



Service Provider Readiness in Pay for Success Initiatives





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With a grant from the Kresge Foundation, American Institutes for Research is developing a Pay for Success readiness toolkit to apply the ideas and research findings presented in this brief.

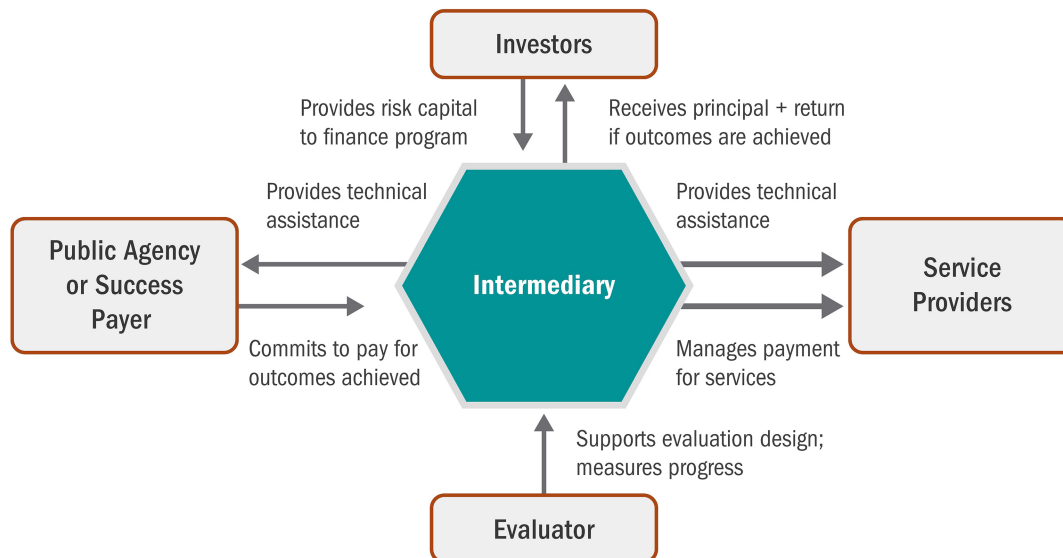
What does it mean to be “ready” for Pay for Success (PFS)? How important is it for selected providers to be ready at the start of a PFS project? What processes are being used to assess, as well as support, provider readiness throughout the PFS process? We will begin to address these questions in this brief, which is the first in a series of briefs about service provider readiness in PFS initiatives.

Introduction to Pay for Success

PFS initiatives are contractual agreements among multiple stakeholders, including government entities, service providers, evaluators, and external funders. This stakeholder partnership is typically managed by an intermediary organization. PFS provides a collaborative approach to address serious and costly social problems by promoting the implementation of evidence-based or promising interventions and emphasizing outcomes-based accountability. PFS initiatives are most often found in areas where government agencies believe that economic benefits are likely, and where outcomes are observable and measurable within 3 to 8 years. Outcomes that have been targeted in PFS initiatives include recidivism, homelessness, workforce development, maternal health, and early childhood education. For example, a PFS initiative in Massachusetts involves investments in evidence-based workforce development interventions to improve outcomes for older youth returning to the community from correctional facilities.¹

Exhibit 1 illustrates the roles of PFS stakeholders. Intermediary responsibilities include working with a government entity (or entities) to define targeted outcomes (e.g., reduce recidivism by 25%). In addition, an intermediary organization also may assist with selecting provider organizations, either by actively engaging in the provider selection process or providing an advisory framework for provider selection. Intermediaries also can provide training and technical assistance (TTA) to government entities and service providers, and serve as a fund manager for project costs, including potential success payments. Selected service providers implement specified interventions to improve performance targets. Typically, private sector or philanthropic organizations provide upfront investment funding supporting the intervention(s), and the government entity agrees to a return on the investment if negotiated performance targets are met. An independent evaluator assesses the extent to which performance benchmarks are accomplished.

Exhibit 1. Stakeholders in Pay for Success



Selection of Service Provider Organizations Within PFS

Prior to their adoption in the United States, PFS methods were used in the United Kingdom (referred to as “social impact bonds,” a term that is sometimes used in the United States and is synonymous with PFS) to scale evidence-based interventions to reduce recidivism.² Initial U.S.-based PFS projects emphasized scaling up within a community or larger region, or implementing an existing evidence-based intervention in a new setting.³ Projects also focused on demonstrating promising innovations requiring additional evidence. These initial projects emphasized the selection of provider organizations with sufficient expertise and experience as well as an administrative capacity to support scale-up of adopted interventions.⁴ As such, service providers who are PFS-ready form the backbone of a PFS initiative.

Recently, there has been increasing focus on ways to support more organizations to become PFS-ready, to include less resourced organizations that could participate in community efforts to address complex service challenges. A 2015 report by the Nonprofit Finance Fund highlighted the growing capacity needs of nonprofits. Findings showed that close to 50% of the nonprofits surveyed reported an inability to meet rising demands for services.⁵ These organizations identified gaps in being able to fulfill PFS requirements, including rapidly scaling up interventions and participating in outcome-driven financing.⁶

A number of questions emerge about readiness in PFS. What does it mean to be “PFS-ready”? How important is it for selected providers to be “ready” at project inception? What processes are

being used to assess, as well as support, provider readiness throughout the PFS process? This brief is the first in a series of briefs about service provider readiness in PFS initiatives that addresses these important issues.

In this initial brief, we will define what is meant by “readiness,” the components of readiness, and elaborate on the importance of service provider readiness within PFS. This brief will set the stage for forthcoming briefs focused on assessing and building readiness within PFS.

What Is Organizational Readiness?

Implementation science can help us better understand organizational readiness. Implementation science is the study of how to promote the systematic use of research findings and evidence by health and human service providers and policymakers.⁷ Organizational readiness within the implementation science literature is broadly defined as a state in which an organization is sufficiently prepared to implement a change (often an evidence-based intervention).⁸ Findings about readiness in the implementation science literature can be organized by a framework developed by Scaccia and colleagues,⁹ in which readiness is conceptualized in terms of three components:

1. **General capacity** denotes characteristics of a “healthy” host setting, including strong leadership,^{10,11} access to resources,¹² facilitative management and operations,^{13,14} and a supportive organizational culture and climate.^{15,16} In addition to these examples, PFS initiatives include capacity areas not typically studied within the implementation science literature. These areas include the ability to attract private investors, the ability of organizations to participate in research or evaluation studies that use rigorous methods (although some implementation science literature focuses on evaluation capacity-building, this is usually not in the context of participating in externally evaluated rigorous studies), and the capacity to rapidly scale-up identified interventions.
2. **Intervention-specific capacity** refers to knowledge and skillsets that are specific to an intervention (e.g., competencies required for an intervention that might be identified in a user manual supporting the implementation of evidence-based interventions). Examples of intervention-specific capacities include having a champion to influence the widespread use of an intervention¹⁷ and specific knowledge or competencies required by staff to successfully implement the intervention.^{18,19} In PFS initiatives, intervention-specific capacities are not as commonly assessed as general capacities. Examples of intervention-specific capacities in PFS include whether a service provider organization has access to intervention guidance materials (e.g., manual)²⁰ and the extent to which the organization has prior experience in implementing a specific intervention with fidelity.²¹

3. **Motivation** focuses on incentives and disincentives that influence service providers' willingness to implement an intervention. Aspects of motivation include compatibility (e.g., perceiving that the intervention fits with the organization's needs and values),²² observability (e.g., identifying clear, visible benefits associated with the use of the intervention), and complexity (e.g., perceiving the intervention as not being overly difficult to use).^{23,24} Measurement tools and processes have been established for each of these constructs. Provider motivation for an intervention in PFS is not typically assessed as an explicit component of readiness.

Each readiness component is necessary; the three components are multiplicative and not additive, meaning that a “zero” on one component will result in a “zeroing out” effect on overall readiness.

Each readiness component and subcomponent has an evidence base. For example, the general capacity subcomponent *facilitative management and operations* (e.g., freeing up staff time for implementation) has been shown to improve both fidelity (i.e., implementation as intended) and health or social outcome attainment, in combination with other general capacity factors.^{25,26} Sufficiency in providers' intervention-specific competencies also is predictive of implementation fidelity.²⁷

Service provider capacities can vary both within and between capacity areas. For example, an organization might have high general capacity and motivation but score low on intervention-specific capacity, which suggests that the organization might need intervention-specific TTA to build capacity to implement the selected evidence-based intervention. Or an organization might score low on multiple readiness components, suggesting that a range of capacity-building efforts are needed.

Why Is Provider Readiness Important in PFS?

Service provider readiness is important to all key PFS stakeholders, including government staff, intermediaries, private investors, foundations, evaluators, and service providers themselves. Next, we briefly describe the relevance for each stakeholder.

Government. Identifying provider readiness enables government stakeholders to make informed decisions when selecting a service provider for inclusion in PFS initiatives. Readiness information also helps government stakeholders to better understand risks associated with moving forward with PFS initiatives. Levels of readiness may influence the selection of outcome measures, the nature of success payments to investors, and the terms of performance-based contracts. An understanding of readiness also informs the quantity and focus of TTA resources that may be needed to prepare service providers for PFS.

Intermediaries. Readiness is relevant to key functions of intermediary organizations, which include assisting with provider selection and building provider capacities to succeed within a PFS environment. Selection is often based on a competitive application process that includes some type of a readiness assessment as part of the scoring criteria. A robust readiness assessment provides valuable information to decision makers in determining which provider organizations are included in PFS initiatives.

An understanding of readiness also informs the development of TTA plans to support provider organizations both before and after project commencement.²⁸

Investors. Provider readiness is important in attracting private or public investors to the project. An understanding of service provider readiness enables investors to assess financial and reputational risks in determining their involvement with the project.³⁶ Information from provider assessments can help structure the complex arrangement in which an investor's return on investment is determined. For example, in some situations, investors will require incentives (e.g., higher rates of return) to participate, especially in contexts of high-need and low-service provider readiness. In some cases, a foundation may elect to serve as a guarantor to help mitigate risk for the primary investors. This approach can serve as an incentive for investors to participate, especially if the service provider organization requires TTA to build critical capacities.³⁷

PFS TTA plans can include building capacity for performance management,²⁹ building staff and leadership skills,³⁰ and building worker competencies required for intervention fidelity.³¹ Readiness assessments can be administered during and after TTA to track changes in readiness. The impact of these gains can be measured by the provider organization's ability to implement interventions with fidelity and meet benchmarks leading to successful longer term project outcomes.^{32,33,34,35}

Evaluators. Knowledge of provider readiness helps independent evaluators develop an appropriate evaluation plan for the project. For example, metrics used for success payments may need to be adjusted in the early years of a PFS initiative so that service providers with lower readiness scores have an opportunity to build certain capacities. Also, metrics for measuring enhanced provider capacity could become part of the evaluation plan, as an interim outcome measure or as a key moderator or mediator of longer term program impacts. Factors influencing readiness, such as procurement restrictions or funding limitations, also could be assessed as part of a process evaluation of the PFS initiative in a given site.

Service providers. Readiness assessment has implications for provider selection, provider inclusion, and roles for certain providers. For example, smaller nonprofit providers often have gaps in readiness because of limited size, inexperience in scaling up programs, and an emphasis on measuring outputs rather than outcomes.³⁸ However, some smaller organizations may bring certain assets to a PFS project that larger organizations may not have (e.g., knowledge of and relationships within the

community, nimbleness to respond to changing demographics or needs). Readiness information will reveal these assets and liabilities, providing valuable information in determining the best service provider mix. Findings also can shape a TTA plan and resource allocation.³⁹ For example, service provider organizations with high readiness in certain areas could provide key support in assisting less ready providers in these areas.⁴⁰

Conclusion

In PFS initiatives, organizational readiness consists of multiple components that can advance understanding of the extent to which facilitating factors are in place for quality implementation that leads to desired outcomes. A focus on general capacity, innovation specific capacity, and motivation of the service provider provides an intuitive conceptual frame from the implementation science literature for organizing what we know about measuring organizational readiness. An understanding of provider readiness is important to the interests and roles of the multiple stakeholders in a PFS project, including government, intermediaries, service providers, and investors. As PFS matures, we can develop a more explicit understanding of what it means to be PFS-ready, the processes for assessing provider readiness that are predictive of PFS performance, and the role of TTA in enhancing readiness prior to and after project launch.

Forthcoming Briefs

In the next year, AIR will develop additional briefs to unpack ideas introduced in this initial brief:

PFS Readiness Assessment and the Importance of Implementation Science. PFS initiatives often emphasize service providers' readiness to attract private investors, rapidly scale-up identified interventions, and participate in research or evaluation studies that use rigorous methods. To what extent are readiness constructs from the implementation science literature used in PFS organizational assessments? How are these and other readiness criteria assessed in PFS and through what tools? As part of this brief, the three readiness components described previously—general capacity, innovation-specific capacity, and motivation—will be further unpacked and cross-walked with current PFS readiness assessment tools. Recommendations for improvement will be offered.

The Process of PFS Readiness Assessment. Building on the *PFS Readiness Assessment and the Importance of Implementation Science* brief, we will explore the recommended process for assessing provider readiness in PFS. This brief will address questions such as: How often should readiness assessments occur? What are best practices in deciding on performance assessment benchmarks? How do we weigh the readiness of multiple organizations in a PFS services network? Who and how many people in an organization participate in an organizational readiness assessment?

Building Service Provider Readiness in PFS. The final brief will discuss how readiness assessment can be used to inform the provision of TTA in PFS initiatives. Which evidence-based TTA strategies are available to build service provider readiness based on the findings of readiness assessments? How can readiness-building “ramp-up” periods be integrated into PFS projects? How can TTA providers support organizations in accommodating or changing contextual factors that interact with readiness dimensions in a PFS environment?

As a concurrent activity, AIR is developing a PFS readiness toolkit with support from the Kresge Foundation to operationalize the ideas and distill the research findings mentioned in the briefs. The toolkit will offer PFS stakeholders hands-on, practical readiness assessment tools and associated guidance for using readiness information to guide TTA and decision making.

Endnotes

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