

# Getting the Most Out of Outsourcing: Performance Based Contracting



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# What is performance based contracting?

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- Emphasizes results related to output, quality, and outcomes rather than how the work is performed
- Has an outcome orientation and clearly defined objectives and timeframes
- Uses measurable performance standards and quality assurance plans
- Provides performance incentives and ties payment to outcomes

# What are the expectations for PBC?

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## Performance and Cost Expectations

- Encourages and promotes innovation and finds cost effective ways of delivering services
- Results in better prices and performance
- Maximizes competition and innovation
- Expects contractors to control costs
- Creates better value and enhanced performance
- Shifts risk to contractors so they are responsible for achieving the objectives,
- Ties contractor compensation to achievement and rewards good performance

# What are the expectations for PBC?

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## Partnership Expectations

- Encourages contractors and governments to work together to provide the best services to clients
- Allows contractors to have buy in and shared interests

# What are the expectations for PBC?

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## Agency Expectations

- Promotes the achievement of departmental outcomes and performance measures
- Identifies priority areas and invests resources to maximize client outcomes
- Sets groundwork to evaluate programs and services

# What are the expectations for PBC?

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## **Contract Administration Expectations**

- Requires less day-to-day monitoring,
- Results in more economical procurement and contract administration,
- Minimizes reporting requirements, and
- Requires less frequent but more meaningful monitoring.

# Successful Implementation Examples

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- The Oklahoma Community Rehabilitation Services Unit
  - Contractors' costs per placement declined 51% over three years
  - The average number of months that clients spent on waiting lists decreased by 53%
  - The average number of weeks spent in assessment declined 18%
  - The number of persons who never got a job decreased by 25%
- The North Carolina Division of Social Services
  - Increased the number of adoptions from 261 adoptions in year 1 to 364 in year 2 and to 631 in year 3

# Successful Implementation Examples

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- The Illinois Department of Children and Family Services
  - Increased the number of placements in its Relative Home Care caseload from 2,411 to 5,570 in its first year, and in the second year the placements reached 9,503
  - The Relative Home Care caseload declined by 41%
- Minnesota's Department of Human Services increased job placements from 591 to 1,423
- The Washington State Lottery tied its advertising company's fee to lottery sales. The fee paid could range between 90 and 115 percent of a base fee depending if lottery sales were lower or higher than a specified benchmark amount

# Performance Based Service Examples

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## Oklahoma DRS

- Determination of needs (10%)
- Vocational prep completion (10%)
- Job Placement (10%)
- 4 weeks job retention (20%)
- Job Stabilization 10-17 wks with fewer than 2 support contacts (20%)
- Client rehabilitated - Stabilization plus 90 days (30%)

## North Carolina Social Services

- Placement for adoption (60%)
- Decree of adoption (20%)
- One yr intact placement (20%)

# Lessons Learned

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- Define “performance” as consisting of outputs, quality, outcomes, or any combinations,
- Implementation has involved varying degrees of being performance based,
- There is no one best way to do performance based contracting,
- Includes use of share-in-savings contracting, revenue enhancement contracting, and milestone contracting

# Lessons Learned

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- Make frequent use of incentives and penalties regardless of mission criticality or the dollar value of the contract
- Manipulation of workload can change the behavior of contractors to focus more on performance
- Third party certification is a low cost and highly reliable approach to quality assurance and monitoring (e.g. accreditation)

# Implementation Issues for Both Contractors & Agencies

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- The newness and difficulty of measuring outcomes
- The fear of change and lack of understanding about performance based contracting
- The perception that performance measures are difficult to understand and complicated to implement
- Data cannot be gathered and interpreted without good management information systems
- The shift of changing emphasis from processes to outputs

# Implementation Issues for Contractors

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- Contractors lack knowledge of performance based contracting
- Performance requirements may be contingent on factors outside of the contractor's control
- Contractors may have limited financial resources and capacity to assume risk
- Contractors fear a cash flow crisis and financial uncertainty
- Contractors fear letting go of a system they know
- Contractors need to be given the opportunity to provide input in developing performance measures

# Implementation Issues for Contractors

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- Contractors may have underdeveloped client and financial information management systems
- Contractors need assurance that it is a collaborative process
- The anticipated risk or effort for contractors exceeds their return
- Multiple and even conflicting requirements may exist if a contractor has multiple contracts

# Implementation Issues for Contracting Agencies

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- Performance measures must be balanced with state and federal mandate requirements that are still compliance based
- Internal barriers are more focused on hard dollars and control, cycle time, and staff time required on the front end, no authority to use RFPs, and difficulty in quantifying outcomes
- External barriers include few or no potential providers of the services or goods and the ability of the particular industry to respond effectively is limited

# Implementation Issues for Contracting Agencies

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- A number of internal department problems, opposition had to be overcome, and leadership had to be willing to take on their bureaucracies
- There is inadequate staff training
- There are incentives in human and social service types of contracts for contractors to provide services to the easiest clients
- There is a real impact on staff time and dollars, and agencies fear that performance based contracting takes more time than traditional contracting
- How should poor performance be addressed

# Critical Success Factors

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- Partnership and teamwork
- Staff and contractor training
- Planning
- Internal management systems

# Partnership and Team Work

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- Different individuals and organizations are involved in performance based contracting, including the contractors, the program staff, the procurement and contracts staff, and management
- PBC means a change in the business relationships that contractors and agencies have had for many years
- Collaborative relationships need to be formed between the staff and the contractors as well as among the program staff, the procurement and contracts staff, and management
- Trust, open communication, and strong leadership are mentioned in several articles and documents

# Staff and Contractor Training

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- Staff and contractor training were often mentioned as critical to successful implementation.
- The types of training include:
  - establishing performance measures
  - preparing statement of work or objectives
  - establishing the contract payment process
  - setting incentives and penalties
  - monitoring and quality assurance

# Planning

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- Conducting sufficient planning before implementation is an important element
- Planning efforts involve:
  - establishing who should be involved
  - identifying performance measures and desired outcomes in tandem with contractors and vendors
  - determining the current performance level
  - identifying potential risks
  - evaluating what services and programs will benefit the most from performance based contracting
  - developing an implementation plan
- A key indicator of agency planning is whether the agency already has a strategic plan and has established performance measures for its various programs

# Internal Management Systems

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- The key to measuring and monitoring performance are the internal management support systems for both the agency and the contractors.
- Management information systems that can provide data to support performance and outcome measures as well as a monitoring plan are critical

# Successful Techniques

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- Clearly defined performance as deliverables, outputs, outcomes, and effectiveness and efficiency
- Critical processes that made for successful implementation included:
  - Holding partnering meetings with the contractor community to identify performance measures
  - Having regularly scheduled meetings with all contractors once the contracts were awarded
  - Identifying and discussing risks
  - Making agreements to reinvest some savings back into the system
  - Having a formal contract review & approval process located in one division
  - Providing staff training
  - Maintaining open communication

# Key Contracting Elements for Performance Based Contracting

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- Writing Statements of Work
- Establishing Meaningful Performance Measures
- Monitoring Plans
- Linking Payments to Performance
- Implementation Steps

# Writing Statements of Work

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- Clearly written
- Results focused
- Clearly defined services
- Complete process described
- Measurable outcomes
- Use descriptive headings to organize & identify major terms
- Define key terms
- Explain technical terms, jargon, terms with unique meanings
- Describe all tasks and obligations

# Writing Statements of Work

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## Key Questions

- Who will do the work?
- What services are expected?
- How are services to be provided?
- When will the work be done or performed?
- What are the expected performance measures and outcomes?

# Establishing Meaningful Performance Measures

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## Types of Performance Measures

- **Output** - The volume, amount, and quantity of services provided
- **Outcome/Effectiveness**- The quantifiable impact on customers, the extent that goals and objectives are achieved, a measure of the amount and frequency of occurrences, or results that happen because a service is provided
- **Efficiency** – The cost or resources per unit of service

# Establishing Meaningful Performance Measures

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## Output

Number of intakes and assessments,  
Number of people trained



## Outcome

Referred clients are placed into a competitive employment job for a minimum of 90 calendar days



## Effectiveness

Percentage of referred clients placed into a competitive employment job for a minimum of 90 calendar days

# Establishing Meaningful Performance Measures

<b>Type of Measure</b>	<b>Child Welfare</b>	<b>Employment</b>
Output	# of foster care placements	# of job placements
Outcome/ Effectiveness	% of placements resulting in adoptions	60% of placements lasting 90 days with a wage of \$12 or more per hour

# Establishing Meaningful Performance Measures

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## Attributes of Good Performance Measures

- Relevant
  - Based on program goals and objectives related to program mission statement
  - Significant decision making or accountability implications
- Understandable
  - Reasonable and concise, but comprehensive
  - Limited to a number and degree of complexity that provides a meaningful performance assessment
- Comparable
  - Provides data over time
  - Is a norm or standard for the industry

# Establishing Meaningful Performance Measures

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## Attributes of a Good Performance Measures (continued)

- **Timely**
  - Provides ability to make decisions and assessments within a reasonable amount of time
- **Consistent**
  - Reported from period to period over time
  - Consistent throughout a strategic plan, budget, accounting and reporting systems over time
- **Reliable**
  - Verifiable
  - Free from bias
  - Represents what it is designed to report

# Monitoring Plans

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- Does the contractor have the capacity to provide data related to the performance measures?
- Does the plan and data relate to the performance measures?
- Should there be performance milestones?
- How frequent is the monitoring and is it tied to the payment cycle?
- What performance and financial statistics and data are needed and when? Should you verify data?
- Are there provisions for corrective action if progress is not satisfactory?

# Linking Payments to Performance

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- Are the performance measures specific to the tasks and services?
- Are they achievable?
- Are they consistent with industry standards?
- Are they consistent with or contribute to the Department's performance measures?
- Are there interim or in-process measures that can be used as a basis for payment?

# Linking Payments to Performance

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## Contract Provisions

- Is payment related to a performance or an interim measure ?
- What is the relationship between a performance measure and a payment method?
- Are there payment incentives or penalties based on performance?
- Is the payment related to a contractor's cost to perform the service?
- Is payment tied to monitoring and reporting provisions?

# Implementation Steps

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## Management Direction

- Who should be involved?
- How does performance contracting fit with the department's strategic plan, performance measures, and accountability structure?
- Will there be management support for implementing PBC?
- What services should eventually be targeted for PBC?

# Implementation Steps

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## **Contracting and Program Staff Coordination**

- Who will be responsible for coordinating PBC efforts?
- What steps does the Department need to take to prepare its program staff for PBC?
- What roles will each group have?
- What new or revised policies and procedures are needed?

# Implementation Steps

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## Contractor Involvement

- How can contractors be involved in the process?
- What concerns do they have and how will these concerns affect contractor performance and finances?
- How will the department handle these issues operationally and politically?

# Implementation Steps

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## Key Elements For Implementing PBC

- Management support and direction
- Clear understanding of the relationship between program performance and department performance
- Defined roles and responsibilities
- Implementation Work Plan and Training Plan
- Contractor involvement and communication process
- Contracting procedures and processes to support PBC
- Phase in approach



# Questions?