



Results-Driven Contracting: An Overview

I. Background

Many of the most important functions of state and local governments – from building and maintaining roads to housing the homeless – involve contracting for goods and services supplied by the private sector. Increasing the effectiveness of procurements is therefore an essential component of improving governments’ overall performance in creating public value.

Unfortunately, governments often treat procurement as a back office administrative function, rather than as a core part of their strategy for delivering better performance. Governments adopt inappropriate procurement strategies and contract types that are not aligned with their goals. Procurements can be overly prescriptive and regulated, stifling innovation and reducing competition. Contractor performance is rarely tracked in a meaningful manner. Contract management tends to focus on compliance instead of performance improvement, with contractors held accountable for inputs and activities rather than outcomes and impacts (if performance is measured at all). Governments make insufficient use of data on past performance in making future procurement decisions, and tend not to incorporate performance incentives into contracts.

As part of Bloomberg Philanthropies’ What Works Cities (WWC) initiative, the Harvard Kennedy School Government Performance Lab (GPL) is conducting research on cities’ procurement and contracting practices, and providing technical assistance to midsize cities to implement results-driven contracting strategies for their most important procurements.¹

We define results-driven contracting in government as a continuum of practice that incorporates some or all of the following activities:

- identifying specific goals to be achieved by a key procurement, and aligning procurement vehicles, contract types, and requirements with these goals;
- measuring outcomes, impacts, and/or cost-effectiveness of contracted activities;

- using performance data to actively manage contracts, including by working with contractors to monitor progress and detect and resolve issues in real time;
- incorporating performance incentives, including by selecting the right contract type, making a portion of payment contingent on outcomes as appropriate, and basing future procurement decisions on past performance; and
- identifying a portfolio of key procurements and strategically managing these procurements to continuously improve outcomes.

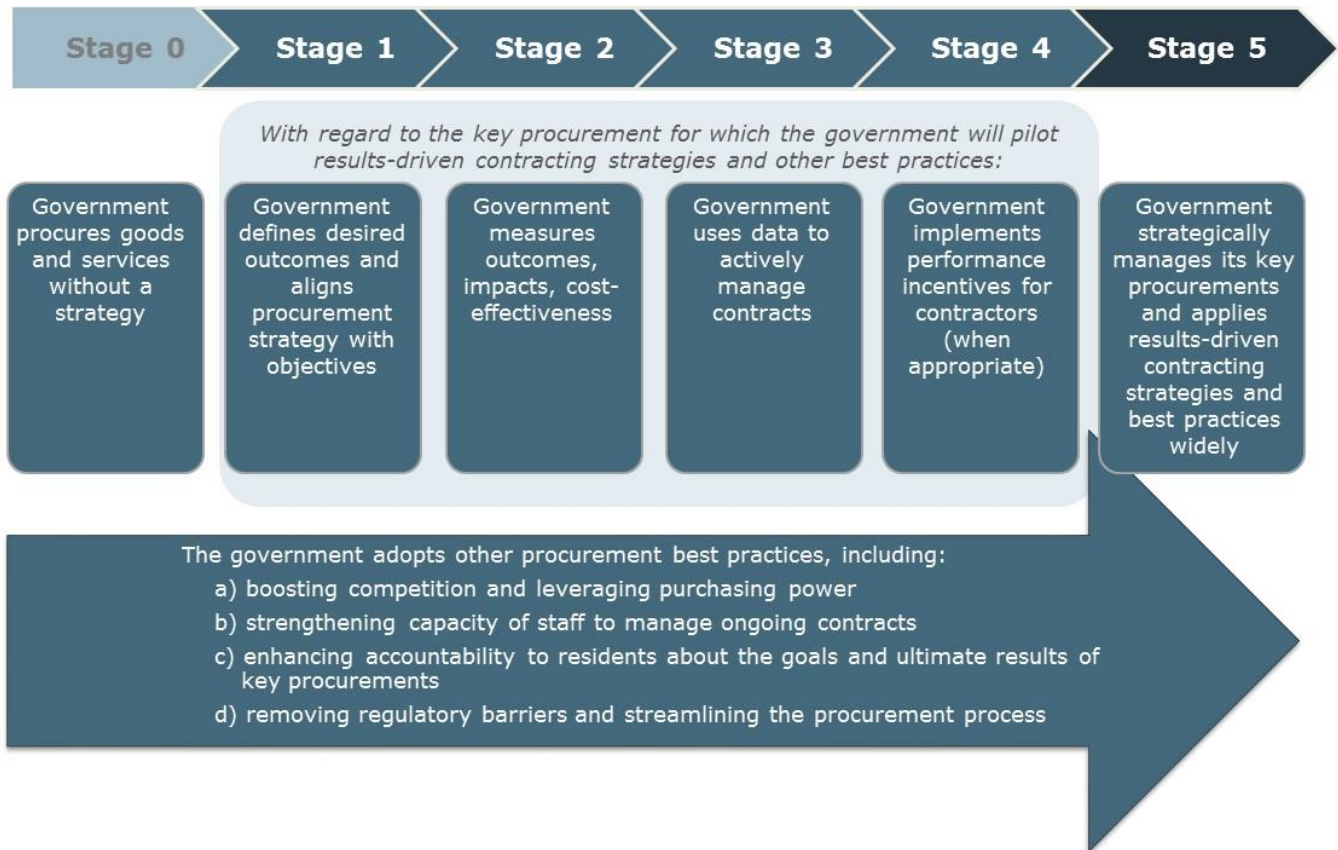
For several years we have been working with state and local governments around the country to develop pay for success contracts using social impact bonds. Our new work on results-driven contracting is motivated by the hypothesis that the key features of pay for success—identifying specific desired outcomes, procuring and contracting for those outcomes, actively monitoring and managing contracts to achieve outcomes, and, in some cases, conditioning a portion of payment on success—can be applied more broadly to key government procurements and have a substantial and lasting impact on performance. Ultimately, these strategies should produce some combination of lower costs and better results for residents.

II. The Results-Driven Contracting Continuum

The GPL uses a six-stage continuum, depicted in Figure 1, to guide its results-driven contracting technical support for state and local governments. This continuum, or maturity model, is used to determine the current stage of practice for a given key procurement, assist the government in advancing its procurement practice to a higher stage for that procurement, and build the government’s capacity to manage its procurements more strategically overall. This section describes the stages of the results-driven contracting continuum.

¹ We use the term procurement to mean purchases of any goods or services other than direct personnel services—including through grants, new contracts and contract renewals.

Figure 1. Continuum of Results-Driven Contracting Strategies and Other Procurement Best Practices



Stage 0 represents the **absence of a results-driven contracting strategy** for a given procurement. A government at stage 0 of the results-driven contracting continuum is not properly planning its procurement or conducting sufficient market analysis, which can result in the selection of inappropriate competition strategies and contract types. Procurements tend to have overly prescriptive requirements, which can discourage innovation. The government may simply renew its key contracts year after year without considering changes to its needs and goals or advancements in the marketplace. Deficiencies in the procurement process contribute to mismatches between what the government sets out to achieve with a procurement and what it ends up purchasing.

A **stage 1** government strategically **aligns key procurements with policy goals and clearly identifies desired outcomes**. The decision to contract is made carefully by assessing whether the service or product could or should be produced directly by the government, whether government can maintain sufficient control and oversight if it purchases the good or service, and whether

purchasing is more cost-effective and likely to produce the desired outcomes. If the government decides to contract for the good or service, contract officers and program officers use market research to better understand what good or service is needed and how to most cost-effectively obtain that given the state of the marketplace and vendor cost structures. The government then structures the procurement as informed by this market research in order to achieve the desired outcomes. Specifically, the goals of the procurement and the market research inform the selection of the competition strategy (RFI, RFP, RFQ), contract type (fixed price contract, cost-type contract, incentive contract), and contractor requirements.

Contract review boards or peer reviews for major procurements can provide further expertise to improve the pre-award structuring of the procurement and the post-award management of the contract. Testing products or services for cost and viability through a pilot before dedicating full resources can further enhance the success of a procurement. Also, in certain cases, a problem-based approach to procurement whereby the procurement

describes a problem, as opposed to stating requirements, and seeks solutions from bidders may be useful for spurring innovation and highlighting the ultimate goals of the procurement. A stage 1 government may also be strategic about creating value from procurements more generally and may be seeking to incorporate procurement best practices, including:

- boosting competition and purchasing power;
- building internal management capacity;
- increasing accountability to constituents; and
- removing regulatory barriers and streamlining procurement processes.

At **stage 2**, a government will have **set up systems to measure outcomes, impacts, and/or cost-effectiveness** of procurements using analytical methods and administrative data. The government may also establish a baseline based on current performance to help measure the results that it aims to achieve. Where multiple contractors are working toward similar goals, the government can develop an evaluation system that facilitates comparison of outcomes across contractors to determine which contractors are most effective.

To provide a meaningful comparison of the performance of social service providers, it is important to use a strategy that accounts for differences in the populations served by different providers and which adjusts for other factors besides contractor performance that can influence the observed outcomes.

A **stage 3** government **uses data to actively manage contracts**. The government contract officer and program officer responsible for the contract regularly review key data, including outcome data from administrative files and implementation data from the contractor and convene with the contractor to monitor progress, discuss opportunities to improve systems, detect performance issues in real time based on data, and swiftly troubleshoot and implement course corrections, as needed.

A government at **stage 4 designs and incorporates incentives for better, more cost-effective performance** into its key procurements. A basic way of managing incentives is through the choice of the contract type. For example, cost-type contracts, time-and-materials contracts, and labor-hour contracts pose a significant risk that government will overspend since there is no incentive to control costs. Unless there is a compelling reason for using such contract types, these contracts should be transitioned to fixed-cost or hybrid contracts. When appropriate, incentive

contracts can be used in which a portion of payment to the contractor is conditioned on outcomes. In developing incentive contracts, the government has to optimize the balance between performance payments and fixed payments—to sufficiently introduce incentives while avoiding high stake financial and reputational risks for the contractor.

Using contractor performance records to inform future procurement decisions across departments, including contract renewals, can provide an additional performance incentive for contractors. Moreover, connecting past performance to future contracting decisions helps the government establish a mechanism for allocating limited resources to the most effective contractors over time. Similarly, governments can consider rewarding successful contractors with multiyear contracts or with funds for capacity building to enable them to scale as they continue to improve their performance.

At **stage 5**, a government is **managing its procurements in a strategic manner**, particularly those that are related to the Mayor or Governor's priority goals or constitute significant spending. For instance, a government might constantly track the next 20 to 30 key contracts that are at least nine months from expiring and seek to improve them prior to the next contract renewal. The government will actively work on reforming high risk contracts, including those that are awarded non-competitively, receive only one bid, or are structured as cost-type. The government applies results-driven contracting strategies and best practices widely and continually searches for ways to innovate and improve its procurement process to drive better performance.

III. Advancing Procurement Best Practices

In addition to helping the government progress along the results-driven contracting continuum, the GPL supports governments in implementing the following best practices for procurement:

Leveraging competition and volume to improve cost-effectiveness. Procurements should seek to improve the number and diversity of qualified bidders. By expanding outreach and engagement efforts, the government can make sure that qualified entities are informed about a procurement, briefed on its goals, and encouraged to submit a bid. To reduce barriers to entry, procurement documents should be concise, use simple language, and avoid imposing unnecessary regulations on respondents. Allotting sufficient time for bidders to develop responses is critical. Governments should also employ strategic sourcing

to negotiate lower prices through volume discounts. This may include consolidating needs that are expected to reoccur in the future or pooling needs across agencies or even across governments into one procurement.

Staffing procurement offices to allow for effective management of ongoing contracts.

In many governments the position of a contract officer is seen as an administrative role. This must change if governments want to take advantage of the opportunity presented by key procurements to advance their policy agenda. Contract officers should be empowered to judiciously manage the procurement process *and* the ultimate contract to achieve goals. Specifically, contract officers should collaborate closely with program officers to ensure that they understand the goals of the procurement and can structure it to meet the program's objectives. Post-award, governance structures that include the contract officer, program officer, and the contractor can enable better management of ongoing contracts and support performance incentives for the contractor. This new focus on strategic activities represents a significant shift from contract officers' current role, which focuses on regulatory and contractual compliance as well as on managing invoicing for providers. This shift may require recruiting qualified staff, training existing staff, and splitting off administrative functions from more strategic activities to make the positions more appealing.

Accountability to residents will strengthen the connection between key procurements and strategic goals of the government.

Improving transparency about the goals and ultimate results of a procurement can create a useful feedback loop that fosters support for results-driven contracting in the community and reinforces trust in the government's capacity to govern effectively. This could be accomplished by publishing useful data on contracts, such as number of bidders for the procurement, the awardee, a description of the goods or services being provided, the contract value, any contract amendments, the contract term, and information on the performance of the vendor with regard to key metrics at the end of the contract. Educating constituents about the connection between a procurement and service delivery and raising their expectations of what well-executed contracting can accomplish is critical for the sustainability and broader application of results-driven contracting strategies in the long run.

Removing regulatory barriers and streamlining the procurement process so as to improve competition. Excessive regulation and unwieldy procurement systems can generate

high transaction costs for participants and deter small businesses and less established organizations from bidding. This in turn reduces competition and results in inferior pricing and outcomes for the government. Moreover, excessive emphasis on compliance signals to contract officers and contractors that their focus should be on process rather than results. Governments should determine what regulations are in fact necessary, and ensure that contract officers understand what flexibility they have in structuring procurements. Governments should also adopt processes like e-procurement systems that reduce paperwork for bidders.

IV. Implementing Results-Driven Contracting

As part of What Works Cities, we are helping cities across the country improve the results of their contracts in areas such as homeless services, workforce development services and street construction. We will ultimately help 20 selected cities move to higher stages of the results-driven contracting continuum. Our technical support will also help build the government's capacity for sustaining these improved practices and expanding them to other procurement areas. We will disseminate widely the learning that occurs throughout this process so that many more governments can benefit from adopting the most promising of these strategies.

The Government Performance Lab at the Harvard Kennedy School conducts research on how governments can improve the results they achieve for their citizens. An important part of this research model involves providing pro bono technical assistance to state and local governments. Through this hands-on involvement, the Government Performance Lab gains insights into the barriers that governments face and the solutions that can overcome these barriers. For more information about the Government Performance Lab, please visit our website: www.govlab.hks.harvard.edu.

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