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ADVISORY

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The radically different approach taken in performance-based acquisition . . . requires a uniquely disciplined approach to managing contract performance . . .

Performance-Based Acquisition Requires the Six Disciplines of Performance-Based Management™

By Anne Reed and Svetlana Carter

Professionals who love the business of government enjoy a unique environment in Acquisition Solutions. With dozens of agencies as our consulting clients, we have the opportunity to work on "once in a lifetime" acquisitions several times a year. The potential to amass best practices and lessons learned and advance thought leadership in acquisition is accelerated.

This *Advisory* discusses our most important recent conclusion—one that is changing not only the services we offer our clients, but the nature of our business as well: *Performance-based acquisition requires performance-based management.*

Why does performance-based acquisition require performance-based management?

There is a simple answer. The radically different approach taken in performance-based acquisition (especially when a statement of objectives is used) requires a uniquely disciplined approach to managing contract performance and to program management—one that is laser focused on strategic mission outcomes and results.

Performance-based Acquisition is…

Structuring all aspects of an acquisition around the purpose of the work as opposed to either the manner by which the work is to be performed or broad and imprecise statements of work.

See Acquisition Directions™ May 2001 Advisory, An Innovative Approach to Performance-Based Acquisition: Using a SOO

What is Performance-Based Management?

As conceived by Acquisition Solutions, performance-based management encompasses six essential disciplines supported by repeatable, cyclical processes. (See the graphic representation on page 2). 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

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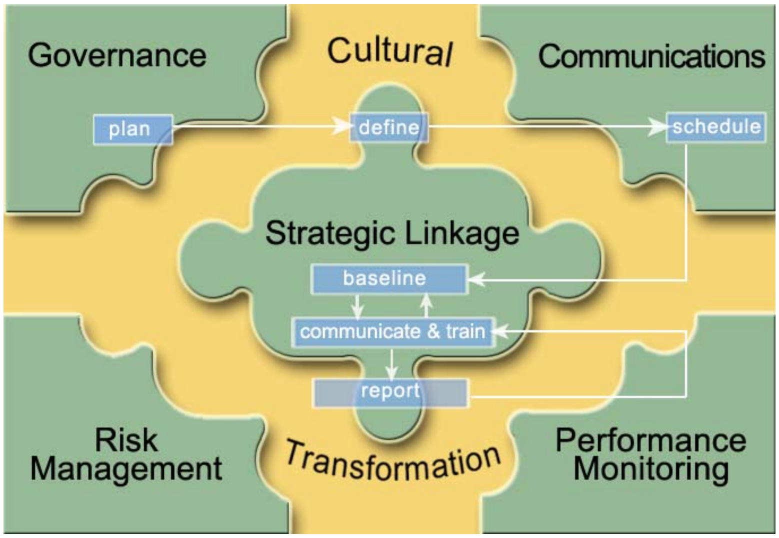

risk to be managed, and put in place a framework for measuring performance that lets you understand where you've been, where you are, where you need to go—and why. The six disciplines are:

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

Performance-based management is an implementation-focused application of the concepts of performance-based *acquisition*. Incorporated into the implementation are tools and techniques for planning, defining, scheduling, baselining, communicating, training, and reporting. Thereby, the "repeatable" processes are introduced into the discipline of performance-based management.

Wedded together, Performance-Based Acquisition and Management (PBAM) is a complete, strategic approach to ensuring that the business of the government, delivered through contract, is managed based on performance.

The following sections address the six disciplines and how they are applied.

Discipline 1: Cultural Transformation

Cultural transformation encompasses the identification of how an organization and its people need to change to make an initiative successful, as well as the shepherding of that organization through acceptance and institutionalization of the new processes and behaviors.

How do you prepare for a cultural transformation?

First, you must be prepared to invest to create the right environment and processes. This environment must promote and encourage measuring performance and delivering results; must motivate individuals, teams, and the entire organization to execute their authority and fulfill their responsibilities; must stimulate government and contractor employees to perform work and achieve the desired results; must inspire shared results; and must assure repeatable processes.

To create this type of environment to support performance-based management, you will need the following:

- **Executive Leadership**—Establish an environment of ownership and active participation at the top that will cascade down through the organization. The leader identified as executive sponsor of the project must be someone who is respected by the organization faced with change.
- **Trust**—Establish good working relationships and partnership among all project participants, including contractors, the agency program managers, and procurement specialists.
- **Clarity**—Establish a clear picture of what people are expected to do and achieve. Use the organization's mission, individual roles and responsibilities, definitions for success, performance expectations, and performance reporting to create a clear picture.
- **Ownership**—Establish, as appropriate, individual and group ownership for actions so there is a personal interest in the outcomes.

- **Consistency**—Establish consistent policies, procedures, and resources so that stakeholders and participants understand the organization's commitment to improving the business environment.
- **Planning**—Develop a formal Change Management Plan that addresses organizational readiness, gap analysis, and training (or other specific requirements) that will be needed to prepare for the cultural transformation.
- **Preparation**—Help the workforce adapt to this new way of doing business by using techniques such as coaching, mentoring, training, facilitated sessions, and exercises in teamwork. Remember that your participants will range from early adopters to those that take a "wait and see" attitude.
- **Reinforcement**—Keep sending the transformation message; there is a stronger pull from the old and familiar way of doing business than the new. This causes backsliding into old habits and processes; people are often not even aware that they are doing so.

Discipline 2: Strategic Linkage

Strategic Linkage provides a consistent vision throughout the organization, vertically and horizontally, making sure the intended results from the contract reflect and support organizational strategic goals and are achieved during performance-based management. This linkage is both organizational and personal.

How do you align an organization "strategically"?

One of the keys to initial program budgetary approval is alignment with the organization's mission and strategic goals. The statement of objectives (SOO)—

- Should link back to the agency or department strategic plan and budget documentation, including (for example) for information technology (IT) projects an Office of Management and Budget (OMB) Exhibit 300 business case;[1] and
- Should define success for each objective in words that fit the critical success factors identified in your organization's strategic plan. This will establish the framework for what is important to measure.

The discipline of strategic linkage does not end with the initial contact award, but continues through implementation. It is possible to have a project that is performing on schedule, within budget, and delivering exactly what was envisioned—but is out of alignment because of unanticipated changes in policy or strategic direction. You need to establish processes to assure that there are checkpoints to revalidate the strategic linkage and take corrective action where appropriate.

Additionally, individual performance expectations should be linked to the organizational expectations. Individuals' performance plans should be directly linked to the overall success of the project—which is linked to the success of the organization's mission.

Discipline 3: Governance

Governance encompasses the establishment of roles, responsibilities, and decision-making authorities for project implementation … as well as their successful application.

How do you "govern" the process?

Many well conceived projects founder because decisions are not made in a timely way or are made by the "wrong" people. Costly misunderstandings ensue and trust is eroded when there is a lack of clarity around who has the authority to make what decisions. The governance process is a key aspect of accountability—on the part of both government and industry.

You can govern the process by establishing an organizational framework along with processes for ensuring the objectives of a project continue to be met after contract award. Tailored contract governance structures will assist in identifying and addressing issues and challenges early, as well as establishing ways for resolving issues and disputes. In order for a project to flow smoothly and successfully, it is important that the governance process involve representatives from all the stakeholder groups, with clearly assigned roles, responsibilities, and reporting relationships among them.

A robust governance model will, for example:

- Clearly establish roles and responsibilities of key stakeholders (for example, executive sponsor, program manager (government & industry), the government's Contracting Officers Technical Representative (COTR) and the Contracting Officer, and sometimes the customers).
- Identify and create charters for advisory and decision-making bodies (for example, Executive Steering Committee, Program Management Office, Change Control Board, Integrated Project Teams).

CHARTER COMPONENTS

Purpose	Membership
Scope	Roles & Responsibilities
Authority	Meeting Quorums
Organization	Operating Guidelines
	Key Milestones

- Define decision-making and related authorities for key individuals (for example, who recommends, who approves, and who signs?).
- Identify dispute resolution processes.

To be effective, the governance model should recognize that there are some decision frameworks that are unique to the government, some that are unique to the industry partner(s), and some that require joint ownership.

Discipline 4: Communications

Communications involves identifying the content, medium, and frequency of information flow, as well as the organizational elements the information is intended to support.

How should you communicate to effectively support change?

In any initiative that requires a lot of collaboration to implement—or once implemented, will result in new processes or procedures—communications before, during, and after the planned change can make the difference between success and failure. Communications must occur on many levels.

You must first define your organization's communications objectives. You must also identify the needs of key internal and external audiences critical to achieving the objectives of the change, as well as preferred or appropriate communication styles. All stakeholders will want to be regularly informed about the status of the project.

Having defined the communications objectives and audience, a communication plan should then be developed. The plan should identify the processes needed to ensure the timely and appropriate generation, collection, dissemination, and storage of project information. Communications mediums may range from formal briefings to newsletters, video teleconferences, or websites. Regardless of the vehicle chosen to distribute information, messages should be tailored to the audience and must be clear, honest, consistent, frequent, open and complete (see the chart at right).

Communication Principles
Honesty is the only policy. Enough said.
Segment the audiences. Acknowledge the fact that different audiences have different needs.
Use multiple channels. Use a variety of vehicles to assure maximum penetration and receptivity.
Use multiple voices. Use various agency leaders to ensure credibility and "reach."
Communicate clearly. Make the content of the message clear and specific.
Communicate frequently. Apply the "Rule of Seven:" You must say the same thing seven times in seven different ways before anybody will believe it.
Anticipate barriers. Structure communication to overcome barriers.
Allow feedback. Provide mechanisms for feedback and respond to all feedback.
Connect people. Provide communications that foster a sense of "connectedness" between people.
Tailor messages. Tailor specific messages to meet the needs and preferences of stakeholders.
Deliver clear and concise messages. Anticipate questions to create clear messages.
Cascade messages. Use agency leadership to send the messages to all.
Develop individualized messages. Tailor individualized messages for all stakeholders.
Adapted from: Go-Live Communication Plan, State of Oklahoma CORE at: http://www.youroklahoma.com/coreoklahoma/go-live2.pdf

Remember that training is another form of communications. When new processes or procedures are introduced—for example, a new way of accessing a help desk, or a new web-based data entry format, or a new decision-making framework for process approval—people need to be trained so that they are prepared for program execution. Training is a helpful tool in assisting acquisition specialists to adapt from a compliance-based relationship with their vendors to a performance-based relationship.

Discipline 5: Risk Management

Risk is treated in performance-based management as processes that identify, assess, monitor, mitigate, and manage risk.

How can we manage risk?

Every project carries a certain element of risk. Some require exceedingly complex or untried technical solutions; some necessitate large scale collaboration—which can inhibit decision-making. Occasionally the project is dependent on the incorporation of a component that could be subject to delays in availability; sometimes there are unusual cost constraints or situations where required skill sets are in scarce supply. It is important to acknowledge risk and plan how to address it.

You should start with a Risk Management Plan. The Risk Management Plan outlines how to approach and plan risk management activities for a project. It should identify risks, outline risk mitigation actions, and provide guidance on monitoring progress in mitigating risks. (If you have an OMB Exhibit 300 for your project, you already have identified risks and presented "your plans to eliminate, mitigate, or manage risk, with milestones and completion dates.")

How can we mitigate the identified risks?

While the actual mitigation tactics used depend on the unique circumstances of a particular risk, there are some generic strategies that can be used to mitigate risks. These include the following:

- **Avoidance.** Changes a "project plan to eliminate a risk or condition or to protect a project's objectives from its impact. Although a project team can never eliminate all risk events, some specific risks may be avoided." [2]
- **Transference.** Shifts "the consequence of risk to a third party together with ownership of the response. Transferring a risk simply gives another party responsibility for its management; it does not eliminate it."[3]
- **Mitigation.** Reduces "the probability and consequences of an adverse risk event to an acceptable threshold. Taking early action to reduce the probability of a risk occurring or its impact on the project is more effective than trying to repair consequences after it has occurred."[4]
- **Acceptance.** When a "project team decides it is unable to identify a suitable response strategy, the team may develop contingency plans, should the risk occur. Active acceptance may include developing a contingency plan to execute, should a risk occur. Passive acceptance requires no action, leaving the project team to deal with the risks as they occur."[5]

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Regardless of the risk mitigation strategies employed, it is critical to identify risk owners as well as to identify who (risk owner or delegate) is responsible for implementing a risk management strategy and doing specific risk mitigation actions. Having this framework in place integrates risk mitigation into day-to-day operations.

Discipline 6: Performance Monitoring

Performance monitoring encompasses analyzing, monitoring, and reporting on status on a regularly scheduled basis during project execution.

Are there success factors for measuring performance?

In our view, there are seven critical success factors. First, focus on results. Remember that in a performance-based contract, you are driving towards a programmatic objective, not towards compliance with a contract. One of your evaluation criteria in a performance-based contract award should have been the quality of the performance metrics proposed by the contractor. If so, you have a solid foundation.

Second, be prepared to negotiate if the proposed performance metrics are not well aligned to measure results critical to the stated objectives of the acquisition.

Third, it is critically important to have agreement with the vendor on the performance metrics before award and to be ready to monitor progress toward achieving the results at the onset of the contract.

Fourth, designate who from the government and who from the contractor will serve on the performance measurement team; develop the methodology to be followed if this has not been done.

Fifth, measure performance by tracking only the most essential performance measures and assuring that the cost of the measure is worth the gain. Tracking too many or too costly performance measures is burdensome and could compromise success. Quantity does not mean quality.

Sixth, establish an expectation that performance measures will be re-evaluated over time, setting a framework for continuous improvement. Modify performance measures and measurement processes to respond to changing needs and priorities.

Seventh, check each measure against quality standards. Good performance measures are (1) valid and objective, being based upon reliable and accurate data, sources and methods; (2) cost effective in terms of gathering and processing information; (3) understandable and easy for decision-makers and stakeholders to use and act upon; and (4) tied to incentives wherever possible. There should always be a clear link between achieving a specified performance target and some form of meaningful compensatory reward or recognition. The better the relationship between the measure, reward, and outcome, the better the performance will be.

How should you manage performance?

Simply measuring performance is not enough. Measurement carries an obligation to *manage*. If performance improvement is not as great as anticipated, the project management team should take whatever action is feasible and reasonable under the circumstances to improve it. Such action may include determining problem areas, monitoring performance more closely, changing what is being measured to incentivize better performance, reallocating resources, or devising methods for improvement.

In general, manage performance by measuring the efficiency and effectiveness of the organization's and contractor's performance during the post-award acquisition support stage of a contract. You will also need to measure the quality of the business outcomes and how efficiently they are achieved. Contractors should be rewarded when the desired outcomes are achieved—and given disincentives for not achieving established standards and acceptable quality levels.

In support of this process, numerous techniques are available to review and track the progress of a project, develop relevant performance measures, and incorporate them into regular project reviews in a systematic and disciplined way. This sets a framework for providing the right level of management the right information at the right time for decision-making. Some common tools include—

- *Quality Assurance Surveillance Plans (QASP).* A QASP aligns objectives with relevant measures and outlines how progress will be monitored to ensure that the defined performance measures are being achieved. It should also define acceptable quality levels, the surveillance methodology, incentives and disincentives.
- *Earned-Value Management Systems (EVMS).* The use of EVMS is an industry and government standard for defining the processes for baselining, authorizing, taking credit for, tracking, and changing the costs, schedule, and content of a project. It provides the processes for assessing cost and schedule variance based on earned value. Earned value uses the original estimates and progress to date to indicate whether the actual costs incurred are on budget and whether the tasks are ahead or behind the baseline plan. It provides an integrated view of cost, schedule, and the technical aspects of a project. For example, it allows you to quickly assess if you have successfully completed 50 percent of the work, when you have spent 50 percent of the money and 50 percent of the time has passed.
- *Service Level Agreements (SLAs).* SLAs document project goals and objectives, establish task costs and schedules, and set forth performance measures for contract tasks and project-level measures for high-impact, mission-critical tasks. SLAs, which may be part of the QASP or separate, allow the customer and the service provider to identify upfront what services will be provided, how they will be measured, and what happens if the level of service is not delivered as promised.
- *Balanced Scorecard (BSC).* A BSC combines both financial and operational measures into an integrated system of performance indicators. The scorecard provides an enterprise view of an organization's overall performance by integrating financial measures with other key performance indicators related to customer perspectives, internal business processes, and organization growth, learning, and innovation. The intent is to provide a flexible tool that allows organizations to set their goals and track their achievement.

After establishing performance goals and building a performance measurement system, the next step is to put performance data to work by establishing and conducting regular in-progress performance management status reviews that integrate the

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information for several levels of management. At the same time, lessons learned should be documented for continuous learning and improvement.

Performance management techniques and systems such as these are not stagnant, but evolving. They help organizations identify what works and what doesn't. They are tools that help track direction and progress towards meeting objectives. Based on information from these techniques and systems, organizations can improve, repair, replace, or discontinue a project.

At this point, you will have aligned your objectives with the organization's business and established the framework for a disciplined approach to governance, communications, risk management, and performance management. This takes the organization beyond just evaluating the acquisition and contract and into the realm of performance-based management.

Does performance-based management begin at contract award?

No. That is way too late. Performance-based management begins early in the process of a performance-based acquisition. The groundwork must be laid well before contract award and cemented soon after with the input from the selected contractor.

What are the benefits of performance-based management?

Performance-based management completes the performance-based acquisition cycle and is necessary in order to fulfill its promise. The ultimate benefit of performance-based management is that it sets the ground rules and the framework for operating so that agencies and contractors can focus on programmatic results—and not get mired in meaningless processes. More specifically, the performance-based acquisition methodology—

- Provides a structured approach for focusing on strategic performance objectives.
- Defines the mechanism for accurately reporting performance to upper management and stakeholders.
- Brings the stakeholders into the acquisition lifecycle—from strategic planning through mission accomplishment and the evaluation of performance.
- Provides a framework to account for results and manage continuous improvement efforts.

The ultimate benefit of performance-based management is that it sets the ground rules and the framework for operating so that agencies and contractors can focus on programmatic results . . .

- Makes the delivery of results a joint responsibility between the government and the contractor.

What are the keys to making performance-based management successful?

Performance-based management requires an organization and its people to take a different approach to doing business. It requires—

- *Collaboration* versus Direction. Government and contractors must collaborate for mutually beneficial results. Heavy-handed, directed performance removes contractor flexibility and is compliance-oriented.
- *Insight* versus Oversight. Reviewing the contractor's progress and methodologies is not nearly as important as understanding the impact of various options. As long as everyone is always well-informed, less oversight is required, allowing a true partnership to develop.
- *Freedom* versus Control. The roles of the government's leaders and managers must change in a performance-based environment. No longer do they review and control the contractor's inputs to processes, products, and deliverables. In a performance-based environment, they should review measures of performance and give contractors the freedom and flexibility to make the trade-off decision necessary to ensure success.
- *Results* versus Compliance Orientation. In a performance-based environment, the focus needs to be on managing objectives, defining success, and measuring outcomes.
- *Partnership* versus Dictatorship. Traditional contracts are managed to direct the "top-down" implementation of the government's view of what is required to achieve an outcome. In contrast, a performance-based management partnership enables the contractor to deploy its best ideas in order to accomplish the programmatic results desired by government.

When government and contractors partner to resolve problems with processes or people, they will both be more focused on the results.

Conclusion

The time has come for agencies to conduct business differently. Performance-based management expands the concept of performance-based *acquisition*, embedding the concepts throughout the acquisition life-cycle and driving performance and results throughout an agency's culture and business operations. Performance-Based Acquisition and Management (PBAM) requires an inherent shift in an agency's culture, from one focused on control and oversight, compliance and direction, to one focused on partnership, collaboration, performance, and—ultimately—results.

It is our view that performance-based acquisition requires the six disciplines of performance-based management to achieve mission results through contractors. The Seven Steps of Performance-Based Acquisition[6] require the Six Disciplines of Performance-Based Management™ to assure results. Acquisition Solutions has merged these concepts into a single approach in our acquisition support services: Performance-Based Acquisition and Management. ◆

ENDNOTES

1 OMB Circular A-11, http://www.whitehouse.gov/omb/circulars/a11/current_year/s300.pdf (See page 3.)

2 *A Guide to the Project Management Body of Knowledge, 2000 Edition*; Project Management Institute; Newtown Square, Pennsylvania (See page 5.)

3 Ibid. (See page 5.)

4 Ibid. (See page 5.)

5 Ibid. (See page 5.)

6 Seven Steps to Performance-Based Acquisition has been recognized by the Office of Federal Procurement Policy as a best practice and was developed by an industry-government partnership that included Acquisition Solutions, Inc. as the industry partner. For more, go to http://www.arnet.gov/Library/OFPP/BestPractices/pbsc/index.html (See page 8.)

The OPM Management Development Center offers Acquisition Solutions' five-day ***Seven Steps to Performance-Based Acquisition and Effective Contract Performance Management Course***. This course provides both the pre-award and post-award knowledge and best practices that are so critical to effective acquisitions.

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