

Research Brief

Applying Performance-Based Practices to Installation Support Contracts

Traditionally, the U.S. Air Force has written service contracts with detailed specifications about how the work should be performed. That practice is changing. The Air Force is implementing performance-based practices within its service contracts with the expectation that they will improve service quality and reduce costs. A buyer-provider relationship based on performance-based practices differs greatly from the Air Force's traditional, arms-length directive relationships with many service providers who were chosen because they were the lowest bidder. Performance-based contracts describe a desired outcome rather than how to perform the work, evaluate performance based on measurable standards, specify procedures for reducing fees or prices when services do not meet contract requirements, and may include positive incentives for good performance. The Air Force goal is that at least half of all service acquisitions should be performance-based by 2005.

Previous research by RAND Project AIR FORCE (PAF) supports the implementation of performance-based practices in contracts related to Air Force weapons systems and installation activities; recent contracts incorporate some of these practices. A new PAF study suggests that as the Air Force extends its use of performance-based practices to contracts for food and facilities services, acquisition planners should consider principles derived from best practices used in the commercial sector.

- **The Air Force should encourage frequent, two-way communication between buyers and providers, including face-to-face discussions involving senior leaders and managers.**
- **Air Force contracts should provide broad statements of need rather than detailed direction as to how those needs should be met.** Outcome-oriented contracts may encourage providers to innovate, reducing costs.
- **The Air Force should select a moderate number of performance metrics to enhance communication between buyers and providers.** The Air Force already has a metrics-oriented culture. The challenges will be to limit the metrics to those that reflect the most important aspects of the service and to include more qualitative measures such as customer satisfaction. Each metric should contribute relevant information to justify the extra data collection costs and management attention.
- **Benchmarking can improve the evaluation of proposals and performance.** The Air Force could begin benchmarking the cost and performance of installation support services within and across its major commands, then expand to other military services and commercial firms. Special data collections may be necessary in the short run. In the long run, provider data systems could supplement Air Force data.
- **Formal and informal incentives can help motivate providers to meet Air Force buyers' needs.** For example, the Air Force is already using formal contractual incentives that tie the

length of the contract to performance. Increased use of past performance in source selection can be an effective informal incentive as well.

- **Contracts that are flexible in terms of the description of services, metrics, pricing, and other terms and conditions can help providers better meet buyers' needs.** This flexibility is important because Air Force needs for facilities and food services change over time.

This research brief describes work done for RAND Project AIR FORCE and documented in *Defining Needs and Managing Performance of Installation Support Contracts: Perspectives from the Commercial Sector* by Laura Baldwin and Sarah Hunter, MR-1812-AF, 2004, 75 pages, ISBN: 0-8330-3495-2.

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