

# What Performance-Based Contracting Really Means for Procurement Goals

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**As performance-based contracting grows and evolves, the benefits of private-sector experience and best practices provide solutions to government entities on all levels.**

With a General Services Administration (GSA) goal of 50 percent performance-based contract awards in 2005, and a similar goal from the Defense Department for 2006, the writing is on the wall. Whether we choose to wholeheartedly embrace the change or be dragged kicking and screaming all the way, performance-based contracting is here to stay.

Simply defined, performance-based contracting allows government to acquire services via contracts that define what is to be achieved, not necessarily how it is done. This creates a boon for government procurement, providing best-value products and services and pre-screened contractors. In addition, performance-based contracting gives industry the freedom to bring new approaches to the government table — which gels nicely with the President Management Agenda.

Growing pains aside, performance-based contracting makes acquisitions better, helping government procurement officials be good stewards of taxpayer dollars — which is what contracting all boils down to in the first place.

## Radical Changes in Responsibility

At first glance, the shift to performance-based contracting appears to transfer a large share of responsibility from government to contractor, allowing government to define metrics for success and requiring the contractor to come up with the actual solution that will meet those metrics.

The reality of performance-based contracting for the government procurement official is that responsibilities have not lessened; they have changed, and radically so. True, this move to a solutions-based approach means government no longer has to define precisely how the contractor will achieve specified objectives. But now, government procurement officials need to be well schooled in the methodology for arriving at measurable metrics and acceptable quality levels when developing the performance work statement (PWS) or statement of objectives (SOO).

**Government responsibilities are significantly increased and changed under a SOO acquisition.**

"The SOO business or mission objectives become the guts of the solicitation," says Andrew Sweet, Principal, Acquisition Solutions, Inc. "Industry then becomes responsible to describe how they will achieve the objectives."

The seven-step methodology endorsed by the Office of Management and Budget (OMB) includes:

- 1: Establish an integrated solutions team.
- 2: Describe the problem that needs solving.
- 3: Examine private-sector and public-sector solutions.
- 4: Develop a PWS or SOO.
- 5: Decide how to measure and manage performance.
- 6: Select the right contractor.
- 7: Manage performance.

To view "Seven Steps to Performance Based Services Acquisition," visit: <https://www.acquisition.gov/sevensteps/home.html>. This focus on defining the problem and specifying performance and success metrics at the beginning of the procurement cycle illustrates the need for the government side of the equation to understand technical considerations of the project. The resulting requirement for the technical expertise critical to defining effective metrics and objectives spells big changes for the profile of the request for proposal (RFP) preparation and evaluation team.

"The government has to have a lot more technical expertise on board," says Kevin Carroll, Program Executive Officer, Enterprise Information Systems, U.S. Army. "We have to be a lot smarter to make sure that what is being offered by the vendor is on target with our mission and is realistic."

Working with Army Knowledge Online (AKO), the Army's portal solution for managing information (24 hours a day, seven days a week) for soldiers and their families, Carroll knows firsthand the benefits of performance-based contracting.

"If we can successfully and truly be performance-based with this project, I am confident we can do it anywhere," says Carroll.

## **It's all About the Metrics**

One core strength of performance-based contracting is that it puts government in the position of objectively evaluating performance. By clearly defining the set of numbers and other metrics against which success will be measured, personalities and other subjective influences are taken out of the contracting equation. It is, now, all about the metrics.

Truly successful performance-based contracting allows for measurement of metrics in stages: a baseline period, allowing for due diligence by both parties; a 90-day ramp-up period; and then full execution of the metrics and associated incentives/disincentives. An excellent example of this tiered measurement approach is the help desk, one of the most common performance-based contracts in effect today. By monitoring metrics such as call length and wait times, and applying those metrics to clearly defined baseline, ramp-up, and execution periods, contracting officials can create a firm foundation from which to negotiate if requirements change. Everything is up-front, in writing, and lasts the life of the project — even when personnel change.

***A performance based contract is not appropriate unless objectives standards can be applied.***

One critical caveat for government regarding metrics in contracting is the importance of adequate infrastructure. With the advent of metrics-driven, performance-based contracting, government procurement management teams must have the capability to properly evaluate metrics in order to accurately evaluate success or the lack thereof.

### **Little Guys Can Play, Too**

While performance-based contracting was not created specifically to help small businesses in the government arena, some performance-based contracts do provide a protective bubble for the little guys. Government-Wide Acquisition Contracts (GWAC) like Commerce Information Technology Solutions Contracts (COMMITTS) from the U.S. Department of Commerce and COMMITTS Next Gen were designed to promote the growth of small and economically disadvantaged businesses while simultaneously ensuring performance-based results for the end customer — government. In these instances, performance-based contracting can help agencies overcome the perceived risks of contracting to small businesses by providing streamlined access to vendors that have been meticulously screened and validated.

COMMITTS, Information Technology Enterprise Solutions (ITES), Network Centric Solutions (NETCENTS), Veteran's Administration Global Information Technology Support Services (VA GITSS), and other similar performance-based contracts have the added advantage of providing an entrée into the government space for those small businesses willing to rise to the challenge of performance-based contracting — something that can only help them in the long run — while giving government procurement officials access to fresh ideas they might otherwise have missed.

### **Looking Ahead**

Remember, this all started back in 1993 with the Government Performance and Results Act of 1993. Performance-based contracting has been around for more than a decade; it is firmly entrenched and growing every day. Government objectives like the aggressive 50 percent performance-based contracting goal are moving us in the right direction, but this kind of cultural sea change will not happen overnight. As performance-based contracting grows and evolves, the benefits of allowing industry to bring its experience and best practices to bear in providing solutions to government will increase exponentially. Our challenge lies on both sides of the partnership: bringing new methods of doing business to government procurement specialists, while at the same time changing the mind set of vendors who are used to doing business in the comfortable time-and-materials format.

In the language of today's performance-based contracting, it is now up to government to define the objectives — and vendors to meet the metrics that have been defined.

***If the work can be measured, and standards applied, then any type of contract can be a PBC.***

### **Firm Fixed Price and Performance-Based Contracting**

As performance-based contracting grows, it is clear that not all performance-based contracts are firm fixed price. Conversely, all firm fixed price contracts are not really performance based. A performance-based contract can be any type of contract, even time and materials.

Clear definition of metrics — the number of days required to get software changes into the system for review, for example — can make any contract succeed on a performance basis.

There are some philosophical differences in performance-based contracting regarding how metrics are created and defined for a particular procurement. Some would prefer to put out the statement of work and let the vendors work out the metrics. Some would prefer to dictate every metric and every deliverable. The Office of Management and Budget (OMB) and the Office of Federal Procurement Policy (OFPP) recommend that government customers should define objectives and areas for metrics, and then let vendors bid specific methods, metrics, and incentives.

"Past experience has taught me that leaving everything to the vendor community isn't always in our best interest," says Kevin Carroll, Program Executive Officer, Enterprise Information Systems, U.S. Army. "We have to focus on what's really important to our mission, so we need to steer the objectives and metrics from the beginning."

This "big picture" approach to performance-based contracting means that government is responsible for weaving key objectives and metrics into the statement of work.

"It's important to have intelligent, thoughtful people throughout the whole process — from pre-procurement to post," adds Carroll.

*Author's Note: Dennis Boykin, the founder of DB4 Consulting, LLC, has authored white papers on performance-based contracting in support of network operations, software development, and technology solutions. He is an experienced government contracting professional with experience in government service delivery & operations, business development, capture management, and M&A support primarily in the small business contracting arena. At last count, his teams have been responsible for the successful capture of over \$ 1.2 B in IT services contracts over the last 10 years. E-mail Dennis at [dennis@db4consulting.com](mailto:dennis@db4consulting.com) or visit [www.db4consulting.com](http://www.db4consulting.com).*