

Defining Needs and Managing Performance of Installation Support Contracts

Perspectives from the Commercial Sector

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Prepared for the United States Air Force

Approved for public release, distribution unlimited

RAND | PROJECT AIR FORCE

The research reported here was sponsored by the United States Air Force under Contract F49642-01-C-0003. Further information may be obtained from the Strategic Planning Division, Directorate of Plans, Hq USAF.

Library of Congress Cataloging-in-Publication Data

Baldwin, Laura H., 1967-
Defining needs and managing performance of installation support contracts :
perspectives from the commercial sector / Laura H. Baldwin, Sarah Hunter.
p. cm.
Includes bibliographical references.
"MR-1812."
ISBN 0-8330-3495-2 (pbk. : alk. paper)
1. Defense contracts—United States—Cost effectiveness. 2. United States. Air
Force—Facilities. I. Hunter, Sarah, 1968– II. Title.

UG1123.B33 2003
358.4'16212—dc22

2003023326

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Published 2004 by the RAND Corporation
1700 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138
1200 South Hayes Street, Arlington, VA 22202-5050
201 North Craig Street, Suite 202, Pittsburgh, PA 15213-1516
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SUMMARY

In April 2000, Dr. Jack Gansler, Under Secretary of Defense for Acquisition and Technology, established the goal that at least 50 percent of all service acquisitions, measured in dollars and contracts, should be performance-based by 2005. Air Force interest in performance-based service contracts preceded Dr. Gansler's memorandum. On April 1, 1999, the Air Force issued Air Force Instruction (AFI) 63-124, *Performance-Based Service Contracts (PBSC)*, which contains guidance on implementing performance-based practices for purchasing a wide range of services to support its installations, employees, and warfighting capability. Under what is now called performance-based services acquisition (PBSA), buyers should

- describe *what* service is desired and not *how* to perform the work,
- use measurable performance standards and quality assurance plans,
- specify procedures for reductions in fee or price when services do not meet contract requirements, and
- include performance incentives where appropriate.¹

Previous RAND research supports implementation of PBSA practices in Air Force contracts for services associated with the development and sustainment of weapon systems and installation activities (Ausink et al., 2001 and 2002, and Baldwin et al., 2002). Building on

¹Adapted from Federal Acquisition Regulation (FAR) Subpart 37.601.

this prior work, the Air Force (SAF/AQC) asked RAND to learn how commercial buyers and providers of facilities services (including operations and maintenance, custodial, groundskeeping, refuse and recycling) and food services apply performance-based practices within their contracts. This report describes an analysis of best commercial practices, drawing upon a series of interviews with six commercial firms that are prominent buyers or providers of these services.² We examine whether and how these firms apply performance-based practices in their service contracts and draw out relevant and potentially actionable “lessons learned” for the Air Force, which purchases similar services.

FINDINGS

In general, interviewees were supportive of a performance-based approach to acquiring these services. Specific approaches varied across firms and services; some interviewees did not utilize or endorse all four parts of the FAR definition of a performance-based service contract.

Interviewees were consistently supportive of buyers conveying *what* they need, rather than specifying in detail *how* the work should be accomplished. Buyers thus benefit from their providers’ expertise in determining the best ways to meet those needs. According to interviews, some buyers take a very general approach, specifying their needs at a high level and then working with their providers to more fully define the required services. This approach appears to be more common for complex services, dynamic environments, and less experienced buyers. In contrast, when services are relatively easy to define or buyers have a lot of outsourcing experience, they may convey a great deal of detail about the nature of their service needs. (See pp. 14–17.)

Metrics are commonly used to track and manage performance of facilities and food services. Some interviewees recommended using a small number of quality (particularly customer satisfaction ratings) and cost metrics per service, based on both qualitative and quantitative data, to capture the dimensions of performance that are most

²Assurances of anonymity prevent us from identification of the firms.

important to the buyer. However, one provider of janitorial services strongly objected to the use of subjective data from inspections, asserting that these data are too easily distorted by the time of day the inspections occur or by buyer behavior. Providers can play a useful role, drawing on their breadth of experiences to help buyers shape the list of metrics they use to track and manage performance. In addition, metrics tend to evolve over time as buyers' service needs or budget pressures change. (See pp. 17–21.)

We found different opinions about how to appropriately provide incentives for these services. Firms indicated that there is a trend toward tying compensation and/or contract length to performance. Interviewees cited several examples of commonly used formal contractual incentives: award fees based on a balanced set of metrics linked to buyer needs, shared savings/cost overrun contracts, and cancellation clauses tied to buyers' overall satisfaction. However, interviewees also noted that without a properly aligned set of metrics, such incentives can skew providers' actions and lead to unintended consequences. In addition, formal incentives require additional management costs for both the buyer and provider. Strong informal incentives associated with the benefits of a good reputation can substitute or complement formal incentives. (See pp. 24–26.)

The firms we interviewed view open, continual communication between buyers and providers as a key component of managing the performance of facilities and food services. They have frequent informal discussions and conduct periodic formal performance reviews to ensure that provider activities, metrics, and goals are supporting buyer needs, especially as buyer needs, priorities, or budgets evolve. Both buyers and providers value the participation of higher-level management in formal reviews. (See pp. 21–24.)

IMPLICATIONS FOR THE AIR FORCE

The commercial best practices described in this report differ greatly from the Air Force's traditional arm's length, directive relationships with many service providers who were chosen because they were the lowest bidder. However, selected interviews at Air Force installations suggest that recent installation support contracts are beginning to incorporate performance-based practices through broader statements of needs, refinement and reduction of performance metrics,

and contractual and informal incentives. As the Air Force expands its use of performance-based practices, we recommend considering the following principles derived from the research discussed in this report:

- Two-way (versus directive) communication is at the heart of productive buyer-provider relationships. Informal and formal communication at different organizational levels, throughout the sourcing process and the contract period, allows buyers and providers to work together to figure out the best way to meet the buyers' needs. The use of meaningful performance metrics can enhance communication; the Air Force may benefit from seeking provider input on metrics, drawing on the breadth of their experiences. (See pp. 29–32.)
- The Air Force should seek ways to encourage providers to identify and implement better and less costly ways of satisfying their service needs. Statements of needs and contracts that describe *what* is needed, rather than *how* those needs should be met, and management through two-way communication and performance metrics, rather than detailed oversight of processes, support provider efforts to innovate and reduce management costs for both parties. (See pp. 29–32.)
- When selecting performance metrics, the Air Force will need to guard against metrics proliferation, focusing on a relatively small set that captures the most important dimensions of performance to the buying organization so that provider activities support buyer priorities. Qualitative measures such as customer satisfaction complement more familiar quantitative metrics on performance and cost. (See pp. 29–32.)
- Participation in benchmarking activities could help the Air Force better evaluate proposals or performance during a contract. The Air Force may find it useful to begin benchmarking performance and cost of common installation services across its bases or major commands. It will need to control for base-specific and/or regional differences in these comparisons. As confidence in these activities grows, benchmarking could be expanded to other military services and commercial firms. However, a lack of detailed data is likely a challenge in the short run. (See pp. 29–32.)

- The Air Force would likely benefit from expanding the use of formal contractual incentives, especially when there are few measurable key dimensions of performance. In addition to fees, the Air Force can take advantage of award term contracts that tie contract length to provider performance. Informal, reputation-based incentives can be quite powerful as well; continued and expanded use of past performance in source selection decisions reinforces these incentives. (See pp. 29–32.)
- Given the changing environment the Air Force faces, contract flexibility can yield important benefits by allowing buying organizations to continually tailor the contract and relationship to their needs with minimal administrative burden. Potential risks of underspecification should be evaluated against the benefits of flexibility before making decisions about specificity in statements of needs, metrics, pricing, and other terms and conditions. (See pp. 29–32.)