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## **PERFORMANCE-BASED SERVICE ACQUISITION**

**Gunaydin YILMAZ Captain**

Army War Collage/ Istanbul/ Turkey

### **Abstract:**

The purpose of this paper is to explore and analyze Performance Based Service Contracting (PBSC) and provide a clear description of PBSC to Department of Defense policy-makers. This Paper includes background information about PBSC, benefits and challenge of PBSC and recommendations (based on the findings) to the defense policy-makers for the implementation of PBSC. The ultimate goal of this paper is to serve tax payer by introducing a new contracting method to save money and increase the quality of service that is procured from the private sector.

*Key words: PBSC, Service, Acquisition, Contracting, Outsourcing, Procurement Concept*

### **1. Introduction**

We live in a commercial world in which most government agencies and commercial firms conduct business with one another. Today, the world is very competitive and no agency or firm can do everything own its own. They usually use outsourcing to perform their mission, and their primary tool for outsourcing is service contracting. These contracts provide a wide range of services that touch upon many or all of a given agency's activities. These include health care, support to intelligence activities, contracting support, and various professional, management and administrative services such as budget and program management. In addition, service contracts provide a wide range of support to U.S. troops in Afghanistan and Iraq, including base support, weapons and equipment maintenance, communication support, interrogators, security, engineering support, and administrative support (United States Government Accountability Office, 2009).

However, it is difficult to ensure that the government gets the best value for the taxpayers' money and obtains quality services in a cost-efficient and effective manner in every service contract. Every contract has risk that the government may receive products or services that are over budget, delivered late or of unacceptable quality. To deal with these kinds of problems, Performance-Based Service Contracting (PBSC) may be a solution for government agencies when procuring services from the private sector. PBSC has been developed and mandated in the United States. "Performance-based contracting methods are intended to ensure that required performance quality levels are achieved and that total payment is related to the degree that services performed meet contract standards. The theory of performance-based service contracting is that it improves the quality of services, results in cost savings, maximizes competition and innovation, and shifts the risk from the government to industry because the contractor is responsible for achieving the objectives" (Department of Defense Inspector General, 2007). In this procurement concept, agencies just describe their needs in terms of what is to be achieved rather than how it is to be performed.

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## **2. Background and History**

With the growth of services contracting, government agencies began to explore new acquisition techniques in order to obtain services in a better way and focus on results rather than processes to get best value. They also wanted to benefit from industry's experience and innovations. Contracting authorities try to find a new way to improve flexibility, increase responsiveness, decrease costs, reduce risk and allow the organization to focus on their primary functions. The pursuit of new acquisition procedure led to the emergence of performance-based contracting. Performance-Based Contracts (PBCs) have been around for more than 20 years and have been used to acquire quality goods and services. In 1991, the federal government mandated that government agencies use them.

PBSA is a kind of performance-based contracting method to acquire service from the private sector. It was pioneered within the Department of Defense and then expanded to the whole government. PBSA officially became a current issue in the Federal procurement environment after Office of Federal Procurement Policy (OFPP) Letter 91-2. With the release of this policy letter, use of performance-based services acquisition has been reinforced at several levels throughout the federal government. PBSA became the prime federal procurement method during the Bush administration, which emphasized performance as a key focus of its management agenda. The President's Management Agenda, announced in summer 2001, has focused on results and made agencies accountable for meeting the goals and delivering the services to the taxpayers they serve (Yabusaki, 2008). That is why, during the Bush administration, PBSA became the preferred method of procuring services from the private sector. The Administration encouraged agencies to use this method. According to the Office of Federal Procurement Policy, agencies increased their PBSA from 26 percent in 2001 to approximately 45 percent of all contracts in 2007 (Newell, 2008).

During the Bush administration, PBSA became the preferred method of procuring services, with yearly Executive Orders setting PBSA performance goals to continue to motivate agencies to use the PBSA strategy on eligible service actions. According to the last order, released on 5 December 2007, the Fiscal Year 2008 Performance-Based Acquisition Performance Goal was increased from 45 percent to 50 percent.

The growth in performance-based acquisitions brought some problems. Some agencies fell behind the initiative's goals due to lack of training. PBSA was very new and totally different from traditional concepts. The acquisition workforce needed training about this new procurement concept. That is why OFPP adopted the Seven Steps Guide as the "official" guide on this issue. This guide was adopted to help agencies reach the goal laid out by the Administration. PBSA has now been used more than 20 years as an effective tool to acquire services in the United States. There are some challenges and problems stemming from implementation and the contract management process. These will be mentioned in following chapters.

## **3. Implementation in U.S.**

The GAO (2008) stated that, "Over the last decade, the use of federal service contracting has increased and now accounts for over 60 percent of federal procurement dollars spent annually" (p. 5). In the DoD, 53 percent of contract spending is for service acquisition. But we cannot say that the Federal government gets the best value in every service contract. In service acquisition, the main objective is to get the right service, at the right time and in the right manner. The services obtained should meet cost, schedule, and performance requirements. If PBSA is successfully implemented it can help improve service acquisition outcomes and ensure that the services obtained meet cost, schedule, and performance requirements.

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The most important part of every system or process is the implementation or operation step. With the help of the implementation and operation process, we can easily identify the pros and cons of the system or the process. An excellent solution in theory may be total failure in practice. This rule is valid for the public procurement process. Sometimes enacted regulation by the parliament or senate is not practicable and causes unpredictable problems. Implementing a system that belongs to another legal system or culture in our own system needs careful study since every country has unique characteristics and regulations that can form obstacles.

PBSA was developed but this acquisition concept has not been fully implemented government-wide for a variety of reasons, including lack of knowledge and cultural resistance to changes. To overcome these problems, OFPP adopted the Seven Steps Guide as the "official" guide on PBSA.

The purpose of this guide is to assist agencies in implementing PBSA. The steps are logical and easy to understand, each building on the previous, and they provide guidance to agencies that enables them to move forward in this new paradigm. This guide describes performance-based service acquisition using seven steps.

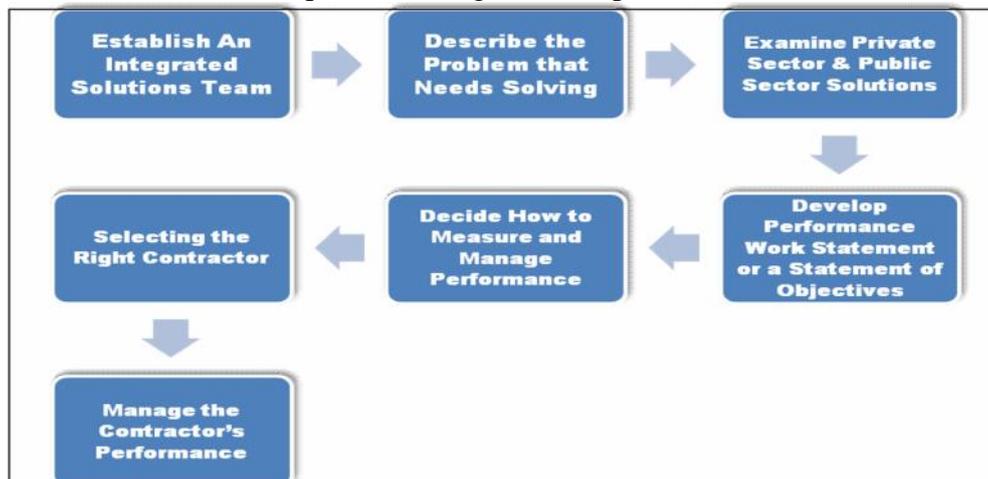


Fig.1 Seven Steps to Performance-Based Service Acquisition

The seven steps are described below:

- **Establish An Integrated Solutions Team:** An Integrated Solution Team must be established. The Integrated Solutions Team is responsible to assure that the acquisition program satisfies legal and regulatory requirements, meets the agency's intended results, is consistent with the agency's strategic goals and remains on schedule and within budget.
- **Describe the Problem that Needs Solving:** The clear description of the problem that needs to be solved should be made in this stage. The Integrated Solutions Team should focus on what outcome is required rather than what resources are required.
- **Examine Private Sector and Public Sector Solutions:** Once the acquisition's intended results have been identified; the Integrated Solutions Team (IST) 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.
- **Develop Performance Work Statement or a Statement of Objectives:** In the previous three steps, the Integrated Solutions Team has determined the agency needs and conducted market research. Now, the Integrated Solutions Team has the knowledge and expertise to state the specification for service acquisition. There are two ways to develop a specification for a performance-based service acquisition.

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One of them is a performance work statement (PWS) and the other one is a statement of objectives (SOO).

- **Decide How to Measure and Manage Performance:** In most cases, the success of an acquisition is based on the management of the contract. To manage a contract successfully, some plan and measurement techniques are essential. It is needed to ensure the government receives the quality of services called for under the contract, and pays only for the acceptable level of services received.
- **Selecting the Right Contractor:** This step involves developing an acquisition strategy that will lead to selection of the right contractor who provides the best value for the desired service. One important factor in selecting the right contractor is to describe the problem that needs to be solved. The other important factor is that all the offerors have adequate information about the requirements and performance-based strategy.
- **Manage the Contractor's Performance:** As stated in GAO's (2006) report, service acquisition differs from product acquisition in several aspects and needs close and detailed control of contractor performance. The success of the acquisition is largely based on the management of the contract. That is why agencies should allocate sufficient resources to ensure the contractor performs in accordance with PWS.

### **4. Benefits And Challenges**

The aim of the service acquisition is to obtain the right service, at the right price, in the right way and from the right supplier. This point is very important today, as the federal government outsources more goods and service to carry out its operations. There are different methods to reach this goal. The Performance-Based Service Acquisition is not a perfect solution but is a preferred acquisition method when getting service in the Federal acquisition environment. It has been used for more than twenty years and mandated for Federal service acquisition. Naturally, as with every system or process, it has benefits and challenges. In some cases, it is a convenient tool to get best value for taxpayer money. But in some cases it is too difficult to implement this acquisition concept.

Scholars have noted that there are many reasons that federal government agencies use PBSA, with its benefits and better solution. The Office of Federal Procurement Policy (1998) study on performance-based contracts for service acquisition showed that benefits including reduced acquisition cost, increased competition for contracts and improved contractors performance had been achieved. One important benefit of PBSA is to enable government to pay contractors based on outcomes and performance rather than the process used to deliver services. It ensures that taxpayers are receiving the best value and contractors are paying for what they performed. Another benefit of the PBSA is allowing greater competition to produce better solutions. PBSA allows contractors to offer their solution and performance measurements. Contractors prepare their solutions by taking into consideration governments' requirements, price and competitive market forces. Contractors seek the best solution that meets the requirements at the lowest cost. Mather and Nelson (2006) stated that government can get good competition, reasonable price, better technical expertise and good QASP from serious and experienced offerors.

When properly structured, PBSA allows government to reduce cost and increase service quality. PBSA offers the Federal government significant gain in cost savings, contractor responsibility, and better performance, while also reducing quality shortcomings and customer satisfaction. FCS Group (2005) identified more benefits in its literature search. The followings are the expectations and benefits of PBSA:

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- Encourages and promotes contractors to be innovative and find cost effective ways of delivering services
- Gives the contractors more flexibility in general to achieve desired results
- Shifts risk to contractors so they are responsible for achieving the objectives
- Maximizes competitions and innovation
- Results in better prices and performance
- Expects contractors to control costs and achieves cost savings
- Encourages contractors and government to work together to provide the best service to customer
- Eliminates day-to-day monitoring
- Allows government workforce to focus on outcomes of the contract

Although more than twenty years have passed and lots of training support has been provided, General Accounting Office reports and OFFP studies show us that there are implementation problems, challenges and unsatisfactory performance results from PBSA. These problems and challenges identified in reports and articles not only affect the government side but also deeply affect the contractors and industry. These challenges and implementation problems affects the government's ability to get best value for the taxpayer dollars spent. Unsuccessful implementations also prevent government from benefiting from the creativity and innovation of private industry. For more than twenty years, agencies have been encouraged to use PBSA but the government has not reached the intended level of progress. PBSA is well suited to those simple and routine service acquisitions that are well defined, but it is difficult and challenging when procuring complex and long-term services that cannot be defined clearly at the outset of acquisition.

FCS Group's (2005) study, "Best Practices and Trends in Performance Based Contracting," is one of the articles that raised concerns related to PBSA and identified a variety of issues and problems when agencies use this acquisition concept. The following are the important problems and challenges:

- Poor requirements and definition of performance measures
- Lack of skilled and trained acquisition workforce
- Lack of coordination between agencies' departments and experts
- Inadequate oversight of contract
- Misunderstanding that PBSA takes more time than traditional methods
- Difficulties of giving up old habits
- The fear of change and resistance against new acquisition approach
- The perception that performance measures are difficult to understand and complicated to implement
- Trying to implement all kinds of service acquisitions
- The shift of emphasis from process to outputs
- Lack of knowledge about performance-based acquisition
- Lack of communication between contractors and government

To this point, the implementation of PBSC has been analyzed; its benefits and its shortfalls were stated. It can be said that this procurement concept has more benefits than its challenges. It has been used successfully in the U.S. But to determine its applicability to any other country it needs to examine current rules and regulations. After that it will be easy to come to a conclusion and reach a clear determination if there is any barrier to implement PBSC in any country.

## **5. Conclusion**

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In service acquisition, the main objective is to get the right service, at the right time and in the right manner. The services obtained should meet cost, schedule, and performance requirements. If PBSA is successfully implemented it can help improve service acquisition outcomes and ensure that the services obtained meet cost, schedule, and performance requirements. This is because PBSA describes outcome-oriented requirements, measurable performance standards, and quality assurance surveillance plan. Some of the other important objectives of PBSA were articulated by the United States Department of Defense (2000). DoD emphasized that, by describing requirements in terms of outcomes, agencies can help achieve the following objectives:

- Maximize Performance
- Maximize Competition and Innovation
- Encourage and Promote the Use of Commercial Services
- Shift in Risk
- Achieve Savings

Although PBSC helps the government side to save money and increase quality, it is difficult to use this procurement concept for the complex services that are not well defined at the early stage of procurement. Unlike the traditional procurement methods, PBSC requires cultural changes and more training. This training and cultural transformation needs time and will be gradual. It is clear that moving to performance-based service contracting may take time, since a major shift in government procurement process and contracts administration is not going to happen immediately.

Based on findings from previous chapters this paper recommended that it is time to consider PBSA as an acquisition solution in the defense environment when procuring services. PBSA is a new concept for the defense acquisition workforce and may cause risks and problems. But if the importance of PBSA is understood, these risks and problems can be solved and solutions can be developed to overcome challenges. The PBSA concept has great potential to facilitate service acquisition activities and increase quality in the defense procurement process.

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