest one and proceeding to the current or most recent one:

(a) The school year during which the contract was in effect.

(b) The name and type of the organization which contracted to do the instruction -- the "instructional contractor" or the "learning systems contractor." Under "type" of organization, write P if the instructional contractor was a private firm, T if it was a local teachers' group, or O if it was some other kind of organization.

(c) The principal source of funds for the contract. This may be shown as OEO (Office of Economic Opportunity), ESEA--Title I, ESEA--Title III, ESEA--Title VIII, Model Cities, other federal funds, state funds, or local funds. If funding was received in approximately equal amounts from two or more sources, show each one.

(d) The maximum total payment which the instructional contractor could have received under the contract for its services in your district, regardless of the amount it actually did receive.

(e) The total number of students who received instruction in the contractor's program.
## 2. BASIC DATA ABOUT PERFORMANCE CONTRACTS IN THIS DISTRICT

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<th>(a) School year of contract</th>
<th>(b) Instructional contractor</th>
<th>(c) Principal source of funds</th>
<th>(d) Maximum total payment</th>
<th>(e) Total number of students instructed</th>
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*P if instructional contractor was a private firm.

T if instructional contractor was a local teachers' group.

0 if instructional contractor was some other kind of organization.

**NOTE:** If your district has had more than eight contracts, please give the above information for each of the others on a separate sheet of paper, headed "Question 2."
Most of the remaining questions deal with one specific performance contract in your district. If your district has had just one contract, then of course your answers should refer to that contract. If your district has had more than one contract, then choose the one most recently in effect, excluding any that may be in effect during the current year. If your district had more than one contract in effect during the most recent year, then choose the one that involved the largest number of students.

3. In the space below, write the number of the contract to which your answers will refer, using the number that was given to that contract in the left-hand column of question 2.

Contract number

Now please answer these questions about that specific contract.

4. Below is a list of reasons why school districts have entered into a performance contract. How important was each of these reasons in your district? Circle a number to the left of each reason.

Circle 1 if it was one of the most important reasons.
Circle 2 if it was a reason but not one of the most important.
Circle 3 if it was not a reason at all.

1 2 3 Principle of paying according to student achievement might lead to higher levels of achievement.
1 2 3 Principle of paying according to student achievement might lead to reduced instructional costs.
1 2 3 Principle of paying according to student achievement might lead to greater cost-effectiveness (higher achievement per unit of cost).
1 2 3 Easier for private firm to introduce new instructional technology than for local teachers to do so.
1 2 3 Private firm might be better able to take a "systems" approach to instruction.
1 2 3 Private firm might be better able to work with students of disadvantaged background.
1 2 3 Private firm would have more freedom to operate than local teachers would.
1 2 3 District had had good experience with previous performance contract.
Local teachers' group wanted to have a performance-contract arrangement with school district.

Funds were available for performance contracting that couldn't be used for anything else.

Performance contract was a low-risk way of finding out whether a particular instructional program would be effective.

Performance contracting would stimulate thinking about new ways of doing things.

Performance contract would promote principle or concept of accountability.

District wanted to participate in performance contract as an experiment of national significance.

Other important reason: __________________________________________

<table>
<thead>
<tr>
<th>Subject of instruction</th>
<th>Grade level(s)</th>
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<tbody>
<tr>
<td>a. Reading</td>
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<tr>
<td>b. Mathematics</td>
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<tr>
<td>c. Other subject</td>
<td></td>
</tr>
<tr>
<td>d. Other subject</td>
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</tbody>
</table>
6. Which of the following characteristics described all or nearly all of the students who received instruction under the contract? Put an X on the blank to the left of each characteristic that was actually true of all or nearly all of the students (regardless of whether or not students had been selected for that characteristic).

___ Came from low-income families
___ Came from middle-income families
___ Were black
___ Were Spanish-speaking
___ Were members of various minority groups
___ Were white
___ Had records of low achievement
___ Had records of middle or high achievement
___ Had test scores indicating low ability
___ Had test scores indicating middle or high ability

Other characteristics that were true of all or nearly all of the students receiving instruction under the contract:

_________________________________________________________________

_________________________________________________________________

_________________________________________________________________
7. To what extent did the following people participate in making the decision to enter into the performance contract? Put an X in the appropriate space for each individual or group.

<table>
<thead>
<tr>
<th>Played major part in decision</th>
<th>Played minor part in decision</th>
<th>Played no part in decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. School board</td>
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<tr>
<td>b. Superintendent of schools</td>
<td></td>
<td></td>
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<tr>
<td>c. Building principal(s)</td>
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<tr>
<td>d. Other administrative personnel in the district</td>
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<td></td>
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<tr>
<td>e. Teachers</td>
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<tr>
<td>f. Parents</td>
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<td></td>
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<tr>
<td>g. Students</td>
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<td></td>
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<tr>
<td>h. State department of education</td>
<td></td>
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</tr>
<tr>
<td>i. Others:</td>
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</tbody>
</table>

8. To what extent did the following people participate in the planning of the contract provisions? Put an X in the appropriate space for each individual or group.

<table>
<thead>
<tr>
<th>Played major part in planning</th>
<th>Played minor part in planning</th>
<th>Played no part in planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. School board</td>
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<td>c. Building principal(s)</td>
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<tr>
<td>d. Other administrative personnel in the district</td>
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<td>e. Teachers</td>
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<td>f. Parents</td>
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<tr>
<td>g. Students</td>
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<td></td>
</tr>
<tr>
<td>h. State department of education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Funding agency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>j. Instructional contractor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>k. Management support group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>l. Testing or evaluation organization</td>
<td></td>
<td></td>
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<tr>
<td>m. Others:</td>
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</tbody>
</table>
9. During the time that the contract was under consideration in your district, what were the attitudes of the school board, the teachers, and the parents toward it? Check one answer for each.

a. School board   b. Teachers   c. Parents

<p>| | | |</p>
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<tr>
<td>Strongly favorable</td>
<td>Moderately favorable</td>
<td>Somewhat opposed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strongly opposed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Neither favorable nor opposed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sharply differing attitudes among different individuals</td>
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<tr>
<td></td>
<td></td>
<td>Did not make their attitude known</td>
</tr>
</tbody>
</table>

10. Which of the following considerations played an important part in the selection of the instructional contractor? Check each consideration that was important in the selection.

a. ____ Amount of learning gain guaranteed
b. ____ Favorableness of payment schedule to school district
c. ____ Willingness to employ local teachers
d. ____ Quality of methods or materials
e. ____ General reputation
f. ____ Record of previous accomplishments
g. ____ Competence of personnel
h. ____ Recommendation by management support group or other consultants
i. ____ Contractor was selected by outside agency (such as OEO)
j. ____ Other important considerations:
11. Did the contractor's instructional program have any of the following features? Check as many as apply.

   a. [ ] Use of instructional materials that were the copyrighted property of the contractor
   b. [ ] Use of distinctive instructional materials that were not the copyrighted property of the contractor
   c. [ ] Use of distinctive equipment (tape cassettes, audio-visual devices, computer terminals, etc.)
   d. [ ] Incentive payments for teachers dependent upon student achievements
   e. [ ] Incentive payments for students dependent upon their achievements
   f. [ ] Employment of paraprofessionals or teachers' aides in addition to those normally employed by the school system
   g. [ ] Parent participation in classroom instruction
   h. [ ] Classrooms especially outfitted for use in the program
   i. [ ] Other special features:

12. Some performance contracts have included provisions requiring the school (or school system) to purchase certain materials or equipment from the contractor upon conclusion of the contract ("follow-on" sales). Did the contract in your district include such provisions?

   [ ] Yes, the school (or school system) was obliged by the contract to purchase certain materials or equipment from the contractor upon the conclusion of the contract, but only on condition that the contractor accomplished specified results.

   [ ] Yes, the school (or school system) was obliged by the contract to purchase certain materials or equipment from the contractor upon conclusion of the contract, without regard to the contractor's accomplishments.

   [ ] No, neither the school nor the school system was under any obligation to purchase materials or equipment from the contractor upon conclusion of the contract.
13. Did the contract place any restrictions or requirements on the contractor in the following areas -- that is, were there explicit provisions forbidding or requiring the contractor to do certain things? Check each area in which there were explicit restrictions or requirements in the contract.

a. ___ Instructional materials

b. ___ Instructional methods

c. ___ Selection of teachers

d. ___ Selection of paraprofessionals or teachers' aides

e. ___ Salaries to be paid to teachers

f. ___ Salaries to be paid to paraprofessionals or teachers' aides

g. ___ Incentive payments to teachers

h. ___ Incentive payments to students

i. ___ Other explicit restrictions or requirements: ____________________________

____________________________

____________________________
14. From what sources were instructional personnel drawn for the performance-contracting program? Check an answer or answers for teachers and an answer or answers for paraprofessionals or teachers' aides.

<table>
<thead>
<tr>
<th>Paraprofessionals</th>
<th>Teachers or teachers' aides</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drawn from among personnel already employed by the district</td>
<td></td>
</tr>
<tr>
<td>Drawn from among personnel already employed by the instructional contractor</td>
<td></td>
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<tr>
<td>Newly hired for the purpose</td>
<td></td>
</tr>
<tr>
<td>None were used in the performance-contracting program</td>
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</tbody>
</table>

15. Who selected the instructional personnel for the performance-contracting program? Check one answer for teachers and one for paraprofessionals or teachers' aides.

<table>
<thead>
<tr>
<th>Paraprofessionals</th>
<th>Teachers or teachers' aides</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selected by school or district officials</td>
<td></td>
</tr>
<tr>
<td>Selected by instructional contractor</td>
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<tr>
<td>Selected by school or district officials and contractor jointly</td>
<td></td>
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<tr>
<td>None were used in the performance-contracting program</td>
<td></td>
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<tr>
<td>Other mode of selection:__________</td>
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</tbody>
</table>
16. What kind of organization conducted the "evaluation" — that is, measured the student achievements which were the basis of payments to the contractor? Check one answer.

___ Private firm

(If you know whether this was a profit-making or a non-profit firm, please also check one of the following:)

___ Profit-making

___ Non-profit

___ Government agency or government-supported agency

___ The school system itself

___ The instructional contractor

___ Other kind of organization: __________________________

17. Some school districts have used the services of an "educational auditor" to verify student achievements under the contract. Did your district engage an educational auditor, and if so, what kind of organization was it? Check one answer.

___ No educational auditor was engaged.

___ Private firm was engaged as educational auditor.

(If you know whether this was a profit-making or a non-profit firm, please also check one of the following:)

___ Profit-making

___ Non-profit

___ Government agency or government-supported agency was engaged as educational auditor.

___ Other kind of organization or individual was engaged as educational auditor: __________________________
18. Did your district use the services of a management support group in connection with the development or execution of the contract, and if it did, what kind of organization was it? Check one answer.

____ No management support group was engaged.

____ Private firm was engaged as management support group.

(If you know whether this was a profit-making or a non-profit firm, please also check one of the following:)

____ Profit-making

____ Non-profit

____ Government agency or government-supported agency was engaged as management support group.

____ Other kind of organization was engaged as management support group:

19. Did your district arrange for a study of the effects of the performance-contracting program in areas other than student achievement -- for example, a study of changes in attitudes of students or teachers, of changes in instructional or administrative practices, etc.? If it did, what kind of organization conducted this study?

____ No such study was conducted.

____ A study was conducted by the evaluation organization (the organization that measured student achievements).

____ A study was conducted by an organization other than the evaluation organization, and this organization was:

____ The school system itself

____ Private firm

(If you know whether this was a profit-making or a non-profit firm, please also check one of the following:)

____ Profit-making

____ Non-profit

____ Government agency or government-supported agency

____ Other kind of organization:
20. Which of the following kinds of tests were used to measure the student achievements which were the basis of payments to the contractor? Check as many as apply.

a. ____ Standardized ("norm-referenced") tests administered at the beginning and end of the contract period

b. ____ Criterion-referenced tests administered at the beginning and end of the contract period

c. ____ Criterion-referenced tests administered several times during the contract period

d. ____ Criterion-referenced tests administered at the end of the contract period only

e. ____ Other tests or testing schedules: ______________________

21. If standardized tests were used, who among the following played a part in selecting the tests? Check as many as apply.

a. ____ Teachers who were in the contractor's instructional program

b. ____ Teachers who were not in the contractor's instructional program

c. ____ Other staff members in the school system

d. ____ Funding agency

21. ____ Contractor

f. ____ Evaluation organization

g. ____ Educational auditor

h. ____ Management support group

i. ____ Others: ______________________
22. If criterion-referenced tests were used, who supplied the tests or items for the tests? Check as many as apply.

   a. ___ Teachers who were in the contractor's instructional program
   b. ___ Teachers who were not in the contractor's instructional program
   c. ___ Other staff members in the school system
   d. ___ Funding agency
   e. ___ Contractor
   f. ___ Evaluation organization
   g. ___ Educational auditor
   h. ___ Management support group
   i. ___ Test publisher
   j. ___ Others: ____________________________________________

23. Whose employees administered the tests of student achievement on which the contractor's payments were based? Check as many as apply.

   a. ___ Contractor's employees
   b. ___ Evaluation organization's employees
   c. ___ Educational auditor's employees
   d. ___ Management support groups
   e. ___ School system's employees
   f. ___ Other's employees: ____________________________________
We would like to know a few things about the payment schedule in the contract -- that is, the terms by which the instructional contractor was to be paid. IF AT ALL POSSIBLE, PLEASE SEND US, ATTACHED TO THIS QUESTIONNAIRE, A PHOTOCOPY OF THE PAGES IN THE CONTRACT CONTAINING THE PAYMENT SCHEDULE (or, if it is more convenient for you, you may send us a copy of the entire contract). But whether you do this or not, please answer the next two questions about the payment schedule.

24. Which one of these two statements was correct for your contract?
   a. The same payment schedule was used for all subjects of instruction and for students in all grades (or only one subject and one grade was covered by the contract).
   b. Different payment schedules were used for different subjects of instruction and/or for students in different grades.

25. Check each of the following types of provisions which were included in the payment schedule for any subject or grade.
   a. Base payment for minimum or "guaranteed" gain on standardized tests
   b. Base payment for minimum or "guaranteed" performance on criterion-referenced test(s)
   c. Premium, incentive, or bonus payments for especially large gains on standardized tests
   d. Premium, incentive, or bonus payments for especially high performances on criterion-referenced test(s)
   e. Penalties, or deductions from payments, for achievement "losses" on standardized tests (other than payments withheld for students not making minimum or guaranteed gain)
   f. Penalties, or deductions from payments, for especially low performances on criterion-referenced tests (other than payments withheld for students not achieving minimum or guaranteed performance)
   g. Pro-rated or other partial payments for students who were not enrolled in the program during the entire contract period
   h. Other special provisions in the payment schedule:
Next, we would like to know what were the actual achievements of the students in the contractor's program. For each subject and each grade or grade span covered by the contract, please give the approximate percentages of students who (a) achieved or exceeded the minimum gain on standardized tests specified in the contract, and (b) reached or exceeded the minimum performance level on criterion-referenced tests specified in the contract, if such tests were used.

(NOTE: If you are sending us a report which contains this information, cite the relevant page numbers here but please try to answer this question, anyway, to the best of your knowledge.)

<table>
<thead>
<tr>
<th>Subject of instruction</th>
<th>Grade or grade span</th>
<th>Percentage of students who:</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>(a) achieved or exceeded minimum gain on standardized tests</td>
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27. If any study was made of changes in the attitudes of teachers or students which may have been associated with the performance contract, please give a concise description of the results of that study in the space below. (If you are sending us a report which contains that information, give the appropriate page numbers here: __________.)

28. Have any of the following kinds of data been collected in connection with the performance-contracting program? Check as many as apply.

a. _____ Data on control or comparison groups (students who were not involved in the program but who were otherwise similar to the students who were involved)

b. _____ Data on students who were involved in the program but before they entered it

c. _____ Data on students who were involved in the program after they left it

d. _____ Data on students not in the program who were enrolled in the same grade(s) as those involved in the program but in the year(s) preceding the program

e. _____ Data on students not in the program who were enrolled in the same grade(s) as those involved in the program but in the year(s) subsequent to the program

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As you probably know, one of the concerns about performance contracting has been that the contractor might include in his instructional program items from the tests used to calculate his payments, so that students would get higher scores than they would otherwise (this is sometimes called "teaching to the test"). Were any steps taken in your district to prevent this from happening? Check as many responses as apply.

a. _____ No steps were taken to prevent contractor from including test items in his instructional program.

b. _____ Contractor was not told which test(s) would be used in calculating his payments.

c. _____ Contract included penalty provisions if test items were found in instructional program.

d. _____ Contract provided that test items were not to be included in instructional program, but no penalty was specified.

e. _____ Educational auditor or other agency monitored instructional program to see if test items were included in it.

f. _____ Other steps taken: ________________________________

Whether or not steps were taken to prevent the contractor from including test items in his instructional program, was there any indication that he had done so, and if there was, what happened as a result? Check one of the following statements:

_____ There was no indication that the contractor had included test items in his instructional program.

_____ Charges were made that test items had been included in the instructional program, but the charges were never definitely proved.

_____ Test items were found in the contractor's instructional program, but they were removed before they could affect students' test scores.

_____ It was pretty clear that test items had been included in the instructional program, but there was nothing that could be done about it.

_____ It was pretty clear that test items had been included in the instructional program, but nothing was done about it even though there were provisions in the contract for dealing with it.

_____ It was pretty clear that test items had been included in the instructional program and an effort was made to penalize the contractor, but the effort was unsuccessful.

_____ It was pretty clear that test items had been included in the instructional program, and the contractor was penalized for it.

_____ Other events connected with the inclusion of test items in the instructional program: ________________________________
31. In carrying out the provisions of the contract, did serious disputes occur over any of the following issues? Check any serious dispute that occurred in connection with the contract, regardless of whether or how it was settled.

a. ___ Whether school system could contract with private firm for instruction

b. ___ Whether provisions of performance contract violated provisions of contracts with teachers or teachers' organization

c. ___ Whether teachers employed by contractor were properly certified

d. ___ Whether school district or contractor should pay for certain goods or services

e. ___ Whether payments to contractor for student achievement had been correctly calculated

f. ___ Other disputed issues: ______________________________________

_________________________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

  g. ___ No serious disputes occurred.
32. Below is a list of problems that some districts have run into while engaged in planning or carrying out a performance contract. Please check any of the problems that actually arose in your district.

a. _____ Drawing up of contract or selection of instructional contractor was more time-consuming than expected.

b. _____ Monitoring the provisions of the contract was more complex or time-consuming than expected.

c. _____ There was not enough time to prepare for the installation of the instructional program.

d. _____ Law suits were filed or threatened.

e. _____ Contractor did not have material or equipment ready for use when it was needed.

f. _____ Contractor did not have instructional program suitable for some kinds of students.

g. _____ Contractor's other commitments interfered with his work in this district.

h. _____ Contractor did not follow practices important to well-being of students.

i. _____ Contractor's project manager was incompetent or inexperienced.

j. _____ Teachers in the program were incompetent or inexperienced.

k. _____ Paraprofessionals or teachers' aides in the program were not adequately trained for the job they had to do.

l. _____ There was poor coordination between school-district personnel and contractor's personnel.

m. _____ There were difficulties in scheduling student attendance at contractor's learning centers.

n. _____ Learning centers were too crowded.

o. _____ There was dissatisfaction with use of standardized tests in general or with the particular standardized tests that were used.

p. _____ There were difficulties in obtaining items for criterion-referenced tests.

q. _____ Excessive amount of testing time was required.

r. _____ Relationships with evaluation organization, management support group, and/or educational auditor were complex or troublesome.

s. _____ One year was too short a time for deciding whether the contractor's program had been effective.

t. _____ Other problems:

u. _____ This district did not run into any special problems that were peculiar to performance contracting.
33. Now we would like to know what happened, and why, when the performance contract came to an end. Check the one statement below which most nearly applies to your district, and then answer the question(s) indicated by your response.

___ When the contract came to an end, the school or school system "turnkeyed" the contractor's program in whole or in part -- that is, adopted it for use by the school's or the district's own personnel. (ANSWER QUESTIONS 34-38.)

___ When the contract came to an end, no further use was made of the contractor's program. (ANSWER QUESTION 39.)

QUESTIONS 34-38 ARE TO BE ANSWERED IF YOUR DISTRICT "TURNKEYED" THE CONTRACTOR'S PROGRAM.

34. How widely was the program adopted in your district in the year after the performance-contracting year? Check as many of the following as apply.

a. ___ Adopted in some, but not all, of the classrooms in which it had been used under the contract

b. ___ Adopted in all of the classrooms where it had been used under the contract

c. ___ Adopted in some classrooms where it had not been used under the contract.

d. ___ Adopted generally throughout the school system where it was appropriate
35. In those classrooms where the contractor's program was turnkeyed, which of these parts of the program were adopted? Check as many as apply.

a. _____ Instructional materials (textbooks, workbooks, etc.)
b. _____ Instructional equipment (tape cassettes, audio-visual devices, computer terminals, etc.)
c. _____ Instructional methods (diagnostic techniques, individualized instruction, incentives for students, etc.)
d. _____ Instructional objectives or methods of defining objectives
e. _____ In-service training procedures
f. _____ Managerial or administrative practices
g. _____ Other parts: ___________________________

36. Generally speaking, how closely did the program as adopted resemble the program as the contractor had used it? Check one answer.

_____ Virtually identical

_____ Some modifications were made

_____ Major modifications were made

_____ Individual teachers made modifications of varying degree
37. Which of these were the most important reasons why the program was turnkeyed? Check as many reasons as you think were among the most important ones.

a.  ____ Teachers liked it.

b.  ____ Students liked it.

c.  ____ Parents liked it.

d.  ____ Principals or other administrators liked it.

e.  ____ School board liked it.

f.  ____ Key people believed it had increased student achievement.

g.  ____ Key people believed it had improved student motivation.

h.  ____ Key people believed it had reduced instructional costs.

i.  ____ Contract required turnkeying, or required follow-on sales.

j.  ____ Materials or equipment had been acquired under the contract, and it would have been wasteful not to use them.

k.  ____ Other important reasons: ____________________________

38. What was the chief source of funds for turnkeying the program? Check one.

____ Ordinary operating funds of the district

____ Funds obtained from a state-supported program

____ Funds obtained from a federally supported program

____ No special funds were needed

IF YOU HAVE ANSWERED QUESTIONS 34-38, SKIP QUESTION 39 AND GO ON TO QUESTION 40.
QUESTION 39 IS TO BE ANSWERED IF YOUR DISTRICT MADE NO FURTHER USE OF THE CONTRACTOR'S PROGRAM AFTER THE CONTRACT HAD ENDED.

39. Which of these were the most important reasons why the contractor's program was not used? Check as many reasons as you think were among the most important ones.

   a. ___ Teachers did not like it.
   b. ___ Students did not like it.
   c. ___ Parents did not like it.
   d. ___ Principals or other administrators did not like it.
   e. ___ School board did not like it.
   f. ___ Key people believed it had failed to increase student achievement.
   g. ___ Key people believed it had failed to improve student motivation.
   h. ___ Key people believed it had had undesirable effects on students' attitudes.
   i. ___ Key people believed it had failed to reduce instructional costs.
   j. ___ It was too expensive to adopt.
   k. ___ It did not fit the district's educational objectives.
   l. ___ Other important reasons: _____________________________
                                      _____________________________
                                      _____________________________
                                      _____________________________
                                      _____________________________
                                      _____________________________
QUESTION 40 IS TO BE ANSWERED BY EVERYONE.

40. Was any consideration given in your district to the possibility of entering into another performance contract, after the completion of the one you have been telling us about? Check one answer, and then answer the questions indicated by your response.

   Yes, and a performance contract is in effect this year. (ANSWER QUESTIONS 41, 43, AND 44.)

   No consideration was given to that possibility. (ANSWER QUESTIONS 42, 43, AND 44.)

   Some consideration was given to that possibility, but the district did not enter into another performance contract. (ANSWER QUESTIONS 43 AND 44.)

41. (To be answered only if a performance contract is in effect in your district this year.) In question 4, you gave us the reasons your district entered into a performance contract in the most recent year before the current year. Please look back at those reasons now, and:

   If the reasons you checked in question 4 are the same reasons why your district entered into its current performance contract, check this space and go on to question 43.

   If the reasons you checked in question 4 are not the same as the reasons why your district entered into its current performance contract, please tell us how important each reason was for the current contract by circling one number to the left of each of the reasons below.

Circle 1 if it was one of the most important reasons.
Circle 2 if it was a reason but not one of the most important.
Circle 3 if it was not a reason at all.

1 2 3 Principle of paying according to student achievement might lead to higher levels of achievement.
1 2 3 Principle of paying according to student achievement might lead to reduced instructional costs.
1 2 3 Principle of paying according to student achievement might lead to greater cost-effectiveness (higher achievement per unit of cost).
1 2 3 Easier for private firm to introduce new instructional technology than for local teachers to do so.
1 2 3 Private firm might be better able to take a "systems" approach to instruction.
1 2 3 Private firm might be better able to work with students of disadvantaged background.
Private firm would have more freedom to operate than local teachers would.

District had had good experience with previous performance contract.

Local teachers' group wanted to have a performance-contract arrangement with school district.

Funds were available for performance contracting that couldn't be used for anything else.

Performance contract was a low-risk way of finding out whether a particular instructional program would be effective.

Performance contracting would stimulate thinking about new ways of doing things.

Performance contract would promote principle or concept of accountability.

District wanted to participate in performance contract as an experiment of national significance.

Other important reason: ____________________________

NOW GO ON TO QUESTION 43.
42. (To be answered only if your district gave no consideration to the possibility of entering into another performance contract.) Which of these reasons were most important in explaining why your district did not give any consideration to this possibility? Check as many reasons as were among the most important ones.

a. _____ Opposite from teachers
b. _____ Opposition from parents or community
c. _____ Opposition from principals or other administrators
d. _____ Opposition from school board
e. _____ Results of federal experiment in performance contracting
f. _____ Legal difficulties that had arisen in connection with earlier contract(s)
g. _____ Lack of evidence that incentive principle had led to increased student achievement in this district
h. _____ Lack of evidence that incentive principle had reduced instructional costs
i. _____ Undesirable effects of incentive principle on students' attitudes
j. _____ Too much testing required
k. _____ Too much pressure on students to perform well on tests
l. _____ Instructional objectives of performance contract too narrow
m. _____ Administrative requirements too complex or time-consuming
n. _____ Unsatisfactory relationships with previous contractor(s)
o. _____ No funds available
p. _____ Belief that district's own teachers could accomplish whatever the contractor had accomplished
q. _____ Other important reasons: _______________________________

__________________________________________________________
ALL THE REMAINING QUESTIONS ARE TO BE ANSWERED BY EVERYONE.

43. If things remain about as they are now, how likely is it that your district will enter into another performance contract in the next few years? Check one answer.

   _____ District almost certainly will enter into another performance contract in the next few years.
   _____ District probably will enter into another performance contract in the next few years.
   _____ District probably will not enter into another performance contract in the next few years.
   _____ District almost certainly will not enter into another performance contract in the next few years.
   _____ Have no idea whether district will enter into another performance contract in the next few years.

44. Regardless of your answer to question 43, which three of the following conditions would have the greatest effect in increasing the likelihood that your district would enter into a performance contract some time in the next few years? Please check only three conditions -- the three that would have the greatest effect.

   a. _____ If teachers supported the idea or did not oppose it
   b. _____ If a group of teachers wanted to serve as instructional contractor
   c. _____ If parents or community supported the idea or did not oppose it
   d. _____ If administrators supported the idea or did not oppose it
   e. _____ If evidence from performance contracts in other districts showed that incentive principle was effective in raising levels of student achievement
   f. _____ If evidence from performance contracts in other districts showed that incentive principle was effective in reducing instructional costs
   g. _____ If a contractor had a program that clearly promised to raise levels of student achievement
   h. _____ If a contractor had a program that clearly promised to reduce instructional costs
   i. _____ If there were a reliable method for selecting a competent contractor
   j. _____ If better standardized tests were available
   k. _____ If better criterion-referenced tests were available

   (continued on next page)
1. ___ If there were simple and reliable methods for preventing "teaching to the test"

m. ___ If instructional objectives could be broadened

n. ___ If legal difficulties could be cleared up

o. ___ If contractual relationships could be simplified

p. ___ If funds were available outside the regular budget

q. ___ Other conditions:

r. ___ District would probably not enter into another performance contract under any conditions.

45. In previous questions, we have asked you about the immediate or short-run effects of a performance contract. But some people have said that performance contracting may also have long-run effects — that is, effects that become apparent in the years after the contract has been completed. We would like to know what your opinion is about this.

A list of possible long-run effects of performance contracting is presented on the next two pages. Please read over each item in the list and circle a number to the left of each one, according to whether you believe that, in the experience of your district, performance contracting has (1) made things better, (2) made things worse, or (3) has not made them either better or worse. If your district has had more than one contract, take all of them into account in arriving at your answers — not just the one you have been responding about so far. In other words, we would like you to tell us whether your district is now better off, worse off, or neither better nor worse off in each of these areas as a result of its experience with performance contracting.

Of course, it may sometimes be difficult to tell whether a change in your district has been due specifically to performance contracting or would have come about even without it, but please use your best judgment. Circle the "better off" or the "worse off" answer only when you feel quite sure that the change has been due to performance contracting. Circle the "neither" answer when you are not sure what the effects of performance contracting have been in that particular area or when you are quite sure that performance contracting has had no effect in it, as far as your district is concerned.
Circle 1 if your district is now better off in this area as a result of its experience with performance contracting.

Circle 2 if your district is now worse off in this area as a result of its experience with performance contracting.

Circle 3 if your district is now neither better off nor worse off in this area as a result of its experience with performance contracting, or if you are not sure what the effects have been.

1 2 3 Student achievement in subjects of instruction covered by contract(s)
1 2 3 Student achievement in subjects of instruction not covered by contract(s)
1 2 3 Student attitudes toward school and learning
1 2 3 Morale of students
1 2 3 Morale of teachers
1 2 3 Teachers' willingness to experiment with new approaches to education
1 2 3 Use made of paraprofessionals or teachers' aides
1 2 3 Practices in in-service training of teachers
1 2 3 Clarity of instructional objectives
1 2 3 Fit between instructional objectives and instructional materials and methods
1 2 3 Taking "systems" approach to education
1 2 3 Quality of instructional materials and methods
1 2 3 Instruction of students who are at low levels of achievement
1 2 3 Instruction of students who show little interest in school
1 2 3 Individualization of instruction
1 2 3 Physical condition of classrooms
1 2 3 Use of new instructional technology
1 2 3 Use of achievement tests
1 2 3 Use of measures other than achievement tests
Circle 1 if your district is now **better off** in this area as a result of its experience with performance contracting.

Circle 2 if your district is now **worse off** in this area as a result of its experience with performance contracting.

Circle 3 if your district is now **neither better off nor worse off** in this area as a result of its experience with performance contracting, or if you are not sure what the effects have been.

1 2 3 Knowledge about effectiveness of various instructional techniques
1 2 3 Costs of instruction
1 2 3 Cost-effectiveness of instruction
1 2 3 Practices in calculating costs of instruction
1 2 3 Costs of administration
1 2 3 School management practices
1 2 3 Administrators' willingness to experiment with new approaches to education
1 2 3 Community support for experimentation with new approaches to education
1 2 3 Community support for the schools generally
1 2 3 Support among teachers for principle of accountability
1 2 3 Support among administrators for principle of accountability
1 2 3 Support in community for principle of accountability
1 2 3 Actual implementation of principle of accountability
46. As you may know, the federal government sponsored an experiment in performance contracting in 20 school districts in 1970-71. What is your understanding of the results of this experiment? Check one answer.

- It showed that performance contracting generally led to higher levels of student achievement.
- It showed that performance contracting generally led to lower levels of student achievement.
- It showed that performance contracting generally led to neither higher nor lower levels of student achievement.
- It showed that performance contracting led to higher levels of student achievement under some conditions but not under others.
- The way in which the experiment was carried out prevented the results from being conclusive one way or the other.
- Do not know what the results were.
- Have not heard about the experiment.

Other: ____________________________

47. From which of these sources of information did you learn about the results of the OEO experiment? Check as many as apply.

a. _____ Did not learn about the results from any source
b. _____ Report issued by government agency or government-supported agency
c. _____ Report issued by private firm
d. _____ Article in professional journal
e. _____ Story in educational newsletter or magazine
f. _____ Story in newspaper or general-interest magazine
g. _____ Paper or discussion at professional meeting
h. _____ Conversation with colleague
i. _____ Report from teacher(s) or administrative staff of your district
j. _____ Do not remember how you learned about it
k. _____ Other source of information: ____________________________
Finally, we would like to know a couple of things about your school district (that is, the district that this questionnaire has been about).

48. In what state is the district located? ____________________________

49. How many students are enrolled in all the schools of the district? ____________________________

In the spaces below, please write the name of the school district that this questionnaire has been about, and your name and your present title and phone number. Let us remind you that we are asking for this information only so that we may know whether we have received a response from this district and so that we may get in touch with you again if we need further information. Neither your name nor that of the district will be used in any report growing out of this study.

Name of school district: _______________________________________

Name of person filling out this questionnaire: ______________________

Present title: _________________________________________________

Present phone number (include area code): _______________________

If you have any other comments that you would like to make about performance contracting, please write them on the other side of this page. If you have any questions about the questionnaire, please feel free to call Dr. Feldmesser, collect, at 609-921-9000, extension 2455.

PUT YOUR COMPLETED QUESTIONNAIRE, TOGETHER WITH THE PHOTOCOPY OF THE CONTRACT'S PAYMENT SCHEDULE (according to the request at the top of page 15) AND ANY REPORTS YOU ARE SENDING US, IN THE ENVELOPE THAT HAS BEEN PROVIDED, AND MAIL THEM TO:

Dr. Robert A. Feldmesser
Educational Testing Service
Princeton, NJ 08540
Summary

PERFORMANCE CONTRACTING
AS A STRATEGY IN EDUCATION

Robert A. Feldmesser
Gary J. Echternacht

Final Report on Contract HEW-OS-74-280
for the Office of Education, Department of Health, Education, and Welfare

Educational Testing Service
Princeton, New Jersey 08540

May, 1975

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Summary

Chapter 1: Background of the Study

The unique provision of a performance contract is that the payment for services or materials varies with the learning outcomes among the students receiving instruction. The contention of advocates of performance contracting is that it can improve instruction and make the public schools more effective and efficient, because monetary rewards motivate people to maximize their efforts. In most performance contracts, the instructional contractor has been a private profit-seeking firm, but there have been several instances in which a group of local teachers has been the contractor. Contractors sometimes extend the incentive principle to students, offering them rewards in accordance with their learning achievements. Along with the performance contract, auxiliary contracts are often signed with an evaluator, a management support group, and an auditor.

This study of performance contracting was made in 1974-75. It differs from other studies in that it is based on a comprehensive body of data, including information about state-supported contracts in Michigan and California; it is focused on the role of monetary incentives in education rather than on the particular instructional programs; it made a special effort to collect information about teacher-contracted projects; and it is especially concerned with the long-run effects of performance contracting in the districts where it has been tried. The data base consists of interviews held in ten school districts and at three state departments of education, and with representatives of three private firms; documents furnished by the school districts and the state departments; and 42 responses to a questionnaire sent to the 79 school districts which were apparently all that might ever have had a performance contract (other than the ten in which interviews were held).

The first performance contract to excite national attention was that in Texarkana, Arkansas, in 1969-70. Students in the program seemed to show remarkable gains, but the evaluator reported that many test items had been included in the contractor's instruction, thus invalidating the results. Meanwhile, however, the Office of Economic Opportunity had decided to mount an experiment in performance contracting during the 1970-71 year, involving 20 school districts, six private contractors, and two teacher-group contractors. About 30 other districts entered into performance contracts during the same year, mostly with other federal funds. In 1971-72, the number of contracts declined to about 15, and there were about a dozen in each of the three years following. Besides opposition from teachers' organizations, a major obstacle to the spread of performance contracting was the report from OEO, which said that its experiment had shown that performance
contracting was not successful in raising student achievement levels. Actually, the conditions of the experiment were such that no valid conclusions could be drawn from it. Before this report was issued, legislation authorizing performance contracts was set into motion in Michigan and California, and this legislation accounts for all the contracts in effect in 1974-75.

Michigan's Section 41 program began with the 1972-73 year. Twelve districts have had performance contracts under the program, nine with private firms and three with teachers' groups. Most projects have been funded for two or three years. The Department of Education believes that Section 41 has been successful as a "program developer" and intends to continue with it, subject to legislative appropriations. However, budgetary stringencies and perhaps changing priorities make the future of Section 41 uncertain.

Under California's Guaranteed Learning Achievement Act (GLAA), one performance-contract project was authorized in each of five types of districts. The projects began midway through the 1972-73 year and have been renewed each year since. Four contracts were with private firms and one with a group of teachers. The Department has been satisfied with but not enthusiastic about GLAA; the program no longer has strong support in the legislature, and the consensus is that it will be permitted to lapse on its scheduled expiration date of June 30, 1975.

Chapter 2: Performance Contracting at Ten Sites

Five sites were visited which had performance contracts but no longer do: Hartford, Connecticut (OEO, private firm); Stockton, California, and Mesa, Arizona (OEO, teacher-contractors); Gary, Indiana (local funds, private firm); and Norfolk, Virginia (state-organized with Title I funds, private firm). In each case, there were difficulties in installing and implementing the project and in reaching post-contract settlements, but enduring changes of varying types and degrees have resulted from the contracts -- use of a system of individualized instruction, employment of teachers' aides, and/or tangible rewards for students. In Gary and Norfolk, these changes were under way before the contract. Only in Gary, where the contractor operated an entire school for more than two years, has there been extensive change in instructional practices, and it has been restricted to that school. None of the districts expect to engage in performance contracting again.

The California GLAA site visited was Woodland, where the teachers at one school used the funds to support installation of a new reading program they had decided to try. The teachers are enthusiastic about the project, both because of the extra money it puts at their disposal and because they are making the decisions about how it is to be used. Since they expect that GLAA will expire, they are seeking alternative sources of funds, including the possibility of a performance contract with the school board.

The Michigan Section 41 districts visited were Detroit and Inkster (privately contracted) and Menominee and Grand Rapids (teacher-contracted). In each case, the program was some way of increasing the capability for individualizing
instruction, and it has been at least partly incorporated into the instructional routines of the schools in which it was initiated. The contractor for the Detroit project, as for most of the other privately contracted Section 41 projects, had been supplying materials to the district previously. Grand Rapids has had more extensive experience with performance contracting than any other district in the country, and it has created the position of "director of contract learning" to coordinate and facilitate its activities in a wide range of contracted programs, including several which do not involve incentive provisions. An "atmosphere of change" seems to have been created there, which some people attribute to its first performance contracts, but the district has also had a change-oriented leadership.

Chapter 3: Achievement and Attitudinal Outcomes of Performance-Contracting Projects

Student learning in nearly all performance contracts has been measured with norm-referenced tests, and despite the criticisms that have been made of these tests, they are probably still the most suitable instruments for the purpose. Problems arising from the use of grade-equivalent scores can be overcome and have been in some contracts.

Grade-equivalent gains in the California and Michigan performance-contracting programs have been about twice as great as those in the OEO experiment, but the reasons are not clear. While the difference may be related to differences in the ways the projects were mounted or run, they may also be artifacts of the types of students involved. The data do not permit confident statements to be made about conditions that enhance the effectiveness of contracts in increasing gains. On the whole, however, the gains in California and Michigan have been respectable and fairly consistent though not dramatically great. Data on attitudes give some reason for believing that student feelings about the subject matter covered by the performance contract had become more favorable and that — perhaps for that reason — teachers had liked the contracted programs.

Chapter 4: Performance Contracting, the Private Firm, and Educational Change

The stimulation of change was supposed to be one of the major functions of performance contracting, and several important changes have indeed been attendant upon it — most notably, new materials for the instruction of low-achieving students, individualization of instruction, employment of teachers' aides, greater receptivity toward experimentation, emphasis upon quantitative evaluation of programs, and utilization of tangible rewards for students. However, these changes in the contracting schools do not seem to have triggered a general process of change in the district as a whole, and it may have been performance contracting itself which prevented that. Furthermore, the changes may not have been caused by performance contracting, or not by it alone; and if they were brought about at low cost to the district, it may have been the state and federal treasuries rather than the private contractor that paid the extra costs of experimentation. Performance contracting neither reduced nor increased the political risks of innovation, and the fact that it brought private firms into education was not always a clear-cut advantage.

Insofar as performance contracting did produce change, some elements of the concept which were apparently responsible could probably be separated from it. Among the "functional substitutes" are the development of instructional programs which are substantially and reliably superior to those presently available;
increases in the sums of money at the disposal of schools and school districts for experimentation; and freeing teachers from unnecessary regulations that may hamper them in the use of this money. Still, private firms have had, and may again have, important contributions to make to public education, and the incentives of a payment schedule might be thought to be the most serviceable mechanism for obtaining them. Also, two of the changes that have taken place in conjunction with performance contracting are more closely connected to the very nature of the concept and thus may lack equally effective substitutes -- viz., quantitative evaluation and tangible rewards for students. These, too, raise issues of the effectiveness and wisdom of monetary incentives in education.

Chapter 5: Monetary Incentives as Motives in Education

The incentive principle as embodied in the payment schedule of performance contracts seems not to have been an outstandingly effective way of eliciting maximum effort from contractors, whether private firms or groups of teachers, and there are sound reasons why. Private firms were more interested in increasing sales volume than they were in increasing their profits through payments by results. Even in private enterprise, money may be a less powerful motivator than is sometimes thought, and its effectiveness in education is still more questionable because of the problems in measuring output and the many difficult-to-control variables that intervene between the application of resources and effort and the eventual results in learning. Where teachers were the contractors, individual incentive payments were incompatible with their professional role. Perhaps the most important aspect of the payment schedule was the heightened emphasis it gave to measured student learning.

Again, functional substitutes may be proposed for accomplishing the objectives of performance contracts. Fixed-fee contracts, already common in other aspects of school operations, could be extended to instructional services; there is every reason to believe that private firms would be willing to enter into such contracts, and they avoid many of the anxieties and complications that arise when large sums of money ride on the measurement of learning gains, yet they have an important incentive element in the form of competition for contract volume. This competitiveness could be heightened, and even wider resources drawn on, by opening up the possibility of fixed-fee contracts with nonprofit-seeking organizations, including other schools or districts. For motivating teachers and calling public attention to measured student performance, a functional substitute would be a formal accountability program. But there does not appear to be an equally effective functional substitute for the practice of offering students tangible rewards for their learning achievements, and this idea seems worth further exploration.

Chapter 6: Conclusions and Recommendations

1. It would be neither desirable nor possible to revive performance contracting on a large scale.

Nevertheless, a performance contract might be quite useful in some circumstances. Therefore:
2. If a school district wishes to engage in a performance contract, it should not be prohibited from doing so, and it should be able to use federal, state, or local funds for the purpose.

When a district does decide to enter into a performance contract, it should be guided by the following principles:

2.1. Ample time should be allowed for preparation of the project.

2.2. Consideration should be given to contracting with a group of local teachers, the incentive payments being made to the schools in which they are working.

2.3. The contract should run for two or three years.

2.4 The contract should be as simple as possible.

2.4.1. The payment schedule should be an all-or-nothing one rather than one involving varying payments for varying amounts of gain.

2.4.2. The incentive payments should be based entirely on scores on norm-referenced tests rather than using criterion-referenced tests.

2.4.3. There should be no provisions permitting adjustments of payments for student absences or other routine occurrences, or claims for such adjustments should be explicitly precluded.

2.4.4. There should be no need for an auditor or a management support group.

2.5. Before entering into a performance contract, the school district should give careful consideration to alternative ways of achieving its goals.

3. School districts should be encouraged to make greater use of the instructional programs and services of private firms and other "external" organizations through the medium of fixed-fee contracts.

4. Districts should make available, to their schools and teachers, funds for experimentation and innovation, and discretionary funds for meeting immediate needs.

5. Districts should initiate formal programs of accountability.

6. Experimentation should be stimulated in the use of tangible rewards to students for their learning achievements.

7. If there is to be further experimentation with performance contracting, it should be in the framework of a thoughtfully conceived design that permits comparison between performance contracting and its functional alternatives.