



Highlights of [GAO-03-327](#), a report to Congressional Requesters, House of Representatives

Why GAO Did This Study

The Congress and federal agencies are increasingly turning to performance-based contracting methods to enhance the delivery of government services. Share-in-Savings (SIS) contracting—in which the contractor assumes more risk by investing upfront costs but also receives a share in any savings generated by its efforts—is one performance-based technique that Congress is trying to promote. We were asked to examine its use by industry in terms of whether there were any key conditions that needed to be in place to make this technique successful.

In conducting our review, we found that the form of SIS used in a commercial contract varied by contract. Some contracts employed a basic SIS approach, in which a contractor's total compensation was paid entirely through sharing a portion of a client's savings or increased revenues. And some employed a tailored approach in which contractors were paid for at least some portion of their time and materials costs, even if savings or increased revenues were not realized. We performed a detailed analysis on four specific contracts to identify conditions that fostered success.

What GAO Recommends

We did not make recommendations in this report.

www.gao.gov/cgi-bin/getrpt?GAO-03-327.

To view the full report, including the scope and methodology, click on the link above. For more information, contact David Cooper (202) 512-4125, CooperD@gao.gov.

CONTRACT MANAGEMENT

Commercial Use of Share-in-Savings Contracting

What GAO Found

SIS can be a highly effective contracting technique to motivate contractors to generate savings and revenues for their clients. But to be successful, clients and their contractors need to be specific and in agreement in their goals and objectives, as well as how to achieve them. This can be a difficult task for more complex services, but the companies we spoke with found that pursuing this type of arrangement was worth the extra effort.

Conditions that Facilitate Success

- ***An Expected Outcome Is Clearly Specified.*** By outcomes, we mean such things as generating savings by eliminating inefficient business practices, realizing savings through conservation measures, or identifying new revenue centers. Because the success of SIS relies heavily on the ability to identify and track savings or revenues, it is critical that a contractor and client have a clear understanding of what they are trying to achieve.
- ***Incentives are defined.*** Both the client and the contractor need to strike a balance between the level of risk and reward they are willing to pursue. A pure SIS arrangement offers attractive benefits, such as no upfront investment on the part of a client and a bigger return for a contractor. But there are real risks, particularly for a contractor, if savings or revenues are not realized as anticipated. As a result, clients and contractors need to work through incentives and risks and come to agreement on how far they would take their SIS arrangement.
- ***Performance measures are established.*** By its nature, SIS cannot work without having a baseline and good performance measures to gauge exactly what savings or revenues are being achieved. Agreement must be reached on how metrics are linked to contractor intervention. For some services, such as energy management, they are relatively easy to define. For more complex services, such as those in the information technology industry, this can be a much more difficult task.
- ***Top management commitment is secured.*** This is paramount in any SIS arrangement. A client's top executives need to provide contractors with the authority needed to carry out solutions, since change from the outside is often met with resistance. They also need to help sustain a partnership over time since relationships between the contractor and client can be tested in the face of changing market conditions, legal pitfalls, and other barriers.

To date, federal agencies have made limited use of SIS contracting. Officials we spoke with noted that these arrangements may be difficult to pursue, given potential resistance and the lack of good baseline performance data. However, it may be worthwhile for agencies to examine ways to overcome potential problems to achieve better outcomes.