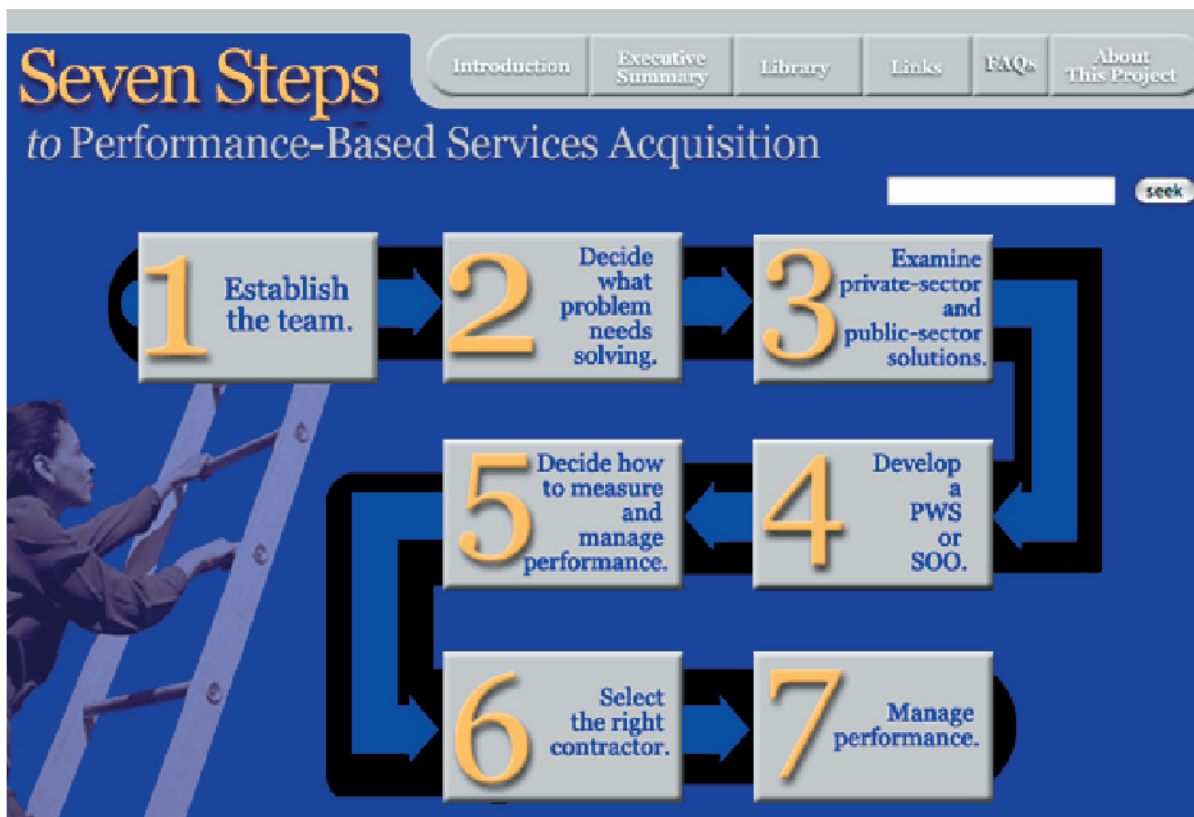


# Seven Steps to Performance-Based Services Acquisition



**For full version go to:**

[http://acquisition.gov/comp/seven\\_steps/index.html](http://acquisition.gov/comp/seven_steps/index.html)

**An Interagency-Industry Partnership in Performance**



# Introduction

## A Performance-Based Preference

Over the last decade and a half, innovators in Congress and the executive branch have reformed the laws and policies that govern Federal acquisition. Among the most important of these reforms are the Government Performance and Results Act of 1993, the Federal Acquisition Streamlining Act of 1994 (FASA), and the Clinger-Cohen Act of 1996. All of these laws send an important message about performance in federal programs and acquisitions.

As is evident from the dates above, performance-based service acquisition is not new. Office of Federal Procurement Policy Pamphlet #4, “A Guide for Writing and Administering Performance Statements of Work for Service Contracts,” (now rescinded) described “how to write performance into statements of work” and addressed job analysis, surveillance plans, and quality control in 1980. Eleven years later, OFPP Policy Letter 91-2, Service Contracting,” (also now rescinded) established that:

*It is the policy of the Federal Government that (1) agencies use performance-based contracting methods to the maximum extent practicable when acquiring services, and (2) agencies carefully select acquisition and contract administration strategies, methods, and techniques that best accommodate the requirements.*

The intent is for agencies to describe their needs in terms of what is to be achieved, not how it is to be done. These policies have been incorporated in the Federal Acquisition Regulation Subpart 37.6 (Performance-Based Contracting).

Law and regulation establish a preference for performance-based service acquisition. This Administration continues a long line of support for this acquisition approach. As cited in the Procurement Executives Council’s Strategic Plan:

*...over the next five years, a majority of the service contracts offered throughout the federal government will be performance-based. In other words, rather than micromanaging the details of how contractors operate, the government must set the standards, set the results and give the contractor the freedom to achieve it in the best way.*

—Presidential Candidate George W. Bush on June 9, 2000

## Benefits of Performance-Based Acquisition

Performance-based service acquisition has many benefits. They include:

- Increased likelihood of meeting mission needs
- Focus on intended results, not process
- Better value and enhanced performance
- Less performance risk
- No detailed specification or process description needed
- Contractor flexibility in proposing solution
- Better competition: not just contractors, but solutions
- Contractor buy-in and shared interests
- Shared incentives permit innovation and cost effectiveness
- Less likelihood of a successful protest
- Surveillance: less frequent, more meaningful
- Results documented for Government Performance and Results Act reporting, as by-product of acquisition
- Variety of solutions from which to choose

## Moving toward Performance-Based Competency

The federal acquisition workforce has not, to date, fully embraced performance-based acquisition. There are many reasons, such as workload demands, but more fundamentally, traditional “acquisition think” is entrenched in a workforce of dwindling numbers. The situation is complicated by lack of “push” from the program offices who have the mission needs and who fund the acquisitions... because there is where the true key to performance-based acquisition lies. It is not the procurement analyst, the contracting officer, or even the contracting office itself. Performance-based acquisition is a collective responsibility that involves representatives from budget, technical, contracting, logistics, legal, and program offices.

While there are leaders among us who understand the concept and its potential, it is difficult for an agency to assemble a team of people who together have the knowledge to drive such an acquisition through to successful

contract performance. This is especially true today because many more types of people play a role in acquisition teams. These people add fresh perspective, insight, energy, and innovation to the process -- but they may lack some of the rich contractual background and experience that acquisition often requires.

Performance-based service acquisition can be daunting, with its discussion of work breakdown structures, quality assurance plans, and contractor surveillance. Guides on the subject can easily run to and over 50, 75, or even 100 pages. This makes learning something new appear more complicated than it really is. The foundation for a successful acquisition involves a clear answer to three questions: *what do I need, when do I need it, and how do I know it's good when I get it?*

This virtual guide breaks down performance-based service acquisition into seven easy steps, complete with “stories” (case studies). It is intended to make the subject of PBSC accessible for all and shift the paradigm from traditional “acquisition think” into one of collaborative performance-oriented teamwork with a focus on program performance and improvement, not simply contract compliance. Once the shift is made, the library and links sections interwoven in this guide will lead you into the rich web of federal performance-based guidance.

*Have a good journey!*

## Executive Summary

One of the most important challenges facing agencies today is the need for widespread adoption of performance-based acquisition to meet mission and program needs. By memorandum, this Administration has set a goal for civilian agencies to apply performance-based acquisition methods on 40 percent (as measured in dollars) of eligible service actions (including contracts, task orders, modifications, and options) over \$25,000 in Fiscal Year 2006. The Department of Defense has a goal of 50 percent.

Although policies supporting performance-based contracting have been in place for more than 25 years, progress has been slow. The single most important reason for this is that the acquisition community is not the sole owner of the problem, nor can the acquisition community implement performance-based contracting on its own. The changes made to FAR 37.6 in February 2006 put more of the onus on the program office community - they're the ones with the performance-based budgeting requirement in the President's Management Agenda.

Laws, policies, and regulations have dramatically changed the acquisition process into one that must operate with a mission-based and program-based focus. Because of this, many more types of people must play a role in acquisition teams today. In addition to technical and contracting staff, for example, there is “value added” by including those from program and financial offices. These people add fresh perspective, insight, energy, and innovation to the process -- but they may lack some of the rich contractual background and experience that acquisition often requires.

This guide, geared to the greater acquisition community (especially program offices), breaks down performance-based service acquisition into seven simple steps.

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

The intent is to make the subject of performance-based acquisition accessible and logical for all and shift the paradigm from traditional “acquisition think” into one of collaborative, performance-oriented teamwork with a focus on program performance, improvement, and innovation, not simply contract compliance. Performance-based acquisition offers the potential to dramatically transform the nature of service delivery, and permit the federal government to tap the enormous creative energy and innovative nature of private industry.

*Let the acquisitions begin!*

# 1

## Establish an integrated solutions team.

**T**he trend today, given the statutory, policy, and regulatory mandates discussed in the introduction, is that acquisitions are conducted by teams of people, working cooperatively toward a common goal. This is the model used by leading or breakthrough organizations, which have come to recognize the limitations of clearly defined roles, responsibilities, and organizational boundaries... and have adopted the use of acquisition teams that integrate all stakeholders' efforts toward one goal: mission accomplishment.

These principles are also reflected in the Federal Acquisition Regulation (FAR), which (1) recognizes that teams begin with the customer and end with the contractor and (2) outlines procurement policies and procedures that are used by members of the acquisition team. Note also that the FAR specifically provides that contracting officers “should take the lead in encouraging business process innovations and ensuring that business decisions are sound.”

In this guide, we call such acquisition teams “integrated solutions teams” in acknowledgement of the fundamental purpose of performance-based acquisition: to find solutions to agency mission and program needs.

### Tasks, Features, & Best Practices: Learn More

- Ensure senior management involvement and support.
- Tap multi-disciplinary expertise.
- Define roles and responsibilities.
- Develop rules of conduct.
- Empower team members.
- Identify stakeholders and nurture consensus.
- Develop and maintain the knowledge base over the project life.
- "Incent" the team: Establish link between program mission and team members' performance.

See website for Additional Information

## **Ensure senior management involvement and support.**

Most best-practice studies agree: senior management involvement and support is a predictor of success. For example, the CIO Council document, “Implementing Best Practices: Strategies at Work,” cited “strong leadership at the top” as a “success factor” in the selection, evaluation and control processes associated with acquisition investment review. By its very nature, an integrated solutions team has members whose affiliations cut across organizational boundaries. “Turf” can become an issue unless there is strong, effective senior management support and a shared vision. Program decision makers should be on the team and, in fact, are now required by the FAR to “describe the need to be filled using performance-based acquisition methods.” Creating “buy in” from leadership and establishing the realms of authority are essential to performance-based project success.

## **Tap multi-disciplinary expertise.**

Because of the mission-based and program-based focus of acquisition that has resulted from acquisition reform and from mandates for performance-based acquisition, many more types of people play a role in acquisition teams today. In addition to contracting staff, for example, are those from the program, financial, user, and even legal offices. All of these skills and more can be required to create a true performance-based approach to an agency’s needs.

It is important to recognize that integrated solution teams are not a “training ground.” They’re a field of operation for not just 4 or 6 or 8 people, but 4 or 6 or 8 people who are among the best in their fields and have a grounding in, or have been trained in acquisition. Team composition is a critical success factor in performance-based acquisition.

## **Define roles and responsibilities.**

It is important that the members of the team understand what their roles and responsibilities are. Regardless of its representation, the team is responsible for ensuring that the acquisition:

- Satisfies legal and regulatory requirements.
- Has performance and investment objectives consistent with the agency's strategic goals.
- Successfully meets the agency's needs and intended results.
- Remains on schedule and within budget.

Successful teams typically have a number of features: shared leadership roles, individual as well as mutual accountability, collective work-products, performance measures related to the collective work-product, and other ingredients.

In a team environment, the roles and responsibilities of the members blur and merge, often with striking results.

## Develop rules of conduct.

Seasoned facilitators and team leaders know this: It is important to develop rules of conduct for groups of people. Setting the rules... and then insisting on their use... is a key to effective team operation. Given a clear purpose and defined approach for working together, teams are much more likely to move quickly through the early phases of team performance and achieve the desired result.

Those phases of teamwork were identified by B.W. Tuckman in the “Tuckman model”:

- forming**, or coming together
- storming**, or conflict
- norming**, or working out the rules
- performing**, or getting the job done
- adjourning**, or ending the job (closure)

While the length of time different groups take to pass through each of these developmental stages varies, high team performance is usually not achieved until the group has passed through the first three stages.

## Empower team members.

The “Statement of Guiding Principles for the Federal Acquisition System,” says it most simply: “Participants in the acquisition process should work together as a team and should be empowered to make decisions within their area of responsibility.” (FAR 1.102(a)) Clearly defined levels of empowerment are critical to success.

The Department of Commerce, in its CONOPS (Concept of Operations) acquisition program, has examined the concept of what “empowerment” means in detail. The Department believes that empowerment is tied to responsibility, authority, and autonomy. In the agency’s project planning tool are the life-cycle tasks of an acquisition and an identification of where responsibility for the performance of that task typically resides.

## Identify stakeholders and nurture consensus.

Stakeholders may include customers, the public, oversight organizations, and members and staff of Congress. It is important for the team to know who the stakeholders are and the nature of their interests, objectives, and possible objections. At a minimum, stakeholders should be consulted and, at times, may participate on the team.

In developing the acquisition, the key tools the team should use are consensus and compromise, without losing sight of the three key questions:

- 1. What do I need?*
- 2. When do I need it?*
- 3. How do I know it’s good when I get it?*



## **Develop and maintain the knowledge base over the project life.**

*“How do you predict the future... you create it.”* (Peter Drucker)

An emerging concern in the acquisition community is “knowledge management.” There are many definitions, but the simplest may well be “the right knowledge in the right place at the right time and in the right context.” Knowledge management is a people issue, not a technology issue.

Consider the need to manage the project’s knowledge base in this light: Acquisitions often take months, and the contracts that are awarded are often performed over years. People join the team and people leave, taking their knowledge with them.

Further, those people that began the project and those that oversee the project are often different. All too often, when a contract is awarded, the acquisition team “pats itself on the back” and walks away. The project is passed into the care of a contract administrator who doesn’t know the history of the project, why decisions were made, and why the contract is structured or worded the way it is. Modification may begin right away. And we wonder why contract performance is sometimes a problem?

The approach needs to shift from a focus on contracting to a focus on both acquisition and project management. Where possible, the same key members of the team (program manager, project manager, and contracting officer) should be part of the integrated solutions team from the initial discussions of mission-based need, through contract performance, and indeed to contract closeout. With this continuity, and a focus on maintaining the project’s knowledge base, the likelihood of success is exponentially greater.

## **“Incent” the team: Link program mission and team members’ performance.**

If continuity is important, what can be done to keep a team together? Added to empowerment and a shared vision, incentives are key. The most fundamental incentives are those that link program mission and team members’ performance, and then tie performance to pay. If the acquisition has performance objectives, and the contractor has performance objectives, then the Government team should also have performance objectives. Like contractor incentives, the team’s objectives should carry a value in terms of pay, recognition, and awards.

Keep in mind that these performance objectives should be program-based, not acquisition-based. Who cares if the contract is awarded in two months if it takes two years to get deliverables in the hands of the users? Make sure the incentives are tied to the “right” results.

# 2

## Describe the Problem that Needs Solving

**B**ecause a clearer, performance-based picture of the acquisition should be the team's first consideration, it is not yet time to retrieve the requirement's former solicitation, search for templates, think about contract type or incentives, or decide on the contractor or the solution.

Planning for an acquisition should begin with business planning that focuses on the desired improvement. The first consideration is, what is the problem the agency needs to solve? What results are needed? Will it meet the organizational and mission objectives?

Changes made to the Federal Acquisition Regulation in 2006 emphasize that acquisition planning must encompass performance-based considerations. FAR 7.105 (Contents of written acquisition plans) specifically provides that "Acquisition plans for service contracts or orders must describe the strategies for implementing performance-based acquisition methods or must provide rationale for not using those methods." Moreover, the responsibility for performance-based strategies is tied back to program officials: "Agency program officials are responsible for accurately describing the need to be filled, or problem to be resolved, through service contracting in a manner that ensures full understanding and responsive performance by contractors and, in so doing, should obtain assistance from contracting officials, as needed. To the maximum extent practicable,

### Tasks, Features, & Best Practices: Learn More

- Link acquisition to mission and performance objectives.
- Define (at a high level) desired results.
- Decide what constitutes success.
- Determine the current level of performance...

See website for Additional Information

the program officials shall describe the need to be filled using performance-based acquisition methods." [FAR 37.102(e)]

The Government Performance and Results Act of 1993 requires that agencies establish and "manage to" mission-related performance goals and objectives. It stands to reason that any significant, mission-critical acquisition should relate in some way to the Results Act objectives. Although many acquisitions do not make this link, performance-based acquisitions must make this connection to the agency's strategic plan and to employees' performance plans.



## **Link acquisition to mission and performance objectives.**

The most important foundation for an acquisition is the intended effect of the contract in supporting and improving an agency's mission and performance goals and objectives (reported to OMB and Congress under the Results Act's strategic and annual performance planning processes). Describing an acquisition in terms of how it supports these mission-based performance goals allows an agency to establish clearly the relationship of the acquisition to its business, and it sets the stage for crafting an acquisition in which the performance goals of the contractor and the government are in sync.

This mission-based foundation normally must be established by or in cooperation with people who work in the program area that the resources will support when they are acquired. (This is why assembling the team is the first step in a performance-based acquisition.) Again, note that the focus is not what resources are required; the focus is what outcome is required.

With this foundation, when the planning process is complete, an agency should be able to demonstrate clearly how an individual acquisition's performance objectives will assist in achieving the agency's mission and goals.

In addition to the Government Performance and Results Act, the President's Management Agenda has added the requirement for performance-based budgeting. (See [www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf](http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf), Government-wide Initiative No. 5.) This links funding to performance, and ensures that programs making progress towards achieving their goals will continue to receive funding. Conversely, programs unable to show adequate progress may lose option-year funding.

## **Define (at a high level) desired results.**

Once the acquisition is linked to the agency's mission needs, the thoughts of the team should turn to what, specifically, are the desired results (outcomes) of contract performance? Is it a lower level of defaults on federal loans? Is it a reduction in benefit processing time? Is it broader dissemination of federal information? Is it a reduction in the average time it takes to get relief checks to victims? What is the ultimate intended result of the contract and how does it relate to the agency's strategic plan?

Note that these are questions that a former solicitation... or someone else's solicitation... cannot answer. This is one of the tough tasks that the integrated solutions team must face.

These answers can normally be found, not with an exhaustive analysis, but through facilitated work sessions with program staff, customers, and stakeholders. By taking the process away from a review of paper or an examination of the status quo, greater innovation and insight is possible. Once aired, those thoughts need to be captured in the performance work statement (PWS) or statement of objectives (SOO).

Note also that, to do this well, the team will need to plan to seek information from the private sector during market research (step three). Industry benchmarks and best practices from the "best in the business" may help sharpen the team's focus on what the performance objectives should be.

## Decide what constitutes success.

Just as important as a clear vision of desired results is a clear vision of what will constitute success for the project. These are two distinct questions: Where do I want to go, and how will I know when I get there?

In the Joint Direct Attack Munitions (JDAM) research and development acquisition, for example, affordability (in terms of average unit production price) was a key element, along with “how well the product met the live-or-die criteria.” Affordability was communicated in no uncertain terms from top-level management to the acquisition team, and from the acquisition team to the competing contractors. As the project manager recalled--*I had a strong sense of empowerment... from the Air Force Chief of Staff who said basically, “Do what you have to do to get the products under \$40,000”...*

With that clear a mandate and the benefits of head-to-head contractor competition, the final, winning proposal included an average unit production price between \$14,000 and \$15,000... far lower than the original cost target of \$40,000 and the original cost estimate of \$68,000 per unit.

So it is important to establish a clear target for success, which will then serve to focus the efforts of the integrated solutions team in crafting the acquisition, the contractors in competing for award, and the government-industry team throughout contract performance.

## Determine the current level of performance.

The main reason to determine the current level of performance is to establish the baseline against which future performance can be measured. If you don't know where you started, you can't tell how far you've come.

In order to think about taking measurements of current performance, think about what happens when you rent a car. The company will give you a piece of paper with an outline of a car on it. You're asked to go outside, and mark on the diagram every nick and scratch you see, so that when you return the car, the baseline is clear. This is precisely what we need to do with our current contracts or operations.

Keep in mind that the government doesn't necessarily have to do the baseline measurement. Another approach is to require a set of metrics as a deliverable under a current contract. Even if there were no existing provision, this could easily be done via contract modification. New solicitations can be written with provision for delivery of baseline and/or current performance levels, either annually, at the end of the contract, or both. The integrated solutions team must determine the adequacy of the baseline data for the new contract, to ensure they achieve the best results.

# 3

## Examine Private-sector & Public-sector Solutions.

Once the acquisition's intended results have been identified, the integrated solutions team should begin to examine both private-sector and public-sector solutions. This is called "market research," and it is a vital means of arming the team with the expertise needed to conduct an effective performance-based acquisition.

Market research is the continuous process of collecting information to maximize reliance on the commercial marketplace and to benefit from its capabilities, technologies, and competitive forces in meeting an agency need. Market research is essential to the government's ability to buy best-value products and services that solve mission-critical problems. Acquisition reform has opened the door to effective new approaches to market research that should be undertaken by the integrated solutions team long before attempting to write a performance work statement.

### Tasks, Features, & Best Practices: Learn More

- Take a team approach to market research.
- Spend time learning from public-sector counterparts.
- Talk to private-sector companies before structuring the acquisition.
- Consider one-on-one meetings with industry.
- Look for existing contracts.
- Document market research.

See website for Additional Information

## **Take a team approach to market research.**

In the past, it was not unusual for technical staff to conduct market research about marketplace offerings, while contracting staff conducted market research more focused on industry practices and pricing. A better approach is for the entire integrated solutions team to be a part of the market research effort. This enables the members of the team to share an understanding and knowledge of the marketplace -- an important factor in the development of the acquisition strategy -- and a common understanding of what features, schedules, terms and conditions are key.

## **Spend time learning from public-sector counterparts.**

While many are familiar with examining private-sector sources and solutions as part of market research, looking to the public-sector is not as common a practice. Yet it makes a great deal of sense on several levels.

First, there is an increased interest in cross-agency cooperation and collaboration. If the need is for help desk support, for example, many federal agencies have “solved” that problem and could potentially provide services through an interagency agreement or through an existing multiple-award contract vehicle. Alternatively, it could be that to provide seamless services to the public, two or more agencies need to team together to acquire a solution.

Second, agencies with similar needs may be able to provide lessons learned and best practices. For example, the Department of Commerce COMMITS office has frequently briefed other agencies on the process of establishing a Government-wide Agency Contract (GWAC). (See [www.contractdirectory.gov](http://www.contractdirectory.gov)) Another agency that we are aware of is now conducting public-sector market research about seat management implementation in the federal government. So it is important for the integrated solutions team to talk to their counterparts in other agencies. Taking the time to do so may help avert problems that could otherwise arise in the acquisition.

## **Talk to private-sector companies before structuring the acquisition.**

With regard to the more traditional private-sector market research, it is important to be knowledgeable about commercial offerings, capabilities, and practices before structuring the acquisition in any detail. This is one of the more significant changes brought about by acquisition reform.

Some of the traditional ways to do this include issuing “sources sought” type notices at FedBizOps.gov, conducting “Industry Days,” issuing Requests for Information, and holding pre-solicitation conferences. But it is also okay to simply pick up the phone and call private-sector company representatives.

Contact with vendors and suppliers for purposes of market research is now encouraged. In fact, FAR 15.201(a) specifically promotes the exchange of information “among all interested parties, from the earliest identification of a requirement through receipt of proposals.” The limitations that apply (once a procurement is underway) are that prospective contractors be treated fairly and impartially and

that standards of procurement integrity (FAR 3.104) be maintained. But the real key is to begin market research before a procurement is underway.

## **Consider one-on-one meetings with industry.**

While many may not realize it, one-on-one meetings with industry leaders are not only permissible -- see Federal Acquisition Regulation 15.201(c)(4) -- they are more effective than pre-solicitation or pre-proposal conferences. Note that when market research is conducted before a solicitation or performance work statement is drafted, the rules are different. FAR 15.201(f) provides, for example: "General information about agency mission needs and future requirements may be disclosed at any time." Since the requirements have not (or should not have) been defined, disclosure of procurement-sensitive information is not an issue.

It is effective to focus on commercial and industry best practices, performance metrics and measurements, innovative delivery methods for the required services, and incentive programs that providers have found particularly effective.

This type of market research can expand the range of potential solutions, change the very nature of the acquisition, establish the performance-based approach, and represent the agency's first step on the way to an "incentivized" partnership with a contractor.

## **Look for existing contracts**

FAR Part 10 requires that as part of market research, the Integrated Solutions Team must go to <http://www.contractdirectory.gov> to see if there is an existing contract available to meet agency requirements.

## **Document market research**

FAR Part 10 requires that a written market research report be placed in the contract file. The amount of research, given the time and expense, should be commensurate with the size of the acquisition.

# 4

## Develop PWS or SOO.

**T**here are two ways to develop a specification for a performance-based acquisition: by using a performance work statement (PWS) or a statement of objectives (SOO).

The PWS process is discussed in most existing guides on performance-based acquisition. Among its key processes are the conduct of a job analysis and development of a performance work statement and quality assurance and surveillance plan... When people talk about performance-based acquisition, this is typically the model they have in mind.

The alternative process -- use of a SOO -- is a more recent methodology that turns the acquisition process around and requires competing contractors to develop the performance work statement, performance metrics and measurement plan, and quality assurance plan... all of which should be evaluated before contract award. If the SOO approach is used, FAR 37.602(c) directs us to remove the SOO when the contract or task order is awarded, and replace it with the awardee's winning PWS. The SOO approach is described briefly in the Department of Defense "Handbook for Preparation of Statement of Work (SOW)," Section 5, for example:

*The SOO is a Government prepared document incorporated into the RFP that states the overall solicitation objectives. It can be used in those solicitations where the intent is to provide the maximum flexibility to each offeror to propose an innovative development approach.*

The SOO is a very short document (e.g., under ten pages) that provides the basic, high-level objectives of the acquisition. It is provided in the solicitation in lieu of a government-written statement of work or performance work statement.

In this approach, the contractors' proposals

### Tasks, Features, & Best Practices: Learn More

#### PWS

- Conduct an analysis.
- Apply the "so what?" test.
- Capture the results of the analysis in a matrix.
- Write the performance work statement.
- Let the contractor solve the problem, including the labor mix.

#### SOO

- Begin with the acquisition's "elevator message."
- Describe the scope.
- Write the performance objectives into the SOO.
- Make sure the government and the contractor share objectives.
- Identify the constraints.
- Develop the background.
- Make the final checks and maintain perspective.

See website for Additional Information

contain statements of work and performance metrics and measures (which are based on their proposed solutions and existing commercial practices). Clearly, use of a SOO opens the acquisition up to a wider range of potential solutions. The Veterans Benefits Administration loan servicing acquisition discussed under step two and in this step was conducted (very successfully) using a SOO.

The integrated solutions team should consider these two approaches and determine which is more suitable:

- **Use of a PWS**
- **Use of a SOO**



# Using a PWS

## Conduct an analysis.

Preparing a PWS begins with an analytical process, often referred to as a “job analysis.” It involves a close examination of the agency’s requirements and tends to be a “bottom up” assessment with “re-engineering” potential. This analysis is the basis for establishing performance requirements, developing performance standards, writing the performance work statement, and producing the quality assurance plan. Those responsible for the mission or program are essential to the performance of the job analysis.

A different approach to the analytical process is described in the “Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense.” It describes three “analysis-oriented steps” that are “top down” in nature:

- Define the desired outcomes: *What must be accomplished to satisfy the requirement?*
- Conduct an outcome analysis: *What tasks must be accomplished to arrive at the desired outcomes?*
- Conduct a performance analysis: *When or how will I know that the outcome has been satisfactorily achieved, and how much deviation from the performance standard will I allow the contractor, if any?*

The integrated solutions team should consider the various approaches. Neither the OFPP nor DoD guide is mandatory; both describe an approach to analysis. (There are other guides and other approaches in the “seven steps” library as well.) Regardless of the analytical process adopted, the team’s task under step four is to develop certain information:

- A description of the requirement in terms of results or outcomes
- Measurable performance standards
- Acceptable quality levels (AQLs)

The AQL establishes the allowable error rate or variation from the standard. OFPP’s best-practices guide cites this example: In a requirement for taxi services, the performance standard might be “pickup within five minutes of an agreed upon time.” The AQL then might be five percent; i.e., the taxi could be more than five minutes late no more than five percent of the time. Failure to perform within the AQL could result in a contract price reduction or other action.

With regard to performance standards and AQLs, the integrated solutions team should remember that an option is to permit contractors to propose standards of service, along with appropriate price adjustment or other action. This approach fosters a reliance on standard commercial practices. (Remember that all these points -- performance standards, quality levels, and price -- are negotiable.)

## Apply the “so what?” test.

*There is nothing so useless as doing efficiently that which should not be done at all.*

(Peter Drucker)

An analysis of requirements is often, by its nature, a close examination of the status quo; that is, it is often an analysis of process and “how” things are done... exactly the type of detail that is not supposed to be in a PWS. The integrated solutions team needs to identify the essential inputs, processes, and outputs during job analysis. Otherwise, the danger is that contractors will bid back the work breakdown structure, and the agency will have failed to solicit innovative and streamlined approaches from the competitors.

One approach is to use the “so what?” test during job analysis. For example, once job analysis identifies outputs, the integrated solutions team should verify the continued need for the output. The team should ask questions like: Who needs the output? Why is the output needed? What is done with it? What occurs as a result? Is it worth the effort and cost? Would a different output be preferable? And so on...

## Capture the results of the analysis in a matrix.

As the information is developed, the integrated solutions team should begin capturing the information in a performance matrix. The Department of Treasury guide, “Performance-Based Service Contracting” illustrates a six-column approach with the following:

- Desired Outcomes: What do we want to accomplish as the end result of this contract?
- Required Service: What task must be accomplished to give us the desired result? (Note: Be careful this doesn't become a "how" statement.)
- Performance Standard: What should the standards for completeness, reliability, accuracy, timeliness, customer satisfaction, quality and/or cost be?
- Acceptable Quality Level (AQL): How much error will we accept?
- Monitoring Method: How will we determine that success has been achieved?
- Incentives/Disincentives for Meeting or Not Meeting the Performance Standards:
- What carrot or stick will best reward good performance or address poor performance? [This reflects priced and unpriced adjustments based on an established methodology. Reductions can be made for reduced value of performance.]

The Treasury guide provides templates for help desk, seat management, systems integration, software development, and system design/business process re-engineering services.

The Department of Defense approach is very similar: take the desired outcomes, performance objectives, performance standards, and acceptable quality levels that have been developed during the analytical process and document them in a Performance Requirements Summary (PRS). The PRS matrix has five columns: performance objective, performance standard, acceptable quality level, monitoring method, and incentive. The PRS serves as the basis for the performance work statement.

## Write the performance work statement.

There is not a standard template or outline for a PWS. The Federal Acquisition Regulation only requires that agencies--

- Describe the work in terms of the required results rather than either “how” the work is to be accomplished or the number of hours to be provided.
- Enable assessment of work performance against measurable performance standards.
- Rely on the use of measurable performance standards and financial incentives in a competitive environment to encourage competitors to develop and institute innovative and cost-effective methods of performing the work.

In terms of organization of information, a SOW-like approach is suitable for a performance work statement: introduction, background information, scope, applicable documents, performance requirements, special requirements (such as security), and deliverables. However, the team can adapt this outline as appropriate. Before finishing, there should be final checks:

- Examine every requirement carefully and delete any that are not essential.
- Search for process descriptions or “how” statements and eliminate them.

Many agencies have posted examples of performance-based solicitations that can provide some guidance or helpful ideas. (See LINKS section) However, since the nature of performance-based acquisition is (or should be) tied to mission-unique or program-unique needs, keep in mind that another agency’s solution may not be a good model.

## Let the contractor solve the problem, including the labor mix.

**FIRST**, keep this important “lesson learned” in mind:

*Don’t spec the requirement so tightly that you get the same solution from each offeror.*

**SECOND**, performance-based service acquisition requires that the integrated solutions team usually must jettison some traditional approaches to buying services... like specifying labor categories, educational requirements, or number of hours of support required. Those are “how” approaches. Instead, let contractors propose the best people with the best skill sets to meet the need and fit the solution. The government can then evaluate the proposal based both on the quality of the solution and the experience of the proposed personnel. In making the shift to performance-based acquisition, remember this:

*The significant problems we face cannot be solved at the same level of thinking we were at when we created them.*

(Albert Einstein)

## STEP 4: Develop a PWS or SOO.

The Department of Defense addresses this in the “Guidebook for Performance-Based Services Acquisition (PBSA) in the Department of Defense.” The guide provides as follows:

*Prescribing manpower requirements limits the ability of offerors to propose their best solutions, and it could preclude the use of qualified contractor personnel who may be well suited for performing the requirement but may be lacking -- for example -- a complete college degree or the exact years of specified experience.*

For some services, in fact, such practices are prohibited. Congress passed a provision (section 813) in the 2001 Defense Authorization Act, now implemented in the FAR (with government-wide applicability, of course). It prescribes that, when acquiring information technology services, solicitations may not describe any minimum experience or educational requirements for proposed contractor personnel unless the contracting officer determines that needs of the agency either (1) cannot be met without that requirement or (2) require the use of other than a performance-based contract.

Third, note there are times when more prescriptive language is required in a Performance Work Statement or in a Statement of Objectives (SOO). For example, when acquiring services where life and limb are at stake, agencies may provide more details regarding what has to be done. Guard services typically follow an agency security plan and there are certain aspects to the work that cannot be left to “contractor innovation.” Further, services of this type will have 100 percent performance standards (any intrusion is unacceptable), whereas for most other service types, the price for “perfection” would be unaffordable.

Remember that how the performance work statement is written will either empower the private sector to craft innovative solutions... or limit (sometimes but not always properly) or cripple that ability.

# Using a SOO

As discussed previously, an alternative approach to development of the PWS is to develop a statement of objectives. The FAR now provides that the SOO shall include “at a minimum” the following:

- Purpose
- Scope or mission
- Period and Place of Performance
- Background
- Performance Objectives (i.e., required results)
- Any Operating Constraints

The Government-prepared SOO is usually incorporated into the RFP either as an attachment or as part of Section L. At contract award, the contractor-proposed statement of work (solution) can be incorporated by reference or integrated into Section C.

## Begin with the acquisition’s “elevator message.”

How many solicitations have you seen that begin with a statement like, “This is a solicitation for a time-and-materials contract.” Or what about this one: “The purpose of this solicitation is to acquire information technology hardware, software, and services.” Or this one (true story): “This is a performance-based specification to acquire services on a time-and-materials basis.” In the context of performance-based acquisition, all are bad starts.

The first statement made in a statement of objectives should be an explanation of how the acquisition relates to the agency’s program or mission need and what problem needs solving (as identified under step two).

For example, in a task order solicitation by the Veterans Benefits Administration, this statement was made:

*The purpose of this task order is to obtain loan servicing in support of VA’s portfolio that will significantly improve loan guaranty operations and service to its customers.*

This simple statement was a signal that the acquisition had made a huge break from the predecessor contract, which had started with something like, “This is a requirement for information technology resources.” The turnaround was the realization that the need was for loan servicing support services; technology was the enabler.

## **Describe the scope.**

A short description of scope in the SOO helps the competitors get a grasp on the size and range of the services needed. The Veteran's Benefits Administration's scope statement follows:

*The purpose of this [task order] is to provide the full range of loan servicing support. This includes such activities as customer management, paying taxes and insurance, default management, accounting, foreclosure, bankruptcy, etc., as well as future actions associated with loan servicing. This Statement of Objectives reflects current VA policies and practices, allowing offerors to propose and price a solution to known requirements. It is anticipated that specific loan servicing requirements and resulting objectives will change over the life of this order. This will result in VA modifying this order to incorporate in-scope changes.*

Another consideration for the integrated solutions team to consider is the budget authority (in dollars) available to fund the acquisition. In an acquisition approach as "wide open" as a statement of objectives, the competing contractors will need insight into funding authority so that they can size their solution to be both realistic and competitive. This may be listed as a constraint.

## **Write the performance objectives into the SOO.**

In step two, the task of the integrated solutions team was to "decide what problem needs solving." The basis for that analysis was information in the agency's strategic and annual performance plans, program authorization documents, budget documents, and discussions with project owners and stakeholders. That information constitutes the core of the statement of objectives.

In the case of the Veterans Administration, for example, the acquisition's performance objectives were set forth in this opening statement:

*VA expects to improve its current loan servicing operations through this task order in several ways. Primary among these is to increase the number and value of saleable loans. In addition, VA wants to be assured that all payments for such items as taxes and insurance are always paid on time. As part of these activities, the VA also has an objective to improve Information Technology information exchange and VA's access to automated information on an as required basis to have the information to meet customer needs and auditors' requirements.*

What is immediately obvious is that these are mission-related, measurable objectives.

## **Make sure the government and the contractor share objectives.**

When the acquisition's objectives are "grounded in" the plans and objectives found in agency strategic performance plans, program authorization documents, and budget and investment documents, then the government and the contractor are clearly working in a partnership toward shared goals. This is a far cry from the old-school acquisition approach, characterized by driving cost down and then berating the supplier to demand delivery. When the agency and the contractor share the same goals, the likelihood of successful performance rises dramatically.



## Identify the constraints.

The purpose of a SOO is to provide contractors with maximum flexibility to conceive and propose innovative approaches and solutions. However, in some cases, there may be constraints that the government must place on those solutions. For example, core financial systems used by federal agencies must comply with requirements of OMB Circular A-127 and the guidance of the Joint Financial Management Improvement Program. Acquisitions related to technology will need to conform to the agency's information technology architecture and accessibility standards. In addition, there may be considerations of security, privacy, and safety that should be addressed. There may also be existing policies, directives, and standards that are constraining factors. The integrated solutions team should work with program managers, staff, customers, and stakeholders to identify these and to confirm their essentiality.

## Develop the background.

The background and current environment set forth in a statement of objectives comprise important information for contractors. The Veterans Benefits Administration's statement of work included sections on--

- VA loan servicing history,
- Current VA Portfolio Origination/Acquisition Process, and
- Overview of the Current Servicing Process.

A best practice when using a SOO is to provide a brief overview of the program, listing links to web-delivered information on the current contract, government-controlled, government-furnished equipment, and a hardware configuration or enterprise architecture, as appropriate. The development of this information is essential so that contractors can perform meaningful due diligence.

## Make the final checks and maintain perspective.

Before finalizing the document, the integrated solutions team should examine the entire SOO carefully and delete anything that is not essential.

Even more so than performance work statements, it is extremely unlikely that another agency's SOO would prove very useful, but several examples are provided in the library. Since this approach to performance-based acquisition is relatively new, the integrated solutions team should examine them critically. New processes take time to perfect... and require ongoing experimentation and innovation.

# 5

## Decide How to Measure & Manage Performance.

**D**eveloping an approach to measuring and managing performance is a complex process that requires consideration of many factors: performance standards and measurement techniques, performance management approach, incentives, and more. This component of performance-based contracting is as important as developing the Statement of Work (SOW) or the Statement of Objectives (SOO), because this step establishes the strategy of managing the contract to achieve planned performance objectives.

### Tasks, Features, & Best Practices: Learn More

- Review the success determinants.
- Rely on commercial quality standards.
- Have the contractor propose the metrics and the quality assurance plan.
- Select only a few meaningful measures on which to judge success.
- Include contractual language for negotiated changes to the metrics and measures.
- Apply the contract-type order of precedence carefully.
- Use incentive-type contracts.
- Consider "award term."
- Consider other incentive tools.
- Recognize the power of profit as motivator.
- Most importantly, consider the relationship.

See website for Additional Information

## Review the success determinants.

In Step Two, the integrated solutions team established a vision of what will constitute success for the project by answering two distinct questions: Where do I want to go, and how will I know when I get there?

The task now is to build the overall performance measurement and management approach on those success determinants.

## Rely on commercial quality standards.

Rather than inventing metrics or quality or performance standards, the integrated solutions team should use existing commercial quality standards (identified during market research), such as International Standards Organization (ISO) 9000 or the Software Engineering Institute's Capability Maturity Models®.

ISO has established quality standards (the ISO 9000 series) that are increasingly being used by US firms to identify suppliers who meet the quality standards. The term "ISO 9001 2000" refers to a set of new quality management standards which apply to all kinds of organizations in all kinds of areas. Some of these areas include manufacturing, processing, servicing, printing, electronics, computing, legal services, financial services, accounting, banking, aerospace, construction, textiles, publishing, energy, telecommunications, research, health care, utilities, aviation, food processing, government, education, software development, transportation, design, instrumentation, communications, biotechnology, chemicals, engineering, farming, entertainment, horticulture, consulting, insurance, and so on.

The Carnegie Mellon Software Engineering Institute, a Federally funded research and development center, has developed Capability Maturity Models® (CMM) to "assist organizations in maturing their people, process, and technology assets to improve long-term business performance." SEI has developed CMMs for software, people, and software acquisition, and assisted in the development of CMMs for Systems Engineering and Integrated Product Development:

- CMMI® Capability Maturity Model-Integration for Software
- P-CMM People Capability Maturity Model
- SA-CMM Software Acquisition Capability Maturity Model
- SE-CMM Systems Engineering Capability Maturity Model
- IPD-CMM Integrated Product Development Capability Maturity Model

The Capability Maturity Models express levels of maturation: the higher the number, the greater the level of maturity. There are five levels. Solicitations that require CMMs typically specify only level two or three.

The integrated solutions team can incorporate such commercial quality standards in the evaluation and selection criteria.

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\*Carnegie Mellon Software Engineering Institute, <http://www.sei.cmu.edu/managing/>

## Have the contractor propose the metrics and the quality assurance plan.

One approach is to require the contractor to propose performance metrics and the quality assurance plan (QAP), rather than have the government develop it. This is especially suitable when using a SOO because the solution is not known until proposed. With a SOO, offerors are free to develop their own solutions, so it makes sense for them to develop and propose a QAP that is tailored to their solution and commercial practices. If the agency were to develop the QAP, it could very well limit what contractors can propose.

As the integrated solutions team considers what is required in a QAP, it may be useful to consider how the necessity for quality control and assurance has changed over time, especially as driven by acquisition reform. In short, QAPs were quite necessary when federal acquisition was dominated by low-cost selections. Think about the incentives at work: To win award but still protect some degree of profit margin, the contractor had to shave his costs, an action that could result in use of substandard materials or processes. With best-value selection and an emphasis on past-performance evaluation and reporting, entirely different incentives are at work.

The regulations have changed to some degree to reflect this reality. FAR 46.102 provides that contracts for commercial items “shall rely on a contractor’s existing quality assurance system as a substitute for compliance with Government inspection and testing before tender for acceptance unless customary market practices for the commercial item being acquired permit in-process inspection.”

Air Force Instruction 63-124 (1 August 2005) addresses the concept of a performance plan and metrics:

*1.4.4. A Performance Plan. The performance plan is an evolving document whose development begins with acquisition planning, and finalized as the acquisition progresses. The members of the multi-functional team sign the performance plan. Award Fee plans containing the elements below qualify as the performance plan. The plan identifies:*

*1.4.4.1. Objective(s) in having the service provided, i.e., to provide quality housing maintenance to military members.*

*1.4.4.2. Results the multi-functional team is striving to achieve in managing the acquisition, e.g., cost savings, efficiencies, and improved customer service.*

*1.4.4.3. A distribution of the roles and responsibilities among the multi-functional team members.*

*1.4.4.4. A strategy, methods and tools the multi-functional team will use to assess the contractor’s performance against the performance thresholds, measurements, metrics, and incentives identified in the contract. Performance thresholds must be measurable in terms of quality and timeliness of performance.*

*1.4.4.5. A management approach, methods and tools the multi-functional team will routinely use to validate the objectives and goals identified as part of the Performance Plan, i.e. benchmarking, etc.*

*1.4.4.6. An incentive plan may be the management approach, methods and tools used to validate the objective and goals of the multi-functional team.*

*1.4.5. Performance metrics are to be used to track contractor progress towards meeting stated performance objectives. The multi-functional team in assessing contractor performance validates that the performance metrics align with the performance-based work statement and overall mission support objectives.*

## **STEP 5:** Decide how to measure & manage performance.

Remember the following key aspects. Performance metrics are negotiable and, wherever possible, address quality concerns by exception not inspection. Also, when contractors propose the metrics and the QAP, these become true discriminators among the proposals in best-value evaluation and source selection.

### **Select only a few meaningful measures on which to judge success.**

Whether the measures are developed by the proposing contractor or by the integrated solutions team, it is important to limit the measures to those that are truly important and directly tied to the program objectives. The measures should be selected with some consideration of cost. For example, the team will want to determine that the cost of measurement does not exceed the value of the information... and that more expensive means of measurement are used for only the most risky and mission-critical requirements.

The American Productivity and Quality Center website states that performance measures come in many types, including economic and financial measures such as return on investment, and other quantitative and qualitative measures. “Organizations are investing energy in developing measures that cover everything from capital adequacy and inventory turns to public image, innovation, customer value, learning, competency, error rate, cost of quality, customer contact, perfect orders, training hours, and re-engineering results.” Each measure should relate directly to the objectives of the acquisition.

### **Include contractual language for negotiated changes to the metrics and measures.**

One important step the integrated solutions team can take is to reserve the right to change the metrics and measures. One effective way to do this is for the agency and the contractor to meet regularly to review performance. The first question at each meeting should be, “Are we measuring the right thing?”

This requires that the contractual documents include such provisions as value engineering change provisions, share-in-savings options, or other provisions preserving the government’s right to review and revise.

### **Apply the contract-type order of precedence carefully.**

Under law and regulation, there is an order of preference in contract types used for performance-based contracting, as follows:

- (i) A firm-fixed price performance-based contract or task order.
- (ii) A performance-based contract or task order that is not firm-fixed price.
- (iii) A contract or task order that is not performance-based.

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\*American Productivity and Quality Center website,  
<http://www.apqc.org/portal/apqc/site/generic.jsessionid=WBCE3AKIUEVARQFIAJICFEQ?path=/site/performance/overview.jhtml>

Agencies must take care implementing this order of precedence. Be aware that a firm-fixed price contract is not the best solution for every requirement. “Force fitting” the contract type can actually result in much higher prices as contractors seek to cover their risks.

This view is upheld by FAR 16.103(b) which indicates, “A firm-fixed-price contract, which best utilizes the basic profit motive of business enterprise, shall be used when the risk involved is minimal or can be predicted with an acceptable degree of certainty. However, when a reasonable basis for firm pricing does not exist, other contract types should be considered, and negotiations should be directed toward selecting a contract type (or combination of types) that will appropriately tie profit to contractor performance.”

Clearly, the decision about the appropriate type of contract to use is closely tied to the agency’s need and can go a long way to motivating superior performance -- or contributing to poor performance and results. Market research, informed business decision, and negotiation will determine the best contract type.

One final point: The decision on contract type is not necessarily either-or. Hybrid contracts -- those with both fixed-price and cost-type tasks -- are common.

## **Use incentive-type contracts.**

Although determining the type of contract to use is often the first type of incentive considered, it is important to understand that contract type is only part of the overall incentive approach and structure of a performance-based acquisition. Other aspects have become increasingly important as agencies and contractors have moved closer to partnering relationships.

Contract types differ in their allocation and balance of cost, schedule, and technical risks between government and contractor. As established by FAR Part 16 (Types of Contracts), contract types vary in terms of:

- The degree and timing of the risk and responsibility assumed by the contractor for the costs of performance, and
- The amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals

The government’s obligation is to assess its requirements and the uncertainties involved in contract performance and select from the contractual spectrum a contract type and structure that places an appropriate degree of risk, responsibility, and incentives on the contractor for performance.

At one end of the contractual spectrum is the firm-fixed-price contract, under which the contractor is fully responsible for performance costs and enjoys (or suffers) resulting profits (or losses). At the other end of the spectrum is the cost-plus-fixed-fee contract, in which allowable and allocable costs are reimbursed and the negotiated fee (profit) is fixed -- consequently, the contractor has minimal respon-



## STEP 5: Decide how to measure & manage performance.

sibility for, or incentive to control, performance costs. In between these extremes are various incentive contracts, including:

- *Fixed-price incentive contracts (in which final contract price and profit are calculated based on a formula that relates final negotiated cost to target cost): these may be either firm target or successive targets.*
- *Fixed-price contracts with award fees (used to “motivate a contractor” when contractor performance cannot be measured objectively, making other incentives inappropriate).*
- *Cost-reimbursement incentive contracts (used when fixed-price contracts are inappropriate, due to uncertainty about probable costs): these may be either cost-plus-incentive-fee or cost-plus-award-fee.*

Use of certain types of incentives may be limited by availability of funds. Fortunately, there are other types of incentives that can be tailored to the acquisition and performance goals, requirements, and risks. For example, agencies can also incorporate delivery incentives and performance incentives -- the latter related to contractor performance and/or specific products' technical performance characteristics, such as speed or responsiveness. Incentives are based on meeting target performance standards, not minimum contractual requirements. These, too, are negotiable.

## Consider “award term.”

“Award term” is a contract performance incentive feature that ties the length of a contract’s term to the performance of the contractor. The contract can be extended for “good” performance or reduced for “poor” performance.

Award term is a contracting tool used to promote efficient and quality contractor performance. In itself, it is not an acquisition strategy, nor is it a performance solution. As with any tool, its use requires careful planning, implementation, and management/measurement to ensure its success in incentivizing contractors and improving performance.

The award term feature is similar to award fee (FAR 16.405-2) contracting where contract performance goals, plans, assessments, and awards are made regularly during the life of a contract. Award term solicitations and contracts should include a base period (e.g., 3 years) and a maximum term (e.g., 10 years), similar to quantity estimates used in indefinite quantity/indefinite delivery contracts for supplies (FAR 16.504).

When applying the award term feature, agencies need to identify and understand the project or task:

- Conditions, constraints, assumptions, and complexities
- Schedule, performance, and cost critical success factors
- Schedule, performance, and cost risks

They also need to understand marketplace conditions and pricing realities. Only then can agen-

## STEP 5: Decide how to measure & manage performance.

cies establish meaningful and appropriate schedule, performance, and cost measures/parameters for a specific contract. These measures must be meaningful, accurate, and quantifiable to provide the right incentives and contract performance results. Specifics need to be incorporated and integrated in an award term plan.

Award term is best applied when utilizing performance or solution-based requirements where a SOW or SOO describes the agency's required outcomes or results (the "what" and "when" of the agency's requirement) and where the contractor has the freedom to apply its own management and best performance practices (the "how" of the requirement) towards performing the contract. The award term plan must specify success measurement criteria, regarding how performance will be measured (i.e., defines what is "good" or "poor" performance) and the award term decision made.

There should also be a clear indication of the consequences of various levels of performance in terms of the contract's minimum, estimated, and maximum terms -- and the agency needs to be prepared to follow up with those consequences. If contractor performance is below the standard set, the contract ends at the completion of the base period. The agency must be prepared to re-procure in a timely fashion.

The effort applied in managing an award term contract after award is critical. Too often, agencies and contractors don't invest the right people (numbers and skills) and management attention during the contract performance phase. Managing contracts with features like award term is not a "last minute," incidental, or a fill-out-a-survey job. As in the case of its "sister" award fee approach, communication needs to be constant and clear with contractors, and not include so many evaluation elements that it dilutes the critical success factors.

## Consider other incentive tools.

Incentives can be monetary or nonmonetary. They should be positive, but include remedies, as appropriate, when performance targets or objectives are missed.

Creating an incentive strategy is much the same as crafting an acquisition strategy. There is no single, perfect, "one size fits all" approach; instead, the incentive structure should be geared to the acquisition, the characteristics of the marketplace, and the objectives the government seeks to achieve. While cost incentives are tied to a degree to contract-type decisions, there are other cost and noncost incentives for the integrated solutions team to consider, such as--

- Contract length considerations (options and award term)
- Strategic supplier alliances
- Performance-based payments
- Performance incentive bonus
- Schedule incentives
- Past performance evaluation
- Agency "supplier of the year" award programs
- Competitive considerations

## STEP 5: Decide how to measure & manage performance.

- Nonperformance remedies
- Value engineering change provisions
- Share-in-savings strategies
- Letters of commendation

Remember that performance incentives are negotiable. Developing an incentive strategy is a “study unto itself,” and there are some excellent guides on the subject.

### **Recognize the power of profit as motivator.**

One of the keys to effective incentives involves recognizing... then acting on... the private sector’s chief motivator: profit. It is a simple fact that companies are motivated by generating return for their investors. One contractor was heard to say, “You give us the incentive, we will earn every available dollar.”

The real opportunity is to make that work to the government’s advantage. For example, link the incentive program to the mutually agreed-to contract performance measures and metrics. Then, incorporate value engineering change provisions (VECP) or share-in-savings strategies that reward the contractor for suggesting innovations that improve performance and reduce total overall cost. Put more simply: Set up the acquisition so that a contractor and the government can benefit from economies, efficiencies, and innovations delivered in contract performance.

If the incentives are right, and if the contractor and the agency share the same goals, risk is largely controlled and effective performance is almost the inevitable outcome. This approach will help ensure that the contractor is just as concerned -- generated by self-interest in winning all available award fees and award terms -- about every element of contract performance, whether maximizing operational efficiency overall, reducing subcontract costs, or ensuring the adequacy of post-award subcontractor competition and reasonableness of prices, as is the agency.

### **Most importantly, consider the relationship.**

With regard to overall approach to contract performance management, the integrated solutions team should plan to rely less on management by contract and more on management by relationship. At its most fundamental level, a contract is much like a marriage. It takes work by both parties throughout the life of the relationship to make it successful. Consider, for example, the public-private partnership that was the Apollo Program. Other, more recent examples exist, but they all share the same common characteristics:

- Trust and open communication
- Strong leadership on both sides
- Ongoing, honest self-assessment
- Ongoing interaction
- Creating and maintaining mutual benefit or value throughout the relationship

## STEP 5: Decide how to measure & manage performance.

There are several means to shift the focus from management by contract to management by relationship. For example, plan on meeting with the contractor to identify ways to improve efficiency and reduce the effect of the “cost drivers.” Sometimes agencies require management reporting based on policy without considering what the cost of the requirement is. For example, in one contract, an agency required that certain reports be delivered regularly on Friday. When asked to recommend changes, the contractor suggested that report due date be shifted to Monday because weekend processing time costs less. An example is requiring earned-value reporting on every contractual process. For tasks of lesser risk, complexity, and expense, a less costly approach to measuring cost, schedule, and performance can be used. This type of collaborative action will set the stage for the contractor and government to work together to identify more effective and efficient ways to measure and manage the program.

Another effective means is to establish a Customer Process Improvement Working Group that includes contractor, program, and contracting representatives. This works especially well when the integrated solutions team’s tasks migrate into contract performance and they take part in the working group. These meetings should always start with the question, are we measuring the right thing?

For major acquisitions, the team can consider the formation of a higher-level “Board of Directors,” comprised of top officials from the government and its winning partner, with a formal charter that requires continual open communication, self-assessment, and ongoing interaction.

*The intent to “manage by relationship” should be documented in a contract administration plan that lays out the philosophies and approach to managing this effort, placing special emphasis on techniques that enhance the ability to adapt and incorporate changes.*

# 6

## Select the right contractor.

**D**eveloping an acquisition strategy that will lead to selection of the “right contractor” is especially important in performance-based acquisition. The contractor must understand the performance-based approach, know or develop an understanding of the agency’s requirement, have a history of performing exceptionally in the field, and have the processes and resources in place to support the mission. This goes a long way to successful mission accomplishment. In fact, selecting the right contractor and developing a partnership automatically solves many potential performance issues.

Keep in mind that large businesses have not “cornered the market” on good ideas. Small firms can be nimble, quick thinking, and very dedicated to customer service. While there is a cost in proposing solutions, a small business with a good solution can win performance-based awards.

Also, do not think you are limited to companies that specialize in the federal market. Information obtained from market research sessions has shown that often commercial companies -- or commercial divisions of companies that do federal and commercial business -- have significantly more experience with performance-based service delivery methods and techniques.

While there are many aspects to crafting an acquisition strategy, among the most important for performance-based

### Tasks, Features, & Best Practices: Learn More

- Compete the solution  
Use downselection and "due diligence."
- Use oral presentations and other opportunities to communicate.
- Emphasize past performance in evaluation.
- Use best-value evaluation and source selection.
- Assess solutions for issues of conflict of interest.

See website for Additional Information

acquisition are to “compete the solution,” use downselection and “due diligence,” evaluate heavily on past performance information, and make a best-value source selection decision.

## Compete the solution.

Too many government-issued statements of work try to “solve the problem.” In such cases, the agency issues a detailed SOW, often with the assumption that “the tighter the spec the better,” without realizing that this approach increases the government’s risk. \* The agency SOW establishes what to do, how to do it, what labor categories to provide, what minimum qualifications to meet, and how many hours to work. The agency then asks vendors to respond with a “mirror image” of the specifications in the proposal. The result is that the “competing” vendors bid to the same government-directed plan, and the agency awards the contract to the company with the best proposal writers... not the best ideas.

So the first key to selecting the right contractor is to structure the acquisition so that the government describes the problem that needs to be solved and vendors compete by proposing solutions. The quality of the solution and the contractor-proposed performance measures and methodology then become true discriminators in best-value evaluation.

## Use downselection and “due diligence.”

Responding to a performance-based solicitation, especially a SOO that seeks contractor-developed solutions, is substantial work for contractors. Likewise, evaluation of what may be significantly different approaches or solutions is much more substantial work for the integrated solutions team. The team will have to understand the contractor-proposed solutions, assess the associated risks and likelihood of success, identify the discriminators, and do the best-value tradeoff analysis.

Because of this, the acquisition strategy should consider some means of “downselection” or limiting the competitive pool, so that only those contractors with a significant likelihood of winning award will go through the expense of developing proposals. As to the integrated solutions team, evaluating dozens of solution-type proposals would be overly burdensome.

“Downselection” is a means of limiting the competitive pool to those contractors most likely to offer a successful solution. There are two primary means of downselection in current acquisition methodology: (1) using the Federal Supply Schedules (FSS) Multiple Award Schedule (MAS) competitive process and (2) using the “fair opportunity” competitive process under an existing Government-wide Agency Contract (GWAC) or multiple-award contract (MAC).

Even in full and open competitions, there are means of limiting the competitive pool—providing competition as well as efficiency and cost effectiveness for the government and contractors as well. Many in the acquisition community are familiar with the establishment of a competitive range. But there is another technique: using the multistep advisory process in a negotiated procurement. All these methods provide a means to establish a small pool of the most qualified contractors, competing to provide the solution. In each case, the approach leverages competition previously conducted.

Once the competing pool of contractors is established, those contractors enter a period called due diligence. “Due diligence” is used in acquisitions to describe the period and process during which competitors take the time and make the effort to become knowledgeable about an agency’s needs in order to propose a competitive solution. It usually includes site visits, meetings with key agency people, and research and analysis necessary to develop a competitive solution tailored to agency requirements.

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\* This is because if the government specifications are not accurate or feasible, any increase in cost or time is at government expense.



## **STEP 6:** Select the right contractor.

During this time, the competing contractors must have access to the integrated solutions team and program staff so that the contractors can learn as much as possible about the requirement. It is a far more open period of communication than is typical in more traditional acquisitions.

### **Use oral presentations and other opportunities to communicate.**

One streamlining tool that eases the job of evaluation is the use of oral presentations (characterized by “real-time interactive dialogue”). These presentations provide information about the contractor’s management and/or technical approach that the integrated solutions team will use in evaluation, selection, and award.

Oral presentations provide “face time,” permitting the integrated solutions team to assess prospective contractors. Agencies have said that oral presentations remove the “screen” that professional proposal writers can erect in front of the contractor’s key personnel. The integrated solutions team should take full advantage of “face time” by requiring that the project manager and key personnel (those who will do the work) make the presentations. This gives agency evaluators an opportunity to see part of the vendor-proposed solution team, to ask specific questions, and to gauge how well the team works together and would be likely to work with the agency.

Oral presentations can lay out the proposed solution and the contractor’s capability and understanding of the requirement. Oral presentations *may substitute for, or augment, written information*. However, it’s important to remember that statements made in oral presentations are not binding unless written into the contract. Note that oral presentations should be recorded in some way.

Communication with offerors is an important element of selecting the right contractor. Despite this fact, it is “trendy” in negotiated procurements to announce the intent to award without discussions. Given the complexities associated with performance-based proposals (i.e., different approaches and different performance metrics), it is nearly impossible to award without conducting discussions. While it may reduce time, it is important to use discussions to fully understand the quality of the solution, the pricing approach, incentive structure, and even the selection itself.

### **Emphasize past performance in evaluation.**

A contractor’s past performance record is arguably the key indicator for predicting future performance. As such, it is to the agency’s advantage to use past performance in evaluating and selecting contractors for award. Evaluation of past performance is particularly important for service contracts. Properly conducted, the collection and use of such information provides significant benefits. It enhances the government’s ability to predict both the performance quality and customer satisfaction. It also provides a powerful incentive for current contractors to maximize performance and customer satisfaction.

Past performance information can come from multiple sources. The two most familiar methods are asking the offerors to provide references and seeking information from past performance information databases. The Past Performance Information Retrieval System , or PPIRS, is the Government-

## STEP 6: Select the right contractor.

wide repository for past performance information. It ties together a number of data bases formerly independent of one another.

There are other means of obtaining past performance information for evaluation. One very important means is through market research. Call counterparts in other agencies with similar work and ask them for the names of the best contractors they've worked with. Are there industry awards in the field of work? Who has won them? In fact, ask offerors to identify their awards and events of special recognition. Look for industry quality standards and certifications, such as ISO 9000 and SEI CMM® (discussed in Step Five). Ask offerors what they do to track customer satisfaction and to resolve performance issues. Is there an established and institutionalized approach? In short, the integrated solutions team must take past performance more seriously than just calling a few references. Make the answers to these questions part of the request for proposals. Rather than have a separate past performance team, integrate this evaluation into the technical and management proposal evaluation effort.

When used in the source selection evaluation process, past performance evaluation criteria must provide information that allows the source selection official to compare the "quality" of offerors against the agency requirement and assess the risk and likelihood of success of the proposed solution and success of contractor performance. This requires the information to be relevant, current and accurate. For example, the information requested of the contractor and evaluated by the integrated solutions team should be designed to determine how well, in contracts of similar size, scope and complexity, the contractor--

- Conformed to the contract requirements and standards of good workmanship.
- Adhered to contract schedules.
- Forecasted and controlled costs.
- Managed risk.
- Provided reasonable and cooperative behavior and commitment to customer satisfaction.
- Demonstrated business-like concern for the interest of the customer.

The answers to the above list provide the source selection authority with information to make a comparative assessment for the award decision.

## Use best-value evaluation and source selection.

"Best value" is a process used to select the most advantageous offer by evaluating and comparing factors in addition to cost or price. It allows flexibility in selection through tradeoffs which the agency makes between the cost and non-cost evaluation factors with the intent of awarding to the contractor that will give the government the greatest or best value for its money.

Note that "the rules" for the best-value and tradeoff process (and the degree of documentation required) depend on two factors: the rules for the specific acquisition process being used and the rules the agency sets in the solicitation. For example, when conducting a negotiated procurement, the complex processes of FAR Subpart 15.1, "Source Selection Processes and Techniques," and FAR Subpart

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15.3, “Source Selection,” apply. When using Federal Supply Schedule contracts, the simpler provisions at FAR 8.404 apply. However, if the agency writes FAR 15-type rules into a Request for Quote under Federal Supply Schedule contracts, the rules in the RFQ control.

The integrated solutions team should consider including factors such as the following in the evaluation model:

- Quality and benefits of the solution
- Quality of the performance metrics and measurement approach
- Risks associated with the solution
- Management approach and controls
- Management team (limited number of key personnel)
- Past performance (how well the contractor has performed)
- Past experience (what the contractor has done)

The General Accounting Office acknowledges broad agency discretion in selection; therefore, the integrated solution team evaluators and the source selection authority should expect to exercise good judgment. Quite simply, best-value source selection involves subjective analysis. It cannot, and should not, be reduced to a mechanical, mathematical exercise. The following, derived from GAO protest decision B-284270, reflects just how broad agency discretion is.

- Source selection officials have broad discretion to determine the manner and extent to which they will make use of the technical and price evaluation results in negotiated procurements.
- In deciding between competing proposals, price/technical tradeoffs may be made; the propriety of such tradeoffs turns not on the difference in technical scores or ratings per se, but on whether the source selection official’s judgment concerning the significance of that difference was reasonable and adequately justified in light of the RFP evaluation scheme.
- The discretion to determine whether the technical advantages associated with a higher-priced proposal are worth the price premium exists notwithstanding the fact that price is equal to or more important than other factors in the evaluation scheme.
- In a best-value procurement, an agency’s selection of a higher-priced, higher-rated offer should be supported by a determination that the technical superiority of the higher-priced offer warrants the additional cost involved.

## Assess solutions for issues of conflict of interest.

An “organizational conflict of interest” exists when a contractor is or may be unable or unwilling to provide the government with impartial or objective assistance or advice. An organizational conflict of interest may result when factors create an actual or potential conflict of interest on a current contract or

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a potential future procurement.

While concerns about organizational conflict of interest are important, they should be tempered by good business sense. For example, sometimes software development is done in stages. Organizational conflict of interest would suggest that the contractor that does the initial systems design work be precluded from the follow-on code development due to unfair competitive advantage. However, this would also mean that the agency is excluding from consideration the contractor with the best understanding of the requirement. In this case, perhaps the acquisition approach should be reconsidered to allow the definer of the requirements to continue with the development.

# 7

## Manage Performance.

**T**he final step of the seven steps of performance-based acquisition is the most important. Unlike legacy processes where the contract is awarded and the team disperses, there is a growing realization that “the real work” of acquisition is in contract management. This requires that agencies allocate sufficient resources, in both the contracting or program offices, to do the job well.

This is largely a problem of resource allocation and education. Again, legacy processes are much to blame. Many contracting staff learned their job when the culture was to maintain an arm’s length distance (or more) from contractors... and, by all means, limit the amount of contact the contractor has with program people. That approach won’t work in today’s environment and especially not in performance-based acquisition. The contractor must be part of the acquisition team itself... a reality recognized by the guiding principles of the federal acquisition system. FAR 1.102(c) provides:

*The Acquisition Team consists of all participants in Government acquisition including not only representatives of the technical, supply, and procurement communities but also the customers they serve, and the contractors who provide the products and services.*

Effective contract management is a mission-critical agency function. This goes to the heart of the need to maintain sufficient core capability in the federal government to manage its programs. If the contractor is flying blind in performance, then the agency will soon fly blind and without landing gear when the contract is over.

### Tasks, Features, & Best Practices: Learn More

- Keep the team together.
- Adjust roles and responsibilities.
- Assign accountability for managing contract performance.
- Add the contractor to the team at a formal "kick-off" meeting.
- Apply the Six Disciplines of Performance-Based Management™
- Regularly review performance in a Contract Performance Improvement Working Group.
- Ask the right questions.
- Report on the contractor's "past performance."

See website for Additional Information

This step, contract performance, is guided far less by law, regulation, and policy than those described in the preceding steps. To a large degree, the management of contract performance is guided by the contract’s terms and conditions and is achieved with the support of the business relationships and communications established between the contractor and the integrated solutions team. It is in the best interest of all parties concerned that the contract be successful. contract be successful.

## **Keep the team together.**

To be successful in performance-based acquisition, the agency must retain at least a core of the integrated solutions team on the project for contract management. Those on the team have the most knowledge, experience, and insight into what needs to happen next and what is expected during contract performance. Contract award is not the final measure of success. Effective and efficient contract performance that delivers a solution is the goal. The team should stay together to see that end reached.

Acquisition team members are expected to collaborate with all requisite external organizations in order to provide the best possible service to the citizens. The most notable example, 20 years on the making, is the USDA's food stamp program. The federal government collaborated with state and local governments, banks, and supermarkets to move away from the paper food stamps to debit cards. This has not only helped ease the "stigma" of the food stamps but has significantly reduced fraud.

## **Adjust roles and responsibilities.**

Often the members of the acquisition team take on new roles during the contract performance phase. Typically, these responsibilities are shared between the program office and contracting office.

Given that the purpose of any acquisition (in part) is "to deliver on a timely basis the best value product or service to the customer" (as provided in FAR 1.102), meeting this objective requires the continued involvement of the program office in duties classified as contract administration as well as those more accurately described as program (or project) management.

Program management is concerned with maintaining the project's strategic focus and monitoring and measuring the contractor's performance. The integrated solutions team is ultimately responsible for ensuring that the contractor performs on time and within budget. On smaller acquisitions, the contracting officer's technical representative (COTR) may fill this role.

Contract administration involves the execution of the administrative processes and tasks necessary to see that the contractual requirements are met, by both contractor and agency. FAR Subpart 42.3 identifies the numerous but specific contract administration functions that may be delegated by the contracting office to a contract administration office, and in turn to a specific individual.

## **Assign accountability for managing contract performance.**

Just as important as keeping the team together is assigning roles and responsibilities to the parties. Contracting officers have certain responsibilities that can't be delegated or assumed by the other members of the team. These include, for example, making any commitment relating to an award of a task, modification, or contract; negotiating technical or pricing issues with the contractor; or modifying the stated terms and conditions of the contract. Some roles and responsibilities are decreed... for example, agencies are required to establish capability and training requirements for contracting officers technical representatives (COTRs).

Make sure the people assigned the most direct roles for monitoring contract performance have read and understand the contract and have the knowledge, experience, skills, and ability to perform



their roles. In performance-based organizations, they are held accountable for the success or failure of the program they lead. They should know the program needs in depth, understand the contractor's marketplace, have familiarity with the tools the contractor is using to perform, have good interpersonal skills... and the capability to disagree constructively.

Enhanced professionalism in contract performance management is on the horizon. In November 2003, the Services Acquisition Reform Act (SARA) was passed with a number of noteworthy provisions. As called for in SARA, a fund has been established (in FY2005) to ensure Government program managers are properly trained and certified to manage large projects. The fund is managed under the direction of the Office of Federal Procurement Policy and the Federal Acquisition Institute's Board. Certified project managers' names will appear on OMB Form 300 submissions. See [www.pubklaw.com/legis/SARA2003ssa.pdf](http://www.pubklaw.com/legis/SARA2003ssa.pdf). Information on certification programs can be found at [www.pmi.org](http://www.pmi.org). These requirements are part of a larger effort to link budget to performance, and to improve project management in order to reduce or eliminate wasteful spending.

## **Add the contractor to the team at a formal “kick-off” meeting.**

It is often advisable -- and sometimes required by the contract -- to conduct a “kick-off meeting” or, more formally, a “post-award conference,” attended by those who will be involved in contract performance. Even though a post-award conference may not be required by the contract, it is an especially good idea for performance-based contracts. This meeting can help both agency and contractor personnel achieve a clear and mutual understanding of contract requirements and further establish the foundation for good communications and a win-win relationship.

It is very important that the contractor be part of the integrated solutions team, and that agency and contractor personnel work closely together to fulfill the mission and program needs.

## **Apply the Six Disciplines of Performance-Based Management™**

Performance-based acquisition requires “a uniquely disciplined approach to managing contract performance and to program management - one that is laser focused on strategic mission outcomes and results.” In short, performance-based acquisition requires performance-based management, concludes an Acquisition Solutions® Advisory, and the application of certain disciplines to the process.

“You must align your organization strategically, prepare your people, make sure everyone understands the “rules” and their roles, set up good communications processes, recognize that there will be risk to be managed, and put in place a framework for measuring performance that lets you understand where you've been, where you are, where you need to go--and why. The six disciplines are:

1. Cultural Transformation--Proactively manage the organizational and cultural changes integral to the success of the initiative;

## STEP 7: Manage Performance.

2. Strategic Linkage--Provide a consistent vision throughout the organization, making sure the desired results reflect organizational strategic goals;
3. Governance--Establish roles, responsibilities, and decision-making authorities for project implementation;
4. Communications--Identify the content, medium, and frequency of information flow to all stakeholders;
5. Risk Management--Identify, assess, monitor, and manage risks; and
6. Performance Monitoring--Analyze and report status--cost, schedule, and performance--on a regularly scheduled basis during project execution.”

Applying these disciplines to contract management helps drive “performance and results throughout an agency’s culture and business operations” and enhances the achievement of mission results.

## Regularly review performance in a Contract Performance Improvement Working Group.

Performance reviews should take place regularly, and that means much more than the annual “past performance” reviews required by regulation. These are contract management performance reviews, not for formal reporting and rebutting, but for keeping the project on course, measuring performance levels, and making adjustments as necessary. For most contracts, monthly or bi-monthly performance reviews would be appropriate. For contracts of extreme importance or contracts in performance trouble, more frequent meetings may be required.

Measuring and managing a project to the attainment of performance goals and objectives requires the continued involvement of the acquisition team, especially the program manager. It also requires considerable involvement by the acquisition team’s new members -- contractor personnel.

## Ask the right questions.

It is important to keep the focus of the meetings on improving performance, not evaluating people. Each meeting should start with the questions, “Are we measuring the right thing?” and “How are we doing?” It is important to continually revisit the success measures the team identified during Step Two. Other important questions are--

- Is the acquisition achieving its cost, schedule, and performance goals?
- Is the contractor meeting or exceeding the contract's performance-based requirements?
- How effective is the contractor's performance in meeting or contributing to the agency's program performance goals?
- Are there problems or issues that we can address to mitigate risk?

There should be time in each meeting where the agency asks, “Is there anything we are requiring that is affecting the job you can do in terms of quality, cost, schedule, or delivering the solution?” Actions discussed should be recorded for the convenience of all parties, with responsibilities and due dates assigned.

## **Report on the contractor’s “past performance”**

There are many types of performance reporting that may be required of the integrated solutions team. For example, agency procedures may establish special requirements for acquisition teams to report to the agency’s investment review board regarding the status of meeting a major acquisition’s cost, schedule, and performance goals (as required by the Federal Acquisition Streamlining Act). The team may also be responsible for performance reporting under the Government Performance and Results Act, if the contractor’s performance directly supports a GPRA performance goal. Refer to internal agency guidance on these processes.

However, one type of performance reporting requirement -- evaluation of the contractor’s performance -- is dictated by the contract terms and conditions and by FAR 42.15. This requirement is generally referred to as past-performance evaluation.

The FAR now requires that agencies evaluate contractor performance for each contract in excess of \$100,000. The performance evaluation and report is shared with the contractor, who has an opportunity to respond before the contracting officer finalizes the performance report. In well managed contracts, there has been continual feedback and adjustment, so there should be no surprises on either side.

## **Conclusion**

The intent of this guide is to make the subject of performance-based acquisition accessible and logical for all and shift the paradigm from traditional “acquisition think” into one of collaborative, performance-oriented teamwork with a focus on program performance, improvement, and innovation, not simply contract compliance. Performance-based acquisition offers the potential to dramatically transform the nature of service delivery, and permit the federal government to tap the enormous creative energy and innovative nature of private industry.

*Let the acquisitions begin!*