

Performance-Based Contracting: Here to Stay, But Challenges Ahead

Who among us has not heard the new buzzword in the U.S. federal business sector called “Performance-Based Contracting?” But what is it? What is the big deal? Is it yet another flavor-of-the-month, contracting/program management style touted as a new and improved way of conducting federal business, which is usually only the old way with a different wrapper? What does this mean to me—contracting issues impact only contracting professionals, right?

Actually, Performance-Based Contracts (PBCs) have been around for more than 20 years and have long been identified as an effective way to acquire quality goods and services within available budgetary resources. In fact, the federal government has been promoting them as a way to achieve savings and obtain greater value while also pushing federal agencies to outsource more work to the private sector. Hence, PBCs have never before had such profound potential to significantly affect the world of federal procurement.

The goal of PBCs is to improve the value of contracted services by emphasizing objective, measurable, mission-related requirements from the contractor. Service-oriented efforts are ideal candidates for PBCs, though they can be used for much more. Together the agency and the contractor choose performance measurements to gauge a solution’s effectiveness, with rewards for superior performance and penalties for sub-par work. This helps ensure alignment of customer and contractor goals. For those providing federal IT services, performance-based Service Level Agreements (SLAs) are rising in popularity.

Through PBCs, the federal government benefits by receiving better performance, lower cost, reductions of contract time, and administrative burdens, while contractors benefit by having more control over their ability to earn profits based on performance. Added benefits of PBCs are the mutual establishment of standards to measure perform-

ance, which later can be used as reliable indicators of past efforts. This is important since agencies are placing higher values on past performance and are looking for those vendors who can demonstrate a successful history of working with PBCs.



Meeting the promise of performance-based contracts requires partnering and collaboration between agencies and contractors.

PBCs are becoming the preferred federal procurement vehicle. Recently, the President’s Management Agenda ignited interest in this area, improving the federal government’s performance goals by converting 50 percent of all federal service contracts to PBCs by fiscal year 2005. More than \$100 billion worth of contracts are eligible for conversion.

PBCs also are being boosted by legislation such as the Clinger-Cohen Act (which shapes federal agencies’ approaches to IT acquisition), the Government Performance and Results Act (GPRA), and most recently the Service Acquisition Reform Act (SARA), all of which were designed to link expenditures of dollars with agency performance.

These directives are predicted to significantly transform the federal acquisition workforce, its entire business structure, its culture, and the broad arena of commercial item acquisitions. Under SARA for example, some performance-based efforts will now qualify to be considered “commercial item” acquisitions and in some cases could be exempt from many oversight laws. These factors alone could trigger enormous shifts in how agencies operate.

However, the difficulties of changing large, bureaucratic government organizations are immense. Despite the latest

PBC revolution, many agencies are not adhering to the guidance while others remain poorly outfitted to capitalize on performance-based contracting. Most still view it as simply adding performance measurements or incentives to their statement of work and the final contract. This narrow take on PBCs is inadequate and ill-fated.

In a sense, the PBC model is harder for both parties: they must think clearly about what is to be accomplished and how to measure when and how well the work is completed. Meanwhile, the government is no longer giving contractors the details of what to do, shifting the burden of the agency's problems to the contractor. This is a different way of doing business for the government, which has historically tried to specify a solution.

To get the most from PBCs, agencies must give their contractors greater autonomy in how work is to be done in exchange for more accountability for final results.

Eventually, this shift to performance-based contracting is anticipated to result in clearer expectations for per-

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formance; better communication between the agency and its vendors; greater accountability for results, flexibility, and innovation; and reduced costs overall. Many agencies are already changing the way they have traditionally done business, drastically affecting the skills needed by their procurement personnel. Likewise, contractor-bid strategies successful in traditional procurements may not be successful and could even be disadvantageous in a performance-based procurement.

Still think PBC is just another fad or that its mounting presence in the federal marketplace will not have any impact on you, your profession, or your organization? Think again. This 'new' way of doing business has taken root in the acquisition decision-making process and is branching out into acquisition programs at all levels.

For more information on ICF Consulting's capabilities in the area of performance-based contracting, please visit www.icfconsulting.com/enterprise-solutions.