Performance-based Service Contracting, Partnering & Monitoring: Make Contracting a Success, Not a Burden
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- Diversified experience
- Organizational re-design to achieve Operational Excellence
- Outsource contract creation/governance
- Project Management
- Contract Transition Management
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• Co-authored the second manual in the sustainability “How-to Guide” series, EPA’s ENERGY STAR Portfolio Manager
Agenda

• Differences between performance based and prescriptive contracts (traditional)

• Advantages and challenges both types of contracting

• Repeatable methodology for writing performance based service contracts

• Contract transition and administration
Prescriptive Contracting

- Describes the owner’s needs in terms of what tasks need to be accomplished in very specific terms
- Contractor provides services based on prescriptive instructions
- Contractor has prescribed way of achieving the expected results
Performance Based Contracting

- Describes the **owner’s needs** in terms of what is to be achieved, not how it is to be done

- Contractor provides services based on outcomes

- Contractor has freedom to achieve results in the best way
Contract requirements focus on:

- Outcomes **not** inputs
- Results of the contractor’s work **not** on the work itself
- The cleanliness of the bathroom **not** how it was cleaned
**Prescriptive vs. Performance Contracts**

**Prescriptive**
- Outline exact specifications
- Less flexible
- Can sometimes stifle innovation and morale
- Contractors have little incentive or motivation to do anything beyond what is specified

**Performance**
- Describe expected results
- Flexibility for the vendor regarding achievement of those results
- Contractor may take more pride in work and look for ways to increase effectiveness and efficiencies and add value
Prescriptive vs. Performance Specification Examples

**Prescriptive**
- Mow and edge grass weekly.
- Aerate spring and fall.
- Fertilize in April and October.
- Weed beds quarterly.
- Use only commercial mowers.

**Performance**
- Maintain a smooth, neatly trimmed, acceptable lawn, free of eroded or bare spots and weeds.
- Maintain grass between 2 to 4 inches in height.
- Fertilize, water, edge, eliminate weeds, maintain mulch, and repair or replace damaged plants in shrub and plant beds.
# Risk and Benefits to Contractor

<table>
<thead>
<tr>
<th>Performance</th>
<th>Prescriptive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher risk</td>
<td>Lower Risk</td>
</tr>
<tr>
<td>Opportunity to increase profit margin through efficient and effective ways of achieving performance outcomes</td>
<td>Profit margins set</td>
</tr>
</tbody>
</table>
## Risk and Benefits to Owner

<table>
<thead>
<tr>
<th>Performance</th>
<th>Prescriptive</th>
</tr>
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<tbody>
<tr>
<td>Must manage expectations</td>
<td>Must manage schedules</td>
</tr>
<tr>
<td>Less contract management</td>
<td>More contract management involvement</td>
</tr>
<tr>
<td>involvement</td>
<td></td>
</tr>
</tbody>
</table>

### Performance
- Must manage expectations
- Less contract management involvement

### Prescriptive
- Must manage schedules
- More contract management involvement
Drawbacks of Performance Based

• More challenging to develop & implement: paradigm shift.

• Organizations need to be well schooled in the methodology for arriving at measurable metrics and acceptable quality levels when developing the performance work statement (PWS) or statement of work (SOW).

• Administering PBC can also require a paradigm shift for the organization.
Performance Based Specification

1: Define specific requirements
2: Decide on your organization’s expectations
3: Determine performance standards or level of service
4: Decide how you will measure the contractor’s outcomes

WHAT DO YOU WANT?
Define Requirements

Determine the scope and nature of the services required and describe them clearly:

1) What do you want?  
2) How much, when and where?
Requirements Example

1. What services do you want included in the contract?
   Example: grounds maintenance.

- Lawn care – mowing, edging, watering, weeding, irrigating, fertilizing, seeding, patching
- Pest management
- Snow and ice removal
- Garden care – planting, weeding, mulching
- Tree/bush care
- Leaf removal
- Ornamental fountain maintenance

2. Where?
Setting Expectations

Success depends on clearly stating your organization’s expectations.
Expectations Example:

- Maintain all facilities at the APPA Custodial Service Level 2.5. Levels of service 4 and 5 will not be tolerated. [Service Level 2.5 is defined as routinely at the level 2 while only occasionally sinking to level 3.]

- Requests for service are responded to and resolved in a timely fashion.

- Utilize green and recycled products to the fullest extent possible and submit annual data in a complete and timely manner.
Performance Standards

• Establishes minimum requirements
• Provides a framework for monitoring service requirements and targets
• Internal standards - organizational or FM standards
• External standards - conformance to regulatory requirements, international standards, health and safety laws and regulations, industry standards and manufacturers’ recommendations
## Performance Standards Example

### APPA Service Levels

<table>
<thead>
<tr>
<th>Level</th>
<th>Maintenance</th>
<th>Custodial</th>
<th>Grounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Showpiece Facility</td>
<td>Orderly Spotlessness</td>
<td>State-of-the-Art</td>
</tr>
<tr>
<td>2</td>
<td>Comprehensive Stewardship</td>
<td>Orderly Tidiness</td>
<td>High Level</td>
</tr>
<tr>
<td>3</td>
<td>Managed Care</td>
<td>Casual Inattention</td>
<td>Moderate Level</td>
</tr>
<tr>
<td>4</td>
<td>Reactive Management</td>
<td>Moderate Dinginess</td>
<td>Moderately Low-Level</td>
</tr>
<tr>
<td>5</td>
<td>Crisis Response</td>
<td>Unkempt Neglect</td>
<td>Minimum Level</td>
</tr>
</tbody>
</table>
Measure Outcomes

How do you measure the contractor’s performance?

- Customer satisfaction
- KPIs
- Metrics
- Reports
Measure Outcomes

Performance metric: measure of an organization's activities and performance

- DM vs PM
- PM Completion Rates
- Customer Satisfaction
- Work Order Completion Times
- Unscheduled Downtime
- Workforce Productivity
## Metrics Examples

<table>
<thead>
<tr>
<th>Metric Description</th>
<th>Std.</th>
<th>Metric Description</th>
<th>Std.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility Condition Index (FCI)</td>
<td>&lt;0.05</td>
<td>Stockroom Turns / Year</td>
<td>2 – 3</td>
</tr>
<tr>
<td>Deferred Maintenance Backlog</td>
<td>Trend</td>
<td>Annual Training Hours</td>
<td>&gt;40 hrs.</td>
</tr>
<tr>
<td>On-the-job Wrench Time</td>
<td>&gt;60%</td>
<td>Maint. Cost / Replacement Cost</td>
<td>3 - 4%</td>
</tr>
<tr>
<td>PM / CM Ratio</td>
<td>70 / 30</td>
<td>Percent Return Work</td>
<td>&lt;5%</td>
</tr>
<tr>
<td>Unscheduled Maintenance Downtime</td>
<td>&lt;2%</td>
<td>Mean Time Between Failures</td>
<td>Trend</td>
</tr>
<tr>
<td>PM Schedule Compliance</td>
<td>&gt;95%</td>
<td>% Failures Assessed: Root Cause</td>
<td>&gt;75%</td>
</tr>
<tr>
<td>CM Schedule Compliance</td>
<td>&gt;90%</td>
<td>Maintenance OT Percentage</td>
<td>5-15%</td>
</tr>
<tr>
<td>Unscheduled Man-Hours</td>
<td>&lt;10%</td>
<td>% WO Covered by Estimates</td>
<td>&gt;90%</td>
</tr>
<tr>
<td>WO Turn-Around Time</td>
<td>Trend</td>
<td>On-Site Supervisor Time</td>
<td>&gt;65%</td>
</tr>
<tr>
<td>Emergency Response Time</td>
<td>&lt;15 min.²</td>
<td>Stockroom On-Time Delivery</td>
<td>&gt;97%</td>
</tr>
<tr>
<td>Stockroom Service Level</td>
<td>&gt;97%</td>
<td>Material / Part Performance</td>
<td>&gt;98%</td>
</tr>
</tbody>
</table>
Dashboard Reports
How do you know your contract is successful?

• Assess Performance
• Compliance
• Document Outcomes
• Ensure Continuing Relevance
Quality Control vs. Quality Assurance

• Is there a difference between QC and QA?
• Is the contractor responsible for both?

• YES?

QC: Input vs. QA: Output
Quality Control (QC)

The measures put in place by the contractor to control the quality of the input.

Quality Control Plan: A self-inspection plan that describes the internal staffing and procedures that will meet the quality, quantity, timeliness, responsiveness, customer satisfaction, and other service delivery requirements in the statement of work.
Quality Assurance (QA)

The evaluation of the quality of the output

The contractor must:
• Establish a QA plan
• Tell you what that plan is
• Follow the plan

Why QA?
So any discrepancies in the quality or timeliness of the work can be quickly addressed and resolved.
QA/QC Goal

The Contractor establishes procedures and processes...

• That will produce quality outcomes.
• To check the quality of the outcomes.
• To “fix” poor quality.
Owner’s Responsibility: Monitoring

What are you monitoring?
1. The contractor’s processes
2. The contractor’s procedures
3. KPIs and/or metrics

What are you looking for?
1. Adherence to their “plan”
2. Success of their QA/QC.
What is Monitoring?

• Reviewing metrics together.
• Spot checking for accuracy of the metrics.
• Reviewing their inspection reports.
• Talking to your customers.
• Spot checking completed tasks.
Why Monitor?

- Ensures contract terms are met
- Provides early problem detection
- Helps prevent or reduce fraud
- Helps avoid conflicts when misunderstandings or unexpected requirements arise
- Encourages regular communication
- Reinforces partnership
Partnering

• Critical
• Does not eliminate the control mechanisms that are necessary in order to have a strong claims avoidance strategy.
• Must identify the partnering expectations.

The quest for trust, respect and co-operation replacing traditional confrontation, the delicate balance required to accommodate flexibility, performance incentives and opportunities for innovation.
Partnering
Contract Transition Management

• What is Contract Transition Management?
• Why do some service contract transitions fail?
• What are the CTM stages you should follow?
• Who should drive the CTM effort?
Contract Transition Management

• Standard transition approaches versus innovative
• What are the risks of not adopting a successful CTM plan?
• What are the advantages of Third Party involvement?
• Contract transition avoidance (re-bid situations)
What Contracts Work with Which Contract Types?

<table>
<thead>
<tr>
<th>Service</th>
<th>Prescriptive</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custodial/Janitorial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Landscaping/Grounds Maintenance</td>
<td></td>
<td></td>
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<tr>
<td>O&amp;M</td>
<td></td>
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<tr>
<td>Switchboard</td>
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<tr>
<td>Help Desk</td>
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<tr>
<td>Security</td>
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<tr>
<td>Conference Center Management</td>
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<td></td>
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<tr>
<td>Administrative</td>
<td></td>
<td></td>
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<tr>
<td>Element</td>
<td>Performance</td>
<td>Prescriptive</td>
</tr>
<tr>
<td>------------------------------</td>
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<td>---------------------------------</td>
</tr>
<tr>
<td>Focus</td>
<td>✔ End results</td>
<td>✔ Tasks</td>
</tr>
<tr>
<td>Performance Basis</td>
<td>✔ Outcome Based</td>
<td>✔ Process Based</td>
</tr>
<tr>
<td>Quality Methodology</td>
<td>✔ Quality Assurance</td>
<td>✔ Quality Control</td>
</tr>
<tr>
<td>Effort</td>
<td>✔ More work up front</td>
<td>✔ More work ongoing</td>
</tr>
<tr>
<td>Flexibility</td>
<td>✔ More flexible</td>
<td>✔ Less flexible</td>
</tr>
<tr>
<td>Challenge</td>
<td>✔ Subjective measures</td>
<td>✔ Did you get the outcome you wanted?</td>
</tr>
<tr>
<td>Success Depends On...</td>
<td>✔ Good SLAs, performance definitions</td>
<td>✔ Detailed processes and schedules</td>
</tr>
</tbody>
</table>
Summary

• Performance based contracts are on the rise
• Performance based contracts require a paradigm shift
• Not all contracts are suited to performance based models
• Contract transition management ensures successful implementation
Thank You!

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