

## Performance Based Service Acquisition



### Guiding Principles

Performance-Based Service Acquisition strategies seek to embrace commercial best practices and innovative processes while leveraging the competitive forces of the marketplace. This methodology enables DOE to maximize competition by encouraging competitors to identify solutions or outcomes with a cost effective service delivery approach in mind. As part of the PBSA benefit, the acquisition team (program manager, project manager, legal, finance, contracting, etc.) and other stakeholders are better informed about the options that exist in this methodology and how to use them for maximum effect and efficiency.

### Overview

This section provides guidance and instruction for the development of a Performance Work Statement (PWS) and a Statement of Objectives (SOO) under Performance Based Service Acquisitions.

### Background

“Laws, policies, and regulations have dramatically changed the acquisition process into one that must operate with a mission-based and program-based focus.” As a result of the Government Performance and Results Act of 1993 agencies are required to establish and manage to mission-related performance goals and objectives; in relation to this requirement, Performance Based Acquisition is the preferred method for acquiring mission related services (Public Law 106-398, § 821). The Department is committed to continued progress in support service contracting through the use of Performance Based Service Acquisition (PBSA).

DOE’s efforts involve widespread use of PBSA to the maximum extent practicable. There are two ways to describe the Government’s needs under PBSA - a performance work statement (PWS) or a statement of objectives (SOO). In terms of organization of information, a statement of work (SOW) like approach is suitable for a performance work statement, e.g., introduction, background information, scope, etc., recognizing that the PWS may be adapted as appropriate. The use of the statement of objectives is an emerging methodology that requires competing contractors to develop the statement of work, performance metrics and measurement plan, and quality assurance plan, which are evaluated before contract award. Acquisition planning and market research are integral components in assisting and maintaining our current PBSA success and building on it requires continued emphasis on the total acquisition approach.

## **Performance Based Service Acquisition**

### **Development of a Performance Work Statement and a Statement of Objectives Guide**

#### **Introduction**

The purpose of this guide chapter is to provide acquisition professionals (especially program offices) with a resource that enables them to achieve continued success in performance based service acquisition. This guidance supports the government-wide policy that:

- agencies use performance-based contracting methods to the maximum extent practicable when acquiring services; and
- agencies carefully select acquisition and contract administration strategies, methods, and techniques that best fit a particular requirement.

Recent Federal acquisition policy developments have established a preference for performance based service acquisition which has made it less challenging to link contract performance to mission related functions by clearly delineating a preferred methodology which is aimed at improving procurement services by encouraging the use of simplified commercial procedures under FAR Part 12.

Additionally, this guide chapter will address the benefits of acquiring services through the use of performance based service acquisition, such as, the conformance to statute and regulatory policy through a greater probability of meeting mission needs, directing the focus on intended results as opposed to process, less performance risk due to contractor involvement at the front end of the process, no need for detailed specifications or work process descriptions because the performance work statement and the statement of objectives describe the end use, etc. These advantages allow us to set the standard and the outcome while giving contractors the freedom to achieve in an innovative and unrestrictive method.

The following information is contained in the guide:

- Definitions
- Objectives of Performance Based Services Acquisition
- Development of the Performance Work Statement
- Development of the Statement of Objectives
- Managing to Contract Completion

It should be noted that the Department already has a Performance Based Contracting Guide that was developed to assist individuals establishing performance measures and incentives related to the Department's Management and Operating Contracts and other major operating contracts. Accordingly, there may be portions of the guide that may prove useful in the development of

performance work statements and incentives. The guide is located at the following site:  
<http://professionals.pr.doe.gov/ma5/MA-5Web.nsf/Procurement/AG-Performance+Based+Contracting?OpenDocument>

## DEFINITIONS

The following list of terms is directly associated with the performance based service acquisition methodology. Some of the terms listed will be defined elsewhere in existing regulation and guidance; however, this guide seeks to provide a working definition of the terms discussed and should not be considered all inclusive:

<b>Performance Based Service Acquisition</b>	An acquisition strategy designed to meet mission and program needs that describe measurable performance objectives as related to specific outcomes or results.
<b>Needs Assessment</b>	The process by which the team determines what problem the agency needs to solve. What results or outcome is needed on a macro level and does it meet the organizational and mission objectives.
<b>Performance Work Statement (PWS)</b>	A document that describes the agencies requirement in clear, specific, objective, and measurable outcomes or results.
<b>Measurable Performance Standards</b>	Describes what is considered acceptable performance by use of quantifiable, easy to apply, attainable attributes.
<b>Quality Assurance Surveillance Plan</b>	Generally, a Government developed tool used to assess contractor success against the agreed upon performance standards.
<b>Acceptable Quality Level</b>	The minimum degree of variance from the standard or expectation, e.g., allowable error rate.
<b>Incentive</b>	Motivators of successful performance
<b>Job Analysis</b>	Identification of essential inputs, processes, and outputs.
<b>So What Test</b>	Verification of a continued need for an output determined during the Job Analysis.
<b>Statement of Objectives (SOO)</b>	A short descriptive document that provides basic high level objectives of the acquisition requiring offerors to formulate a competitive solution to the Government's needs.
<b>Performance Objectives</b>	Desired outcome of work to be performed as determined by the team analysis performed on agency business documents, e.g., business case, acquisition strategy, etc.

<b>Performance Analysis</b>	A review of Job Analysis outputs and a determination of how each output is measured using a quantifiable standard, e.g, time, cost, error rate, accuracy rate, etc.
<b>Performance Metrics</b>	A series of negotiable indicators meant to provide a way to measure contractor success and are also discriminators of quality in a best value scenario.
<b>Best Value</b>	The process used to select the most advantageous offer to the government using trade-offs while considering technical merit over price.

## OBJECTIVES OF PERFORMANCE BASED SERVICE ACQUISITION

The major objective of performance based service acquisition is to create a nexus between mission needs and acquisition performance, while shifting the standard from contract compliance to a collaborative performance oriented process. This approach to contracting is intended to:

- Maximize contractor performance through competition and innovation encouraging contractors to find a cost-effective way of service delivery;
- Advocate and promote the use of commercial services offering routine industry solutions at the same time providing minimal risk to the government;
- Move the focus from process to results providing a means for the preferred outcome; and,
- Achieve a cost savings.

### Maximize Contractor Performance

Certain services lend themselves to the traditional construct of performance based service acquisition due to the ease at which measuring and performance expectations can be identified, such as information technology support services, janitorial services, guard services, etc.; likewise, maximum contractor performance presents minimal risk to the government. Conversely, there are other services which are more complex in nature which maximize contractor performance through competition and innovative processes that focus on the desired outcome. In this instance, a SOO and performance incentives may prove to be more useful and focus more on the end result. This technique may guard against being too prescriptive and still allow for the mitigation of technical risk and safety concerns.

### Advocate and Promote the use of Commercial Services

The use of FAR Part 12 procedures streamlines the acquisition process and aligns government thinking with industry ideas capturing those services that are commercial in nature and effectively utilizing industry best practices thus expanding the range of potential solutions or outcomes. Market research serves as the genesis of the government's ability to buy best-value

services from the commercial market-place. Applying the PBSA team approach to industry benchmarking is a collaborative variation on a basic FAR Part 12 process.

### Move the Focus from Process to Results

Performance based service acquisition clearly spells out the desired end result expected of the contractor. It is critical to structure acquisitions around the purpose of the work to be performed as opposed to the manner, e.g., labor mix, number of hours, type of equipment, etc., in which work is to be accomplished. Contractors should be given as much freedom as possible to determine how to best meet the government's performance expectations.

### Achieve a Cost Savings

Contractor innovation and ingenuity equals cost savings to the government. In addition, performance based service acquisition is designed to provide contractors the autonomy needed to determine how to best meet the defined performance objectives and ensure that the standards are achieved with acceptable levels of performance. The performance standards developed must be attainable and their measures clearly convey what is an acceptable level of performance. As necessary, tied to the accomplishment of these standards are positive or negative incentives acting as an agreed upon motivator of performance, e.g., monetary, past performance, government oversight, etc.

Critical to the success of PBSA is careful program and project planning (see DOE M 413.3-1, Project Management for the Acquisition of Capital Assets), collaborative market research, detailed performance work statements, high level statement of objectives, and the "critical-few" performance measures.

## **DEVELOPMENT OF THE PERFORMANCE WORK STATEMENT (PWS)**

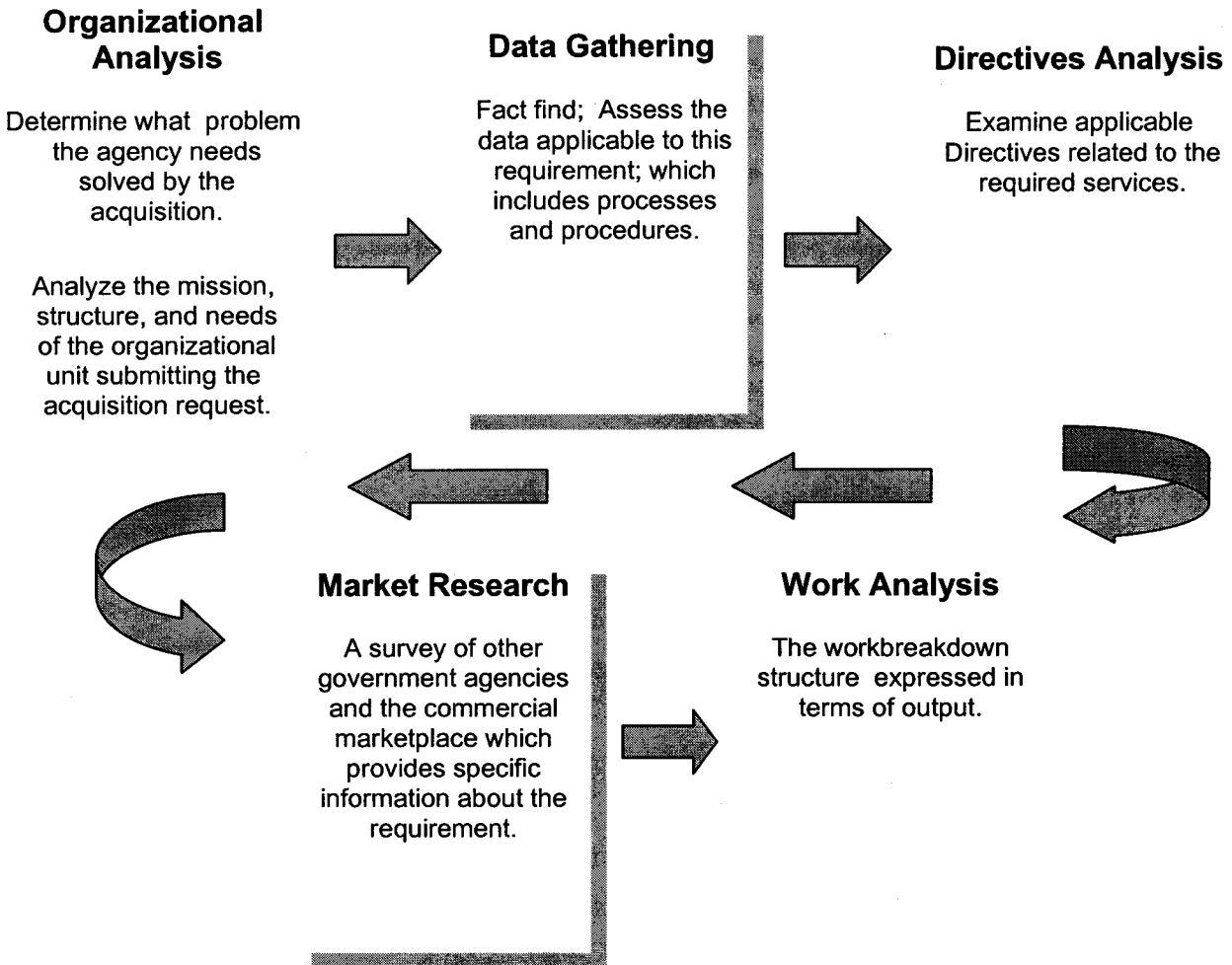
The PWS must be structured such that an offeror can determine the expected outcome or end result. The preparation process of the PWS requires a series of comprehensive analyses, job analysis, the first action, and performance analysis, the results identification action. Job analysis is an exhaustive examination of the requirement which forms the basis for establishing outputs, developing measurable performance standards, and creating quality assurance surveillance plans. This is a bottoms-up analysis with re-engineering in mind probing to gain a complete understanding of the requirement emerging with an informed capability to articulate desired outcomes or end results in terms of inputs, processes, and outputs. If this is a new requirement it becomes important to identify the agency needs, type of service and output required. If this is a repetitive requirement then it becomes important to verify and validate the need for certain processes and procedures, ensuring that the outcomes are cost effective and solutions are industry driven. During this analysis it is important to differentiate between what is actually being done and perceptions of what is being done. A job analysis consists of:

- *Organizational Analysis (data may overlap with needs assessment);*
- Data Gathering;

- Directives Analysis;
- Market Research; and,
- Work Analysis.

So as not to create a circular occurrence, you are cautioned that during this analytical process it is an exercise in examining “how” things are done which by its very nature could unintentionally lead to creating a PWS instructing the contractor how to perform a task or a provide a process oriented description. As a safeguard against this incidence the Seven Steps to Performance-Based Services Acquisition Guide advocates the use of the “so-what?” test during job-analysis. The application of this test will help ensure that the desired performance outcome is achieved. Once the outputs of the job analysis have been identified, the continued need for the output should be challenged. For example, a job analysis output of an Information Technology requirement may be to maintain an electronic modeling system. The team should ask questions and analyze responses, such as: who needs the output, what occurs as a result, why is the output needed, what is done with it, etc. If, after you ask these questions, the “so-what” inquiry reveals that the output is still significant or pertinent to the heart of the acquisition then the team should capture the results of the job analysis into a matrix or a diagram format that outlines the critical few performance standards necessary to meet the mission need (see Exhibit II) and proceed in the PBSA process.

### Exhibit 1 DOE Job Analysis



The job analysis is the first step taken in developing a performance work statement. The job analysis requires a thorough review of the requirement.

#### Organizational Analysis

The first step in conducting the job analysis is to conduct an analysis of the organizational unit supported by the required services, its mission, structure and needs. The key question to address is “What does the organization want to achieve in terms of outcomes?” Once that question has been addressed, a general-purpose statement describing the objective of the procurement can be written.

### **Data Gathering**

The next step is gathering data. The gathered data is related to workload, facilities, processes and procedures, laws and regulations, and resources. This data is critical to performing a proper job analysis and developing a performance work statement. Data gathering should include an examination of the facilities, data, equipment currently used and the benefit to the government of providing all or some of them to the contractor shall be conducted. If any changes affect the facility (i.e., changes to government furnished equipment), they must be factored into the data collected. Resource data such as the types of personnel currently used and their required minimum qualifications (i.e., education and experience), as well as specific qualification requirements such as security clearances must be developed. Any anticipated personnel requirements must be noted.

### **Directives Analysis**

This involves the examination of all current Directives applicable to the services being contracted out. The performance work statement must contain all relevant Directives and reference documents related to the services being performed. Directives that apply in part should cite the pertinent portion of the Directive. The team should take care and guard against the application of too many Directives. This could result in excessive costs, inappropriate application of a Directive, and restriction of the contractor's innovative approach, etc.

### **Market Research**

The objective of market research is to become informed and well versed in the service industry that will provide an solution to the problem. Market research should include an inquiry into how the required services are performed at other government agencies and the commercial market place. Market information can also be obtained from trade publications, contractor capability statements, the Small Business Administration, etc. A sources sought synopsis and/or a draft solicitation may be used in conjunction with a market survey to obtain information. Market research performed correctly can:

- Determine if the service is commercially available;
- Enable the acquisition team to understand what solutions are available in the marketplace;
- Provide insight regarding price expectations;
- Allow the agency to keep abreast of the latest technology and market trends; and,
- Assist in the overall acquisition planning

### **Work Analysis: Work Breakdown Structure**

The final step in performing a job analysis is the work analysis (work breakdown structure). The organizational analysis, data gathering, directives analysis, and market research all factor into the work analysis. The work analysis is the work breakdown



structure expressed in terms of output. To complete the work breakdown structure the work inputs, work steps, and work outputs must be identified:

Work inputs - are actions or documents necessary to perform the services. Work steps - (the "how to") are actions that will be taken by the contractor in order to achieve the product or outcome (*Remember - how to complete the work steps are left up to the contractor*). Work outputs - are the items produced as a result of completing the work steps (*the output is the expected outcome the contractor agrees to deliver*). In addition, output provides the basis to measure the contractor's performance by providing measurable performance standards that can describe acceptable performance by use of quantifiable (timeliness, error rates, accuracy rates, completion rates, or cost control), easy to apply, attainable attributes. This phase of job analysis is important, in that it ensures accurate and complete contractual requirements that are measurable and lead to optimum performance. One suggested method to accomplish this is to set up a tree diagram dividing the job into parts contributing to a final outcome or result.

Undoubtedly, the ultimate goal of the job analysis and any analytical technique employed is to:

- 1) Understand and describe the desired outcome;
- 2) Arrive at measurable performance standards; and,
- 3) Describe acceptable quality levels.

Now that you have some of the components of the performance work statement established, e.g., desired outcome and measurable performance standards, another critical step should be applied to the work breakdown structure results prior to capturing these results into a matrix. As previously discussed, the "so what test" should be applied at this point as a team process quality control measure insuring the continued organizational need for a particular standard or outcome. A verification of the continued need for an output may involve questioning industry regarding standard industry practices as they apply to a particular output then assess whether the output is appropriate as a performance standard or outcome or is it an indiscriminate commercially acceptable process or procedure related to the required service. Additional, questions may follow such as, what is the cost of the performance standard or outcome and is it too burdensome? Can a different output serve the same purpose, etc.?

## Performance Analysis

The performance analysis process will identify how the results of the job analysis, e.g., outcome, will be measured by establishing an objective or subjective performance standard (timeliness, accuracy rate, completion rate, cost, customer satisfaction, quality, value, feature benefit, etc.) and determines the acceptable quality level of performance associated with the standard. When creating performance standards it is important to identify the “critical few” focusing on the mission related objective, customer need, and the assessment of what is important to measure. The results of this analysis will further support the reasonableness or validity of the identified performance standards and establish any margin for error in achieving an acceptable level of performance.

Acceptable quality level (AQL) provides a minimum degree of variance from the performance standard. The development of this process comes from asking basic questions. What is the minimum level of quality that is acceptable in order to meet the mission need? What is the lowest acceptable error rate that will meet mission need? What is being measured, e.g., help desk efficiency or customer satisfaction? At what interval will the measurement be made, e.g., monthly, quarterly, semi-annually, etc.? How precise must the performance standard be? (Hint: there may be an industry standard which determines measurable success in a performance standard). The answer to these questions is typically recorded in terms of percentage, e.g., resolve a customer complaint on the first call 70% of the time or facility chilled water equipment must be operating at maximum efficiency 90% of the time. As you navigate through this process take care, every performance standard does not have to equal 100% to be successful. The commercial marketplace should play a key role in establishing an AQL for the applicable performance standards.

The result of the analyses (Job Analysis and Performance Analysis) should be captured in a Results Matrix, grouping findings within a specific category, e.g., desired outcome, performance standard, acceptable quality level, surveillance method, and incentive or disincentive, if applicable. This matrix only captures the salient elements or “critical few” determined as a result of the analysis performed. See Exhibit 2.

**Exhibit 2**  
**RESULTS MATRIX**

<b>Desired Outcomes</b> <i>What is to be accomplished as the end result of this contract?</i>	<b>Required Service</b> <i>What task needs to be accomplished to achieve the desired result?</i>	<b>Performance Standard</b> <i>What should the standards for quality, value, customer satisfaction, feature benefit, accuracy, etc. be?</i>	<b>Acceptable Quality Level</b> <i>How much error is acceptable?</i>	<b>Monitoring Method</b> <i>How it will be determined that success is achieved?</i>	<b>Incentive/Disincentive</b> <i>What will best reward or penalize performance.</i>
Provide a dedicated on-site repair service, preventative maintenance, and repair service to Government owned security equipment	Provide experienced personnel	Elements such as cost control/risk management, commercial or industry quality standards, quality awards, surveillance methodology, et cetera.	System must be operational 95% of the time.	Could be 100% inspection, random sampling, periodic sampling, et cetera..	Incentives and disincentives may include greater or lesser fee, longer or shorter performance term, less or more surveillance, et cetera.

**Note:** Incentives and disincentives may be used to motivate successful contract performance as it relates to the desired outcomes. However, the use of incentives or disincentives is not required as part of the PBSA methodology.

### **Performance Work Statement**

The results of the analyses performed develops the foundation for the performance work statement (PWS). The PWS contains measurable performance standards associated with the identified output as determined by the performance analysis. The matrix may be included in the PWS as a summary document; however, the PWS should describe in greater detail what the Results Matrix depicts visually. During the writing process as the PWS takes shape keep in mind that the requirements are described in terms of results as opposed to process, such as, the contractor shall maintain equipment operability consistent with the industry standard or the contractor shall provide customer support in accordance with commercial practices. Describing your requirement in terms of result or outcome as opposed to compliance, e.g., the contractor shall provide help desk support between the hours of 9:00 am – 6:00 pm, Monday – Friday, provides an opportunity for the contractor to develop its approach absent of government direction subsequently lowering cost and ensuring successful contract performance.

Organizationally, while there is no preferred format for a PWS, the SOW design may prove beneficial in helping work through the PWS process by adapting sections of the SOW to a performance based document.

### **DEVELOPMENT OF THE STATEMENT OF OBJECTIVES (SOO)**

The Statement of Objectives (SOO) is a short descriptive high level document that provides objectives of the acquisition requiring offerors to formulate a competitive solution to the Government's needs. A key aspect of the SOO which should not be overlooked is that it is a short, 3-5 pages, high level document. Given the detailed nature of the traditional acquisition processes, it is natural to want to write the depth and breathe of what it is we are attempting to describe; however, the SOO is the exact opposite of that action. The SOO describes the desired results as related to the agency mission, in terms of objectives, and identifies the associated constraints. The SOO may be used when limited acquisition related information is available regarding the requirement or when the PWS is inappropriate at this point in the acquisition process. Thus, the SOO may be used in place of the PWS. Unlike the PWS, the FAR advocates a preferred format for the SOO (see FAR 37.602-1, Performance work statements (PWSs) and statements of objectives (SOOs)). The SOO should be incorporated into the request for proposal as Section C or part of Section C dependent upon how the solicitation is formatted.

As discussed in FAR, the SOO should address the following:

**Purpose** - According to FAR discussing the purpose is the first step in SOO development. The purpose should provide information to the offeror regarding the reason for this requirement. The purpose may layout a vision of what is to be achieved organizationally as a result of this acquisition.

**Scope or Mission** - The next step in SOO development is a description of how the requirement relates to the program and/or mission along with a description of the problem that will be solved as a result of this acquisition. Describing the scope of the requirement in the SOO should involve the use of a single clearly identifiable statement no matter what is being purchased; "the full range of services" is the goal. Describing the requirement in terms of the "full range of services" signals a departure from traditional SOW development and allows you to capture all aspects of what is being purchased, e.g., sufficiently quantifies the scope of work. In addition to the "full range of services" its descriptive companion would be "process enabler." These phrases inform the offeror that a full range of services is required but the actions or task related to these services are process enablers which help the agency attain its mission. For example, as observed in one agencies' scope or mission "Under the TSA Information Technology Managed Services effort, it is understood that the information technology services being delivered are enablers and do not represent in totality what TSA is acquiring through this task order. . ." TSA could have also used the phrase "full range of services" and would have positively indicated to the offeror what would be expected in the performance of this contract. The specific structure of the SOO provides for industry driven innovation, cost efficiency, and competitive solutions.

**Performance Objectives** - The performance objectives or desired outcomes are the core of the SOO. The Team determines the objectives as a result of analysis performed on agency business documents (plans and goals), e.g., the strategic and annual performance plans, program authorization documents, budget documents, directives review, and interviews with project stakeholders. Once the performance objectives have been established, any known impediments, i.e., constraints, to accomplishing the objectives must be identified

**Constraints** – A business definition for constraint as defined by one author is “anything that limits the performance of a system relative to its goal” which is different for the traditional usage of the term constraint. However, in the evolution of the SOO think of a constraint as something to be focused on and perhaps improved upon. This thinking will allow offerors to provide innovative and competitive solutions while giving due consideration to those things or events that limit performance. For example, most agencies have security requirements that address a contractor’s access to the building; subsequently, the nature of the work involved in the requirement is limited by the security constraint. Therefore, an offeror must be innovative and creative enough to propose solutions to the requirement that would either accommodate the security concerns or work around them. This means that we need to be clear in identifying the constraints which provide the offeror focal points to center on in the submission of an offer.

## QUALITY ASSURANCE SURVEILLANCE PLAN

The quality assurance surveillance plan establishes the process that the Government will use to assess the contractor’s performance in accordance with the agreed upon performance standards. When using the Performance Work Statement approach the Quality Assurance Surveillance Plan (QASP) is developed by the Government, although there are times when a contractor developed QASP may be more desirable. For example, when commercial quality standards are applicable to a particular requirement industry may have a more effective and efficient measure. When using the Statement of Objectives approach the QASP may be developed by the contractor as part of the response to the RFP. The QASP focuses on the level of performance required. The quality assurance surveillance plan summarizes the performance standards and acceptable quality levels for the appropriate standard, it describes how performance will be monitored, how the results will be evaluated, and the affect on contract payment. The QASP concentrates on the level of performance and not the method for achieving it.

**Performance Work Statement** - The QASP may be part of the performance work statement, but it is usually contained as a separate document within the contract. There may be one QASP for the entire performance work statement or multiple plans associated with specific tasks within the performance work statement. The methodology used in the QASP is a determinant for assessing contractor success and overall contract management. The most common types of surveillance methods used are 100% inspection, random sampling, periodic sampling, customer input, and unscheduled inspections. The 100% inspection is best suited for infrequent tasks or tasks with strict performance requirements. Inspection is required at each occurrence and often proves to be time consuming and administratively burdensome. Random sampling works best in instances where the service being performed is very large and valid samples can be obtained. Periodic sampling is appropriate for tasks that are infrequent and do not require a 100% sample.

It requires detailed analysis and judgment based on agency resources and the relative importance of each task as to which tasks should be inspected, how to inspect them, and how often they should be inspected. Customer input is a system that measures contractor performance based on the number and types of customer input received. It is usually accomplished through customer surveys. Administratively the government must manage the input system and demonstrate that it acted upon input received by customers. Unscheduled inspections are surprise inspections made at times and places deemed appropriate by the individuals responsible for monitoring contractor performance on behalf of the government.

The selection of a surveillance method is affected by a number of factors including:

- Number of performance standards to be inspected;
- Criticality and cost of the activity to be inspected;
- Location of the activity; and,
- Resources available to conduct surveillance.

The entire surveillance process requires scheduling, observing, documenting, and accepting service. The surveillance must be comprehensive and well documented as the results of the surveillance impact the incentives paid to the contractor. If the surveillance process becomes complicated, the performance work statement and performance standards should be reviewed and simplified. Contractors should be briefed on the surveillance requirements and should also be asked to provide a requirement specific quality control plan describing procedures used in order for them to maintain acceptable quality levels under the contract.

**Statement of Objectives** – The SOO approach is particularly suitable for having the offeror propose performance metrics and the QASP. The SOO requires each offeror to develop an innovative competitive solution to the government’s requirement, as stated. Consequently, each proposal received could and should be different with its corresponding metrics, measures, and quality assurance plans. In this instance, the QASP should be tailored to the proposed solution as intended. One of our roles as contracting professionals within the team structure is to ensure that the necessary documents are submitted as part of the offer which provides for a meaningful source selection review. Therefore, the solicitation should require that certain elements are addressed in the QASP, such as, cost control/risk management, commercial or industry quality standards, quality awards, surveillance methodology, and past performance. In addition, the solicitation should inform the prospective offeror that the measures and metrics may be changed as contract performance progresses, in order to ensure that the right measure is actually being taken into consideration.

## **INCENTIVES**

The incentive plan relates to the contractor performance and rewards a contractor that performs well and penalizes one that does not. Incentives encourage contractors to develop innovative cost-effective methods of performance while maintaining the quality of the services provided. They may be included in the quality assurance plan or set aside in a separate document. Incentives may be monetary or non-monetary in nature. Where monetary incentives are not desirable or considered effective as a motivating factor, non-monetary incentives such as

extensions to award term should be explored. If deductions are used, then incentives are usually included in the quality assurance plan. If award or incentive fees are used, they are usually addressed in a separate document.

The following chart provides examples of incentives:

<b>Incentive</b>	<b>Performance Incentives</b>
<b>Fee</b>	Fee dollars are directly linked to achieving or exceeding standards. A specific amount of fee may be directly related to the achievement of a specific performance standard. Fee dollars may also be associated with a target fee amount or an award fee pool, where the amount of fee earned is adjusted upwards or downwards based upon the contractor achieving performance standards.
<b>Payments</b>	When performance exceeds standards, pay x% of monthly payment into a pool. If performance is below standard, x% of that monthly payment is withheld. At the end of y months, pay the contractor the amount accrued in the pool. Payment may also be made when the contractor has accrued x dollars in the pool.
<b>Re-work</b>	When performance is below standard for a given period of time, require the contractor to re-perform the service at no additional cost.
<b>Surveillance/monitoring</b>	Adjust surveillance or contractor reporting based upon the contractor performance exceeding standards or not over a specified amount of time.
<b>Past Performance</b>	Document past performance

	report card, paying attention to performance that either failed to meet or exceeded standards.
<b>Term</b>	Adjust the contract performance period, either shorten or lengthen, depending on the contractor performance either failing to meet or exceeding performance standards during a stated period of time.

A firm fixed price contract is the ultimate incentive laden performance based contract. If the contractor does not deliver the required supply or service, the contractor will not get paid. Fixed price incentive and cost plus incentive fee contracts are formula-type incentives that can provide for both positive and negative incentives based on target numbers and applied formulas depending on the extent to which the contractor exceeded or failed to meet target numbers. Formula incentives must contain cost incentives. Multiple incentive contracts should be considered when emphasis is required on more than cost control. Multiple incentive contracts must include a cost incentive and may include performance (technical) incentives and delivery incentives. Performance incentives should only be applied to the most important aspects of the work, rather than every individual task. Trade off decisions must be considered and should be consistent with the overall objectives of the acquisition. This prevents the contractor from concentrating its efforts on any one incentive area.

The cost plus award fee contract is a commonly used acquisition methodology that may support an award term incentive, if structured appropriately. It should be noted that award fee contracts are resource intensive in their administration. Therefore, it is recommended that this type of contract only be used with large dollar value requirements. The available award fee pool acts as a motivating factor upon contractor performance. The award fee incentive is expressed as a total dollar amount and is divided up and paid out periodically throughout the life of the contract based on the contractor's performance in relation to stated evaluation factors. These factors may be objective and subjective but should always be stated and agreed to. It should be noted that objective factors such as cost control, and timeliness of deliverables tend to be easily identifiable and usually motivate contractor performance effectively. However, in some cases it may be appropriate to use subjective factors such as quality of the product or feature and benefit performance standards/expectations. Objective factors lead contractors to believe that a certain outcome will result in a certain fee verses subjective factors that may appear vague and less convincing. Notwithstanding, subjective factors can and should be used once it is clear that obvious discriminators can be used to describe a subjective term. Award fee incentives are flexible in that the award fee criteria may be changed during contract performance to reflect the current situation and changes in mission priorities.



## **MANAGING TO COMPLETION**

The key to successful project completion has its roots in managing contract performance within the performance based acquisition structure. The first step is identical to the last, maintaining team formation. Team effectiveness is critical to managing contract performance to success. Each individual brings a certain skill set to the team and performs according to the skills needed at a particular moment in time. However, once the contract is awarded team participation should not ramp down but evolve into another state where team roles and responsibilities are adjusted to the changed work requirements. In fact, at this stage the contractor is part of the team and the expertise and knowledge the contractor was selected for should be used to ensure project success.

The Seven Steps to Performance-Based Services Acquisition states that “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. . . 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.”

Consequently, it would appear that the key to managing to contract completion would be the stability and commitment of the acquisition team and the skills and abilities they bring to the acquisition process.