

# Effectively Managing Professional Services Contracts: 12 Best Practices



Sandra L. Fisher  
Assistant Professor  
School of Business  
Clarkson University

Michael E. Wasserman  
Assistant Professor  
School of Business  
Clarkson University

Paige P. Wolf  
Assistant Professor  
School of Management  
George Mason University

IBM Center for  
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COMPETITION AND CHOICE SERIES

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**Sandra L. Fisher**  
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## F O R E W O R D

On behalf of the IBM Center for The Business of Government, we are pleased to present this report, “Effectively Managing Professional Services Contracts: 12 Best Practices,” by Sandra L. Fisher, Michael E. Wasserman, and Paige P. Wolf.

One of the most significant trends in government today is that professional services are increasingly being delivered through contracts with the private and nonprofit sectors. As this trend continues, and perhaps even accelerates, the success of government programs will depend more and more on managers with the right skills and abilities to manage professional services via the traditional contract mechanism. Currently, there is an increasing emphasis on training a strong cadre of employees to effectively perform contract management and oversight responsibilities. But training is only one key component to government’s ability to manage professional contracts well. The other is learning from the ongoing experience of good managers who are now successfully managing professional services contracts.

This report is targeted to the growing pool of government managers who are responsible for managing professional services contracts. It gleans a dozen best practices, based on real-world experience, currently used by successful managers across the government. A major theme of these experiences is the importance of creating a more effective working relationship—much more like a partnership than the traditional adversarial relationship—between the project officer, the contract manager, and the contractor. The report is also aimed at the government contractor community, which is learning how to participate in working relationships in new ways.

This report is the latest in an extensive body of research on practical advice, based on real-life experience, supported by the IBM Center for The Business of Government to help public managers better manage in a new world. This work includes the book *The Procurement Revolution*, edited by Mark Abramson and Roland Harris III, and a series of reports, including “Contracting for the 21st Century: A Partnership Model,” by Wendell Lawther, “The Procurement Partnership Model: Moving to a Team-Based Approach,” by Kathryn Denhardt, and “Making Performance-Based Contracting Perform: What the Federal Government Can Learn from State and Local Governments,” by Lawrence Martin.

We hope that this report will become a useful guide for public executives across the government who now, or will, face the challenge of effectively managing professional services contracts.



Albert Morales  
Managing Partner  
IBM Center for The Business of Government  
albert.morales@us.ibm.com



John Nyland  
Managing Partner  
IBM, Public Sector Business Consulting Services  
nyland@us.ibm.com

## EXECUTIVE SUMMARY

With the growth of government contracting of professional services, the time is ripe to re-examine old paradigms and to explore new ways to most effectively partner with contractor organizations in order to deliver services effectively. The emerging trend of contracting “non-core” functions has been driven by the need to improve flexibility, increase responsiveness, decrease labor costs, and allow the organization to focus on what it does best. It has led to the emergence of performance-based contracting, greater contractor autonomy, and an emphasis on a synergistic partnership between parties engaged in a professional services contract.

Traditional procurement models have been described as characterized by low trust, diffusion of leadership, stovepipe organizations, and a focus on following strict procurement rules. The “arm’s length” approach is encouraged in law, regulations, and the contract officer culture because of the need to be seen as impartial trustees of taxpayer money. In contrast, a partnership-oriented procurement approach requires high trust, effective executive leadership, team-based structures, and a focus on accountability for results. This “linked arms” approach has been highly effective in the private sector and is seen as key to delivering services crucial to the public good.

In this report, we started with a working hypothesis that some level of trust and partnership is desirable. We then set out to explore this hypothesis in more detail and examine ways to build an effective partnership between government managers and private contractors. We interviewed senior government officials and other experts in government contracting, government project managers, and contractor project managers in a variety of industries. In addition to the interviews, we reviewed relevant reports and

academic articles to learn more about best practices related to these issues.

The contracting practices highlighted in this report describe ways in which government project managers can enhance public-private partnerships as a way of improving delivery of professional services. Twelve best practices are presented.

This report provides specific guidance for government project managers on how to overcome the cultural and traditional barriers that have developed over the years so effective partnerships in the realm of professional services contracting may be created.

# Introduction

Over the past decade, many public and private sector organizations have shifted dramatically toward the use of contracting to provide professional services. Many functions considered to be “non-core” to an organization’s key mission and competencies have been contracted out in an effort to improve flexibility, increase responsiveness, decrease labor costs, and allow the organization to focus on what it does best. Other work has been contracted out in an effort to obtain expertise for a specific project that does not exist internally. The U.S. government has been an important part of this broader societal trend, using contractor support in a broad array of functions in nearly every federal agency. While specific contracting procedures relevant to acquiring professional services are clearly developed, there are still important questions about the best way to manage the workplace challenges created by the use of contractors.

The increase in the scope and depth of professional services contracting has positioned the government project manager role as a balancing act in a number of respects:

- Balancing operational flexibility with the need for clearly defined performance expectations and goals within the professional services contract
- Balancing strong team development with the need to prevent conflicts of interest
- Balancing short-term efficiency and cost savings with resource investments required for effective long-term knowledge management and organizational learning
- Balancing the benefits of long-term partnerships with the market-driven value provided by competitive bidding

The overall purpose of this study was to better understand the best practices that contribute to effective government-contractor relationships in this complex environment and the successful completion of the work. Key questions of the study included:

- How can government project managers best interact with contractor management and staff to facilitate effective task performance?
- How does co-location between government and contractor employees (either on the government site or at an off-site location) generally affect the delivery of professional services?
- How can government and contractor managers facilitate the transfer of knowledge to government employees and organizational retention of knowledge to ensure the government is getting full value for its contracting dollar?

To explore these issues, we interviewed senior government officials and other experts in government contracting, government project managers, and contractor project managers in a variety of industries. We asked them questions about how they define success in managing professional services contracts and steps that project managers can take to enhance the success of their projects. In addition to the interviews, we reviewed relevant reports and academic articles to learn more about best practices related to these questions.

## Building Effective Contracting Relationships

The existence of adversarial relationships between contractors and the government is a widely recognized barrier to effective professional services contracting.

*“The reality is that if you can improve the process and put in place ways for people to work together where trust is fostered, you are going to get less cost. What we are finding in the business environment is also true on the value curve. You create greater value where people learn better, learn how to work better together, don’t duplicate work, and don’t spend all their time trying to catch people doing wrong things, but spend a lot more time trying to catch them doing right things.”*

—James B. Porter, Jr., Vice President, Engineering and Operations, E. I. du Pont de Nemours and Company

This statement from a government/industry forum on project management and project planning (National Research Council, 2002) highlights the expected results from forming partnerships between government and the private sector in contracting. The trend toward performance-based contracting in the services environment has made it even more important that government project managers understand the foundations of contract management and how to develop an appropriate level of partnership with contractors to maximize contract performance.

Thus, developing government-contractor partnerships has been identified as a way to improve project performance for both parties. Traditional procurement models have been described as characterized by low trust, diffusion of leadership, stovepipe organizations, and a focus on following strict procurement rules (Denhardt, 2003). In contrast, a partnership-oriented procurement approach requires high trust, effective executive leadership, team-based structures, and a focus on accountability for results. We recognize that there are a number of factors that work against the partnership model. As stated by one of the interviewees:

Each of us (the government and the contractor) has our own suspicions about the other. We are trying to avoid being blamed if something goes wrong. But what we have to realize is that this is not about avoiding blame—it’s about ensuring mutual success. Even though we know this is important, we still have to remind ourselves periodically that we need to work together.

In this report, we explore many issues related to enhancing the effectiveness of professional services contracting through partnerships. Our goal is to provide specific guidance for government project managers on how to overcome the cultural and traditional barriers that have developed over the years so they can create effective partnerships in the realm of professional services contracting.

The level of partnership desired may depend on the type of contract, length of contract, and type of service. In any type of contracting, some aspects of partnership are important as they are related to trust. There are many contracting benefits associated with trust, such as reduced need for oversight, greater alignment

of goals and interests, and a greater willingness to be flexible under conditions of uncertainty. The more closely contractors are engaged in the work and the longer the anticipated association, the more important it becomes to develop a true partnership. Further, existence of a partnership can help both parties better negotiate projects characterized by high risk and uncertainty as they are more likely to acknowledge problems and seek win-win solutions (Chen and Perry, 2003). However, it is important for managers to be aware of the potential for abuse and conflicts of interest in partnerships as well.

In this report, we started with a working hypothesis that some level of trust and partnership is desirable. We then set out to explore this hypothesis in more detail and examine ways to build an effective partnership between government managers and private contractors. Thus, the contracting practices described in this report describe ways in which government project managers can enhance public-private partnerships as a way of improving delivery of professional services. The best practices are broken down into five temporal phases of the typical project, which are presented in Table 1.

**Table 1: The 12 Best Practices Organized Around the Five Key Phases of the Contract Process**

Phase of the Contract Process	Best Practice
<p><b>Phase 1: Obtaining contract support.</b> This is the phase in which government solicits bids and chooses the contractor. Starting with clear objectives, choosing the optimal contract type, and ensuring the fairness of this process are among the best practices noted in this phase.</p>	<p><b>Best Practice 1:</b> Clearly define expectations of success for the contract</p> <p><b>Best Practice 2:</b> Use a contracting approach that supports a partnership with the contractor</p> <p><b>Best Practice 3:</b> Define and follow a fair bidding and awarding process</p>
<p><b>Phase 2: Orienting team members.</b> This is the initial phase of the project. One key issue in this phase involves training for contractors in the culture and norms of the customer's environment.</p>	<p><b>Best Practice 4:</b> Provide orientation for contractors</p>
<p><b>Phase 3: Executing the contract.</b> This phase covers the bulk of the contract in which the service is provided. Key issues in this phase include enhancing productivity, promoting adaptability, clearly defining roles and norms, managing turnover, motivating the team, measuring performance, and establishing clear communication processes.</p>	<p><b>Best Practice 5:</b> Develop an integrated project team to enhance productivity and the ability to adapt to changes</p> <p><b>Best Practice 6:</b> Clearly define roles and expectations for government and contractor staff</p> <p><b>Best Practice 7:</b> Actively manage staff and contractor turnover</p> <p><b>Best Practice 8:</b> Motivate and reward contractors to increase commitment and decrease turnover</p> <p><b>Best Practice 9:</b> Regularly monitor performance and provide feedback</p> <p><b>Best Practice 10:</b> Establish clear communication processes among project team members</p>
<p><b>Phase 4: Documenting new knowledge.</b> This phase refers to later stages of the project in which it becomes important to document project results and activities. Key issues in this phase include how to encourage and reward knowledge management behaviors and how best to use existing knowledge management techniques.</p>	<p><b>Best Practice 11:</b> Use knowledge management practices to enhance project performance in spite of short-term costs</p>
<p><b>Phase 5: Capturing lessons learned.</b> This phase focuses on the end stages of the project in which the project is concluded, offering managers the opportunity to reflect on lessons learned during the project and identify ways to capitalize on these lessons in future endeavors.</p>	<p><b>Best Practice 12:</b> Use After Action Reports to help managers apply lessons learned to other projects and contexts</p>

## Key Contracting Terms Used in the Report

**Contracting Officer (CO):** An individual with the authority to legally bind the government in contractual agreements. The CO is the only person who may enter into, make changes to, or terminate a contract. Contracting officers receive extensive training and certification to qualify for this role.

**Contracting Officer's Technical Representative (COTR):** An individual with specific technical knowledge or expertise related to the project to whom the Contracting Officer delegates certain administrative responsibilities.

**Performance-Based Service Contracting (PBSC):** A method of developing and managing service contracts that focuses on specific contractor performance metrics, allowing the contractor to determine the best way to reach those outcomes.

**Program Manager:** The government representative responsible for overseeing the entire program, making sure the government's needs are met and representing the program's interests during the acquisition.

**Project Manager (PM):** The person responsible for overseeing and directing a project, including administrative, fiscal, contract, technical, and quality assurance staff. The government and contractor will typically each have a project manager, although the government PM will oversee the contractor PM. There may be several projects within a program.

**Statement of Objectives (SOO):** A summary of the government's objectives, goals, and outcomes that will allow potential offerors to develop and propose solutions, including a technical approach, performance standards, and a performance assessment plan. The SOO should also include information about the project background, period of performance, and any operating constraints.

**Statement of Work (SOW):** A statement that clearly describes the government's requirements for the project and identifies specific work to be performed.

# 12 Best Practices of Successful Professional Services Contracts

## Best Practice 1: Clearly Define Expectations of Success for the Contract

Identifying the right contractor is obviously a critical element of success in any project. The interviewees routinely noted several actions that can be taken prior to contract award that will enable government project managers to build the foundation for an effective partnership.

Before discussing ways in which project managers can enhance the effectiveness of professional services contracts, it may be helpful to specify what is meant by “success.” This is one of the first questions we asked the interviewees. The straightforward answer

to that question was most often *delivering the desired service on time and at or under budget.*

The diversity of services that can be covered under professional services contracting makes the specific answer to this question more difficult to pinpoint. Definitions of success differ depending on the service and type of contract. Is it a long-term contract for help desk support or mail room/cafeteria services? Or is it a contract for the development and implementation of a computer system? Or even a short-term task such as developing a web-based survey that is handled by a subcontractor through a prime? We talked to people involved with all of these types of contracts as well as development and delivery of training programs, basic healthcare services, and design and implementation of staffing and career management systems.

### What is Performance-Based Contracting?

Definitions of performance-based contracting (PBC) vary slightly depending on the source, but according to Lawrence Martin, the defining characteristic of PBC is the intent of changing “the behavior of contractors to focus more on performance” (Martin, 2003, p. 92). Performance may be defined as output, quality, or outcomes, but is treated as the result of the work performed rather than the behaviors and processes used to reach the result. This has potential to create some challenges for project managers who are contracting out for services, as there is a strong temptation to specify *how* you want contractors to provide those services rather than attempt to specify the *results* of the services.

Federal agencies have been encouraged for years to move to a more performance-based approach to contracting. Many authors have done an excellent job describing the purpose and processes for performance-based contracting, and interested readers are encouraged to review those sources for more detailed information:

Lawrence L. Martin, “Making Performance-Based Contracting Perform.” IBM Center report available from <http://www.businessofgovernment.org/pdfs/Martin2Report.pdf>.

Office of Federal Procurement Policy, “Seven Steps to Performance-Based Services Acquisition.” This is an interactive web-based learning platform found at <http://www.arnet.gov/Library/OFPP/BestPractices/pbsc/>.

Performance-Based Service Acquisition: Contracting for the Future. Available at <http://www.whitehouse.gov/omb/procurement/0703pbsat.pdf>. Provides most recent updates to the Federal Acquisition Regulation (FAR) relating to performance-based contracting.

The federal government is encouraging agencies to focus on performance-based contracting as a way to obtain better service at a more manageable cost. One key benefit of this approach is that it requires further thought on how best to define and measure the quality of the service delivered. It can be difficult to define performance-based metrics for some types of services. As noted by one of the interviewees:

Putting together the performance standards is the hard part. The metrics need to identify what success truly is and incentivize the contractor. How do you know what the outcome should look like at the beginning? This is hard but an important piece to have. With performance-based contracting, people feel that they don't have control to ensure that what they get meets their needs.

Using a Statement of Objectives rather than the more traditional Statement of Work can help ease this process. The Office of Federal Procurement Policy's (OFPP) excellent web-based resource, "Seven Steps to Performance-Based Services Acquisition," also provides guidance on defining performance appropriately in professional services contracts.

Determining whether or not the service delivered met some kind of quality standards is usually challenging

but very important. Customer surveys, if well crafted and carefully administered, can be very revealing. We heard about one example in which a contract physician was difficult for the government staff to work with on an interpersonal level but was retained because he appeared to be delivering the required services in a timely manner. The immediate outputs were acceptable under the contract terms, as the required information was captured in the medical charts and appropriate recommendations were made. However, when the patients (the customers in this case) were surveyed, many of them expressed dissatisfaction about the services delivered, and the contract was terminated for performance reasons. Another interviewee described the use of both customer surveys and customer complaints as tools for measuring service quality. This organization even involved customers in the definition of good service and the development of the customer surveys to ensure that they were measuring what was truly important to the customers, not just to the agency.

Many of the interviewees provided a broader definition of contract success that went beyond specific performance outcomes to address the nature of the relationship between the government and the contractor. These quotes, presented in the accompanying boxes, illustrate how the desired level of partnership can vary across projects.

### Defining Criteria for Success in Performance-Based Contracting: An Example

Consider an example using a commonly outsourced service: the computer help desk function. A behavioral or process performance specification might require all help desk calls to be answered within two or three rings or require that three system administrators staff the help desk during prime work hours. These criteria are efforts to ensure prompt and effective customer service.

To fully meet PBC requirements for measurement of service quality, agencies should also consider tools such as customer satisfaction surveys to more directly measure the extent to which customers perceive the service delivered to be prompt and effective. In this situation, a customer satisfaction survey might include questions such as:

- To what extent were your calls to the service desk answered promptly?
- To what extent was the help desk staff person able to solve your problem?

This expansion from specifying the monitoring and measuring of individual behaviors and processes to also considering output quality or outcomes is intended to allow the government to benefit from the expertise provided by the contractor.

**Key Lesson:** The government should define the *desired outcome*, and the contractor should determine the *best way* to achieve that outcome.

### Quotes from Government Project Manager Interviewees on Definitions of Project Success

*"To some extent, we like to see the contractor work with us in a flexible manner to achieve our organizational goals, but that is somewhat rare."*

*"Finding a contractor you can trust ... developing the 'A team' [with] the ability to keep them together is another aspect of determining success."*

*"Government performance objectives are met or exceeded and the contractor receives adequate compensation and positive feedback."*

### Quotes from Contractor Project Manager Interviewees on Definitions of Project Success

*"Obviously, we need to deliver on time and within budget. Ideally, we also want to provide thought leadership to the customers, helping them make judgment calls about what will be the best solution for their needs."*

*"How well we communicate with the COTR, CO, and end-user customer. Stability of the relationship is also very important."*

*"Client satisfaction is our primary measure of success."*

## Best Practice 2: Use a Contracting Approach That Supports a Partnership with the Contractor

We asked the interviewees about the importance of a good contract, and most of them noted that if the contract is written poorly, it will be difficult to conduct a successful project. Having the right contract in place will not guarantee that a project will be successful, but will certainly increase the chances of success. The contracting officer will primarily direct this part of the process, but project managers should be involved to make sure their needs are met.

The explosion of contracting within the federal government has created a shortage of skilled contracting officers and put significant pressure on those in place. Therefore, while it is the responsibility of the contracting officer to prepare the contracting documents and negotiate with the contractors, it is useful for project managers and the contracting officer's technical representatives (COTRs) to have some basic knowledge of contracting processes and regulations. It would be useful for managers to be aware of the different types of contracts and the situations most appropriate for each. For example, if the project is not clearly defined, a fixed-price contract is unlikely to be effective. Having the wrong type of contract in place causes stress on

the contract from the beginning and can make it difficult to establish an effective partnership. In fact, one of our contractor interviewees noted:

Sometimes the contract is bad, and if you don't adapt, the client is dissatisfied even when the terms of the contract are met.

Striking a balance between clarity and flexibility in contract preparation is also important. As noted by one of the government contracting experts we interviewed:

An effective contract includes well-defined service outcomes with clear performance standards and a set of associated incentives and disincentives tied to the performance standards, but allows the contractor the necessary flexibility to provide creative solutions to get the job done as the context changes over time.

Another way of making sure the contract supports the partnership is to get contractors involved prior to the contract award. One of the Department of Defense interviewees described some innovative approaches for involving contractors in pre-award planning that he has found effective. One was to involve probable bidders in writing the pre-solicita-

**Table 2: Overview of Contract Types for Professional Services Contracts**

<b>Fixed price</b>	Establishes an agreed-upon price for services at the beginning of the contract. Considered ideal for Performance-Based Service Contracting, but success requires accurate definition and measurement of specific desired outcomes. Contractor shoulders majority of risk for cost overruns. Intent is to motivate contractors to innovate processes for cost savings, but vigilance is required to ensure task completion as specified.
<b>Cost reimbursement</b>	Allows contractor to bill for incurred costs up to a ceiling established in the contract. Best used in situations in which there are uncertainties that prevent the use of a fixed-price contract. Should be used with various contractor incentives such as award fees and quality assurance deduction schedules to motivate and reward outstanding performance.
<b>Time and material</b>	In the services context, time and material contracts are usually focused on direct labor hours. Used only when the government cannot reasonably estimate the cost of the desired services, and thus would place too much risk on the contractor. Provides no incentive to the contractor to control expenses, and therefore requires more oversight than would be typical.
<b>Indefinite delivery</b>	Used when the government is not able to define the desired amount of service or the delivery date for services. May establish minimum and maximum amounts of service to be provided, but generally relies on additional task orders to be issued at a later date to specify the services needed.

For more information, see *A Guide to Best Practices for Performance-Based Service Contracting*, Office of Federal Procurement Policy, Office of Management and Budget <http://www.arnet.gov/Library/OFP/BestPractices/PPBSC/BestPPBSC.html>.

tion documents. This approach was also described in a report on human resources (HR) outsourcing in the Department of Homeland Security, where contractors were being engaged to help write work requirement statements (NAPA, 2003). The U.S. Federal Aviation Administration (FAA) also found that including potential service providers early in the acquisition process led to improved outcomes (FACE, 2005). As part of an effort to improve service to general aviation pilots across the continental U.S., Puerto Rico, and Hawaii, the contract team issued a Request for Information early in the procurement process. They then engaged potential service providers in discussions, obtained feedback on draft documents, and were able to produce a performance work statement that reflected the providers' input and facilitated innovative thinking in the proposals.

Asking contractors to propose a method or criteria for performance assessment commensurate with their proposed technical approach is another way to meet performance-based contracting guidelines while also enhancing the partnership. Joann Kansier, director of the Office of Competitive Sourcing at the FAA, described a process in which her office identified a variety of service metrics for the general

aviation pilot information project, but required the potential service providers to "fill in the blanks" on the frequency with which those goals would be met. For example, if one of the quality measures was "answering the phone within 20 seconds," the offeror would have to indicate how often that should be achieved to reach an acceptable level of service. These self-imposed quality standards were then used as a deciding factor in the contract award process.

Contract incentives can also be developed in a way that facilitates partnerships. Government contract officers have a variety of incentive mechanisms available to them, but the interviewees focused on those that provided for sharing of risk and reward. For example, one way to implement a cost incentive is for the contract to specify that the contractor and government agency will share any cost savings accrued to the government due to an increase in efficiency beyond that specified in the contract. For example, a contractor may be required to perform a task in a way that saves the government \$1 million a year. If the savings in a given year was actually \$2 million, the government would award a portion of the extra savings to the contractor. This helps motivate the contractor to achieve the government's

**Table 3: Incentive Mechanisms for Professional Services Contracts**

<b>Performance incentives</b>	Well aligned with the overall philosophy of PBSC, as they require the government to establish specific performance targets and criteria for measurement in the contract.
<b>Cost incentives</b>	Focus on minimizing the costs associated with the services provided. The contract specifies a “target cost” and an adjustment formula. If the actual cost is less than the target cost, the contractor receives a greater profit. If the actual cost turns out to be greater than the target cost, the contractor receives less profit. Adjustment formulas should be designed to promote desired outcomes.
<b>Multiple incentives</b>	Quite often, a combination of performance and cost incentives is desirable to encourage a focus on both quality and cost control criteria.
<p>Note that while these incentive mechanisms are used most frequently with cost reimbursement type contracts, they can be used with fixed-price contracts under certain conditions. See the FAR or your contracting officer for more details.</p> <p><b>Key Lesson:</b> It is often necessary to include both cost and performance incentives to achieve maximum performance. Sharing the risk and reward involved in a project helps create an effective partnership.</p>	

goals. In the FAA example cited earlier, the contractor was eligible to share in savings only when the contractor met or exceeded standards on 21 separate service quality metrics that were defined in the contract. This helps prevent the contractor from sacrificing service quality to achieve cost savings. On the flip side, professional services contracts can also specify that the government and contractor will share any cost overruns. Again, this clearly communicates that the government is sharing in the contractor’s risk, helping to build the partnership.

While incentives can be used to enhance the partnership, process issues related to determining the final amount of the incentive can be destructive. As noted by one interviewee, the award fee process can be very challenging for the COTR. He told us about experiences in which contractor project managers would pressure the COTR to award the entire fee in spite of performance shortcomings. Clearly defined criteria and processes for awarding the incentives can help minimize this problem. Another interviewee said, however, that incentives can limit contractors’ willingness to be responsive in a way that might jeopardize their incentive. Including responsiveness criteria in the incentive is one option, but that can be difficult to define and measure. This is another challenging area of balance for project managers and contract officers.

### **Best Practice 3: Define and Follow a Fair Bidding and Awarding Process**

To ensure that a motivated and enthusiastic team of contractors and government personnel commence the contract, it is important that the awardee feels that the decision process was fair and objective. Full disclosure of the prerequisites for consideration, proposal requirements, and criteria for decision making will enable the bidders to make an informed decision on whether or not to invest in the costly bidding process.

The National Academy of Public Administration report on human resources outsourcing at the Department of Homeland Security noted that the time-consuming and uncertain nature of the competitive bid process can be a disincentive to some firms for even participating in the process. An interviewee from the Department of Defense suggested an approach for easing those concerns, giving unsuccessful offerors some compensation if the agency (and, consequently, the successful offeror) can use ideas developed in the proposal. This provides some reward to firms for even submitting a bid, and can lead to greater perceptions of fairness about the entire process. This is consistent with research on organizational justice perceptions, suggesting that when offerors feel they are treated fairly, they are more likely to have a positive view of the government agency, whether or not they have actually won the contract. This perception of procedural justice is important, as it will increase the likelihood that the contractor will be willing to bid on future contracts.

## Best Practice 4: Provide Orientation for Contractors

The first step of a project following award is often a post-award conference or kickoff meeting. This meeting is not always required in contracts, but is a particularly good idea for performance-based contracts as it helps establish the foundation for an effective government-contractor partnership. From the interviews and background research, we learned that government project managers may find it helpful to go beyond the post-award conference to provide more detailed orientation to contractors.

There are many situations in which contractors would benefit from some type of training or orientation to the workplace and culture of the government agency. Research suggests there are six key areas that newcomers need to learn about in order to be successful in an organization: performance expectations, people, politics, language, organizational goals and values, and history. Orientation in these areas is especially

critical if contractors will be working on-site on a regular basis.

A recent example that illustrates the need for training involves contractors being used to support military operations in Iraq (Merle, 2005). Reports have suggested that many contractors were unsure about what to expect upon arrival, including such critical issues as whether or not they could carry a weapon or wear military clothing, and how they fit into the chain of command. While this is an extreme example, the principle applies in many different types of contracts. For example, contractors providing help desk support would benefit from orientation on the organizational structure, the recent history of changes to the information technology architecture, and an overview of common problems that users experience, especially those that may be unique to the organization. We have observed several government agencies that have developed full-day orientation sessions for contractors in which they describe the organization's history and current culture, talk about the leaders of the organization, and discuss basic performance expectations for all contractors. These sessions tend to be more common in the intelligence community, where there are more stringent requirements for working on-site and dealing with national security issues, but could be useful in any agency to help contractors get up to speed quickly on the organization and its culture.

Project managers could also require contractors to provide their staff with some training before the project begins. In the example with the contractors in Iraq, current regulations require contractor firms to train their own staff on relevant U.S. and local laws. Placing the burden for training on the contractors may result in short-term cost savings, but presents some risk that the training was not conducted to government standards or did not include specific pieces of critical information. Thus, government project managers should pay special attention to the questions of who will conduct the orientation and who will pay for the training. These issues should be considered in the contracting phase.

Another mechanism for introducing contractors to the culture, norms, and priorities of the organization, according to several of the interviewees, is to select relevant on-the-job experiences that will help them get up to speed quickly. Rather than allowing con-

### Topics to Cover in Contractor Orientation

Effective orientation programs cover the following topic areas in some fashion:

**Performance expectations:** Are there behaviors that are expected of everyone in this organization, including contractors? Are there specific formats for reports and briefings?

**People:** Who are the key players in the organization? What are the informal networks like in the work group or the larger organization?

**Politics:** How do things “really work” in this organization? What are the motives behind the actions of people? What is the best way to influence people?

**Language:** What specialized terminology, slang, and jargon are used in the organization? What are the unique abbreviations or acronyms used?

**Organizational goals and values:** What are the organization's defined goals and values? How is this project aligned with those goals?

**History:** What is the history of the agency, department, or even work group? Are there particular traditions that are followed? Have similar projects in the past failed?

**Source:** *Chao, et al., 1994.*

tractors to languish in their cubicles, inundated with stacks of reports, include them in the right meetings so they can learn about the real issues facing the organization. Require contractors to meet with key personnel on the government side to find out their roles in the project. The more quickly the contractors are acclimated to the organization and knowledgeable about the project, the more quickly they can begin making real contributions.

One government project manager noted that there are some occasions in which it can be important to maintain the contractors' outsider status and *not* educate them on the culture of the government agency. For example, one goal of strategic consulting or training projects is sometimes to "put people outside of their comfort zone" in an effort to encourage divergent thinking about topics like leadership or change management. In this type of situation, the project manager will avoid telling the contractor too much about the agency culture, and will even state in the project requirements that models presented or cases used in the training should address examples in other organizations and industries and *not* be customized to that particular agency. One government manager put it this way:

Don't try to stifle the cultures, but use them as an opportunity to enhance what you are trying to accomplish. The cultural differences can lead to more interesting solutions.

In summary, the orientation phase should serve to communicate the goals and objectives of the project, establish norms, and provide background information necessary to start on the right foot. "Small wins" early on are one of the biggest contributors to team success ultimately. Therefore, ensure both contractors and government employees understand the terms of the contract and what the short- and long-term goals are, so they start out on the same page. Effective orientation will also educate all team members on the ground rules. Even when working with a contractor company with a long track record in the business, do not assume that the individual staff members know the ropes. Discuss with them your goals for team interaction and what they can expect from you as the government project manager. Explain aspects of your organizational culture that are likely to affect the project. On the other side of the coin, in spite of the extensive use of contracting in today's government,

do not assume that the government personnel on the project know how to act around contractors. Providing staff with orientation on appropriate interactions with contractors will increase the likelihood that you will create a cohesive team while minimizing problems.

## **Best Practice 5: Develop an Integrated Project Team to Enhance Productivity and the Ability to Adapt to Changes**

Once the contract is in place, project managers turn to the responsibility of managing and facilitating the ongoing work. The interviews revealed several best practices related to the partnership model in projects that address themes such as team building, turnover, motivation of team members, and communication.

One of the most common themes we heard from both contractors and government project managers was the need to create one coherent, integrated project team out of a set of disparate individuals. Government project managers can help create an environment in which all people involved in the project work together, whether the differences are government versus contractor, prime versus subcontractor, or any other distinctions.

Factors that can inhibit team development range from visible differentiators such as color of the identification badge to a lack of established roles or productive norms. Several of the interviewees told us that the layout of the workspace matters. We heard examples in which government staff inhabited the offices at the perimeter of the room and contractors inhabited the cubicles. We heard other examples in which government staff would sit around the table in meetings and contractors would sit around the edges of the room. These characteristics of the environment send clear signals to people that there are subgroups with different status levels, and disrupt team development.

Establishing shared goals for the project is another critical aspect of effective team building. One of the interviewees described the extremely high level of commitment contractors and government personnel shared to rebuilding the Pentagon after the terrorist attacks of September 11, 2001. This commitment to a shared goal allowed individuals to set aside their differences and work together. While this is an

### Quotes from Government Project Manager Interviewees on the Importance of a Unified Team

*“We do our best to include the on-site contractors as full members of our team, with no delineation other than whom they get their paycheck from. They are totally assimilated into the culture of the organization.”*

*“We have a seamlessness between government employees and contractors. Generally the contractors are fully integrated and even attend our staff meetings.”*

*“I don’t let them think that they are two separate subgroups. I expect that they treat each other like equals.”*

*“You have to treat on-site contractors as though they are your own, and that is important to make them feel that they are part of the team. Don’t act differently toward them.”*

*“It is critical for government project managers to recognize that they have to invest in the relationship as colleagues, even though you know it might be short term. You have to work to not exploit each other. You can’t treat contractors as commodities.”*

### Quotes from Contractor Project Manager Interviewees on the Importance of a Unified Team

*“We want our staff to wear both hats (customer and contractor) but be mindful of the roles.”*

*“Our employees ... feel a strong sense of mission accomplishment because they are working directly with the customer. That is really satisfying.”*

*“We work one-on-one with members of the client team. This is helpful in terms of facilitating long-term implementation and ownership. It takes longer and makes the project harder, but it also makes it more likely that when you leave, the client will stay committed to the change because they feel ownership.”*

extreme example, project managers should strive to identify similar types of goals that will improve group cohesion. It is important to acknowledge that, to some extent, contractors and government necessarily have different goals. The contractor needs to make a profit on the work, and the government wants to obtain the services at a reasonable cost to the taxpayers. However, high-quality work should be a shared goal. It obviously benefits the government in terms of project success, and it benefits the contractor by increasing the likelihood that it will win future work from the government.

## Best Practice 6: Clearly Define Roles and Expectations for Government and Contractor Staff

Defining shared goals about the project is a great start, but effective projects also have clearly defined roles and behavioral expectations for all team members. Some of these roles will specifically address

how the work is to be done—who is responsible for key decisions, who organizes meetings, and so on. Other expectations deal with more general interactions between government and contractor staff, including work oversight and simply working in the same location with contractors.

Development of a partnership requires effort on both sides of the partnership. This means that while contractors are striving to provide outstanding customer service and meet the terms of the contract, government personnel on the project must contribute as well. This includes activities such as making time to meet with contractors, providing the information they need, including them in relevant meetings, reviewing and providing feedback on documents promptly, and so on. Government project managers must staff the project with people who have adequate knowledge. For example, when implementing a complex information technology system such as an Enterprise Resource Planning system that touches many departments and functions,

the project team should be staffed with people who have perspective on the entire workflow process, not just experience in one specific area. Unfortunately, we heard from a number of contractors who felt that government staff members were not doing their part in making the project a success. This undermines both the quality of the project work and the potential for a productive partnership.

Another characteristic of successful partnerships in contracting is that government managers avoid the temptation to “oversupervise” or attempt to micro-manage every detail of the work. As stated by one interviewee:

Government interference with the day-to-day operation or execution of the contract will doom it to failure.

Some of this desire to manage at the closest level appears to be related to management skill and techniques. Several of the interviewees noted that some managers feel that if they can’t see the contractors on a daily basis, they can’t manage the project effectively. Good managers, according to these experts, will have clearly defined metrics that allow them to assess project status without over-supervising. Government project managers need to allow the contractor sufficient flexibility to provide creative solutions and get the job done, even as the context changes over time.

### **Training Government Employees**

Educating government employees on how to appropriately interact with contractors is another strategy for building an effective cross-organizational team “so that all parties will be able to walk the tightrope of balancing teamwork and oversight” (Denhardt, 2003). While it is becoming more common for project managers and COTRs to receive formal training on their role in the contracting process, the education of government employees in general on this topic appears to be lacking. The Office of Governmental Ethics offers ethics symposia in various sites around the country in which one of the topic areas is “Contractors in the Workplace.” However, this is a 45-minute segment in a three-day program and focuses on minimizing conflicts of interest rather than addressing more general issues encountered when working around contractors. More targeted training might be useful.

Whether this education is done in a formal training session or as part of a project planning meeting, the government contracting officer, project manager, and COTR should provide information about the do’s and don’ts of working closely with contractor personnel. Such a session could answer questions such as:

- Which contractors should I include in planning meetings?
- We are having a team pizza party (or birthday party for a staff member). Can I invite contractors?
- When do contractors need to attend agency-specific training such as information security?
- What should I do if a contractor is involved in a sexual harassment incident?

Several of the contractor interviewees enthusiastically supported the idea of educating government project team members on the private sector, contractor methodologies, and how professional services firms work. They recommended making sure that project team members all understand, in addition to the interpersonal factors above, issues including the importance of clearly articulating needs and requirements to contractors and the impact of change requests on schedule and cost. Better understanding of each other’s roles, responsibilities, and constraints will help strengthen the partnership and enhance overall project performance.

Attending training sessions together can help government and contractor personnel develop shared expectations about the project and identify common processes and procedures. In the FAA general aviation project, staff members from both organizations attended a two-day training session on performance-based contracting that focused on building trust and creating a sense of openness about problems or hurdles the team faced. This training has helped them create a more effective partnership, and the team plans to engage in more shared training events in the future.

### **Developing the Appropriate Level of Cohesion**

Striking a balance between developing trust and commitment and avoiding conflicts of interest appears to be key to developing an effective partnership. Nearly all of the interviewees acknowledged that co-location can make it easier to run an effective project, and no one disputes that it is helpful to

## Government-Contractor Co-Location: Help or Hindrance?

**Reasons for co-location.** The interviewees described many benefits of co-location. First, and most importantly, is that co-location generally makes it easier to build a unified team. Co-location also improves communication among team members. Working in the same office space provides an easy opportunity to communicate and increases the frequency of communication, although the quality of communication doesn't necessarily increase. Co-location also makes it easier for the project manager to keep track of progress on tasks and allows the contractor to be more responsive to government requests and changes.

In addition, certain types of projects lend themselves more to co-location. Sensitive projects that require security clearances, for example, require some sort of special workplace arrangements to protect the security of the information used and generated. Often it is most convenient in these situations to require the work to be done on location at a government facility, although dedicated worksites can be created for the project that would meet security requirements. The type of work may also demand co-location. Direct provision of services, such as mail distribution, food service, logistics support in Iraq, and the setting up of hardware components of IT systems, requires that contractors be on site. Call centers, on the other hand, generally need not be co-located, especially when they are large. Space or equipment limitations at the government facility may limit or prohibit co-location or require the development of other creative arrangements such as workspace sharing or hoteling, a trend in which workstations are designated for temporary use by mobile workers who simply work out of available workstations when needed.

**Potential drawbacks to co-location.** There were some stated drawbacks to co-location. One key concern, particularly among the contractors interviewed, is that the individual contractors will "go native," or feel and act as if they are government employees rather than contractors. The closer relationships and easier communication can then lead contractors to take on ad hoc taskings that are out of scope. This clearly presents a risk for the contractors, but also carries legal risk for the government. Next, the on-site presence of contractors can negatively affect the morale of the associated government personnel, especially if the contractors are performing work that is perceived to be especially interesting and meaningful, and the government personnel are left to managing the contractors. That can be de-motivating for people who started their careers in government because it was a place to get involved in exciting, meaningful work. Employees will also react negatively to the use of on-site contractors if they are perceived as a threat to their jobs.

Some interviewees noted that sometimes you don't want government to overly influence the outcome of a project or task. You want the contractors to independently assess the situation and develop recommendations, and co-location can reduce that level of independence. As one interviewee commented, "Too much government interaction and influence, and you might as well have just done it yourself."

have the contractors fully dedicated to the project. However, it is in the best interests of both the government and the contractor organization to maintain sufficient distance such that each can effectively represent its own interests, while still looking out for the interests of the other.

What can government project managers do to maintain that distance but still have a cohesive team? The answer appears to be in strengthening the connection between the contractor personnel and the contracting organization while simultaneously building the project team. The interviewees described things like encouraging the contractor project manager to visit the worksite regularly, to host all-hands meetings and lunches, to take the contractor staff back to the home office for events, and so on. Government project managers can facilitate these events by supporting contractor attendance at them, ensuring no

meetings are scheduled during these events, or even providing conference room space for periodic meetings. These types of activities appear to strengthen the bond between contractor and employer without damaging project team cohesion.

Some contractor companies and government oversight groups have raised concerns that building one unified team, especially when contractors and government employees are co-located, will result in inappropriate behaviors and conflicts of interest. As stated by one of the interviewees:

The only drawback, particularly when you have a small number of people, is you can end up with a cronyism problem. Then no one is really acting in the best interest of the federal government.

## Best Practice 7: Actively Manage Staff and Contractor Turnover

Several project managers noted that next to building a strong team, retaining that team can be the most difficult challenge. A number of the interviewees described “bait and switch” techniques used by some contractors in which the highly skilled and experienced personnel who were included in the proposal are quickly replaced with lower skilled or novice contractor personnel. This technique is problematic both for building partnerships and for completing the work. As noted by interviewees:

The project can fail if key people on either side leave. This is a significant factor that undermines these types of relationships.

Contractor turnover can be very disruptive, especially when it’s the project manager who is leaving.

Contractor organizations are free to shift personnel from one project to another at any time unless they have been designated as key personnel in the contract, and there are limits on how many people and which positions can be designated as such. To minimize bait and switch problems, one interviewee noted that he tries to maximize the number of contractor positions designated as key personnel. Another said that he tries to work only with contractors whom he trusts to leave the skilled personnel in place, demonstrating a positive outcome of having developed a partnership with contractors in the past.

In addition to these organizational-level issues, individual contractor personnel may leave the project because they have chosen to leave their employing company altogether. This type of turnover is much more difficult for the government project manager to control. However, one interviewee noted that government can include criteria concerning the stability of the contractor’s workforce in the award process. Staff turnover could also be considered as part of past performance.

On the other side of the coin, turnover of government personnel can detract from project success as well. Many of the interviewees acknowledged that it is standard practice in their agency for staff to move on to a new assignment at least every two years, primarily

for career development purposes. This seems to be a particular problem in the Department of Defense.

This frequent movement of both contractor personnel and government staff can make it difficult to establish the types of relationships needed for a true partnership, especially in projects that last multiple years. In addition to including stability of the contractor’s workforce as a criterion in awarding the contract or incorporating it into assessment of past performance, one interviewee suggested taking potential turnover into consideration when defining the scope and length of task statements. He explained to us that even when he is managing projects with an overall duration of years, he tries to define tasks that last no longer than six months, thus minimizing his exposure to problems when staff turn over.

According to a recent national survey conducted by the Society for Human Resource Management (SHRM, 2004), while many employees (43 percent) report that they have voluntarily left their jobs for better compensation, 32 percent reported that they left their current jobs because of a career opportunity elsewhere and 22 percent reported that they left because of the lack of career development opportunities at their current organization. These results suggest that intrinsic, or internally driven, as well as extrinsic, monetary rewards play a role in retaining employees. Thus, to the extent possible, it is important to ensure that project team members have the opportunity to work on intrinsically rewarding projects that will enhance their career prospects.

Project managers can impact the way in which team members feel about their work. One method is to clearly communicate the relevance and importance of the work being performed for the ultimate end user. Involve end users in planning or testing steps of the project so that team members can see the impact they are having. In addition, where possible, consider whether there are opportunities for roles to be rotated so that team members can have more challenging duties to foster their learning and development on the project. While routine work may be inherent in the nature of the contract, making time for working on a special assignment may increase enthusiasm for the work and reduce turnover and burnout. Rotation is likely to keep team members more engaged and may minimize the number of government staff lost to the project for career development reasons.

## Best Practice 8: Motivate and Reward Contractors to Increase Commitment and Decrease Turnover

One common frustration expressed by the interviewees is that although government project managers may be directing the work performed by contractors, they are not technically their supervisors and therefore do not have a number of effective supervisory techniques at their disposal. One government project manager interviewed described how she attempted to motivate and reward the contractors working on her projects. First, she provides non-monetary rewards such as thank-you letters directly to the contractors. Second, she communicates with the contractors' supervisor to explain the outstanding behaviors that took place and asks them to provide the individuals with appropriate rewards.

In one example of this management technique, this project manager discovered on Saturday morning of Easter weekend that a broken water pipe in her office had swamped two critical servers. She called several of the contractors working on that project, all of whom immediately agreed to come into work and spend 16 hours over the weekend correcting the problem, with the result that staff returning on Monday morning never knew a problem had occurred. She immediately contacted their supervisor and strongly encouraged him to reward these employees, which he did. This project manager reported having very low contractor turnover on her projects. In fact, she has encountered individual contractors approaching her to see if they could be staffed on one of her projects.

Thus, while government project and program managers may not have direct control over contractor rewards, finding ways to recognize their efforts will increase their motivation and commitment to the project team.

## Best Practice 9: Regularly Monitor Performance and Provide Feedback

Nearly all of the interviewees emphasized the importance of measuring performance on the project as a way of strengthening and maintaining the partnership over time as well as ensuring a successful outcome. A number of best practices emerged in this area.

First, performance toward project goals should be assessed regularly. One interviewee even encouraged monthly assessment of key metrics. Some types of projects lend themselves particularly well to regular performance assessment. For example, one of the interviewees managed projects in his agency's training function, contracting for services ranging from course development to administrative support to course delivery. The performance of contractors providing course delivery services was systematically assessed after each course. The same measurement tool is used for each course, and it includes the key aspects of instructor performance such as preparedness, expertise, and interaction with participants. This helped them determine which contractors are simply good and which others are great—useful information for past performance assessment on future bids.

In a similar vein, several interviewees cautioned against waiting until performance is in the “red zone” before taking action. Interviewees described a number of variations of a color-coded performance assessment system in which blue and green were indicators of positive performance, yellow was a warning level, and red represented serious problems. Typically, performance is below the acceptable level at yellow. However, as one interviewee noted, if you wait until you get down to red, or even to yellow, you have a real problem on your hands. It is important to examine trends and take corrective action when performance starts to dip, even if it is still at an acceptable level. Co-location of staff and constant communication can assist with this process.

Perhaps the most unique suggestion we heard related to performance measurement was to measure government performance, too. Performance-based contracting requires periodic assessment of contractor performance, but one interviewee noted that he establishes a scorecard system for both the contractors and the government team members on a project. Government team members are assessed on dimensions such as the extent to which they are being responsive to contractor needs for information or review. This not only helped identify process problems, but also helped create a more cohesive team because the contractors felt they were being treated similarly to the government staff.

The interviewees also cautioned that it is important to ensure that measurement systems allow for some flexibility in what the contractor does and promote

the balance between responsiveness and predefined performance. Satisfying performance targets established at the beginning of the project should not become so much the focus of contractors that they cannot respond to changes that arise. Responsiveness could be captured as part of customer satisfaction. However, reiterating the need for balance, customer satisfaction cannot be the ultimate criterion—the work must also be satisfying a legitimate government business need.

Throughout the project, it is important for project managers to clearly define the processes that will be followed to assess performance and stick to those processes. This is not to suggest that processes cannot or should not be changed during a project. In fact, continuous improvement is encouraged. However, all parties should be involved and fully apprised of any changes that will affect how performance will be measured, how outcomes will be distributed, and any other important issues. As stated earlier, enhancing fairness can also help minimize turnover.

### **Best Practice 10: Establish Clear Communication Processes Among Project Team Members**

The overarching recommendation from nearly all of the interviewees was that clear, regular, honest communication is the key to developing strong partnerships and enhancing the success of any professional services contract. Communication must also be consistent from person to person. It is difficult for contractors to effectively respond to conflicting direction from multiple government team members.

This particular finding is not really new, but provides a common thread for nearly all of the points discussed above as they relate to communication. For example:

- Effective contracting documents clearly communicate what is expected, how results will be measured, and what will be rewarded.
- Training for both contractors and government staff helps communicate expectations about their roles.
- Effective performance measurement communicates the desired outcomes and allows team members to know how well current performance meets the expectations.

Viewing communication in this way helps identify specific items about which project managers and contractors need to communicate, and recasts some common activities in a new light. Often contracting documents are viewed as a mechanism for establishing responsibilities and meeting legal requirements for committing government funds. Contracting documents are typically quite lengthy and are written in legal terminology. When these documents are viewed as a tool for communication, project managers may be motivated to ensure that work requirements, performance metrics, and incentives are clearly stated so everyone can understand them, not just the contracting officers. Lee Evey, formerly with the Department of Defense and now working at the Design-Build Institute of America, noted that shorter contract documents often communicate critical information more clearly. He related an example in which he shortened a 23-page description of how a contractor should handle the data in a project down to a half page. The 23-page description had caused significant confusion about data handling, while the half-page description simply outlined the required performance and allowed the contractor to respond appropriately as part of the proposal.

Similarly, performance measurement tools are often viewed as a way to determine the appropriate award fee or other incentive payment. When viewing them more as a way to communicate with the contractor about current performance levels, project managers can move beyond the evaluative statements involved in assigning award levels and have more meaningful discussions with contractors about specific achievements or shortfalls during the performance period. They can also engage in joint planning about ways to enhance performance in the future. Surely, receiving less than the anticipated award fee communicates something to the contractors, but incorporating that performance feedback into the bigger picture results in more meaningful communication and enhances the partnership.

### **Best Practice 11: Use Knowledge Management Practices to Enhance Project Performance in Spite of Short-Term Costs**

Many professional services contracts consist of, at their core, some form of knowledge or intellectual capital. This knowledge could be in the form of:

- Specific expertise, such as construction management or workplace regulation and compliance
- Technical knowledge, such as web security or coding in Java
- Customer service skills
- Leadership coaching skills, such as managing organizational change

This common thread suggests that knowledge management (KM), which can be defined as the collection, codification, and dissemination of knowledge, skills, and experiences across the organization, is a critical component for the ultimate success of professional services contracting. In this context, this report is addressing explicit knowledge rather than implicit knowledge, which is knowledge imparted more informally.

What happens when the contractor completes the project and leaves? Effective knowledge management helps ensure that government staff members understand how to use the tools, processes, or products that were developed. Or, what happens when a different contractor is selected for an ongoing service requirement? Effective knowledge management can help ensure that lessons learned from the first contract are communicated to the new contractor. For example, if a contractor developed a training program for a government agency, a KM process would help ensure that sufficient supplementary documentation and instructions exist for a government trainer to then conduct the training program.

Unfortunately, a striking similarity gleaned from across all of the interviews relating to KM was that it was not mentioned as a factor related to project success. However, follow-up conversations beyond the structured interviews suggested that KM can be a critical element both within the project as staff transition on and off the team, and after the project in a “lessons learned” sense.

One of the reasons KM was not identified as a key success factor, as most government and contractor managers agreed, is that KM can be difficult and costly to implement effectively. People on both sides of the contracting relationship are usually pushed to the limit to just get today’s work done. KM is often viewed as something that decreases the short-term effectiveness of the project, as it can increase

the resources required, both in terms of time and money. For instance, several of the interviewees informed us that formal reporting of knowledge learned upon contract completion is seldom done, and is usually cursory when it does happen. Joint meetings that facilitate knowledge sharing are often minimized to save time and travel expenses.

However, in the long run, it can be more costly to ignore KM processes when there is a gap in knowledge management. One government project manager related a story in which a contractor who had been working on a data analysis task left the project because he was moving on to another job. The data analysis code was not sufficiently documented, and the project manager spent an entire day trying to understand the code and complete the analysis. This could have been easily avoided if the project manager had planned ahead and either asked the contractor to prepare a written description of the code or pass along that knowledge verbally to the project manager or another contractor. Many other stories were conveyed about projects failing due to the loss of key personnel (either contractor or government). Effective KM would ease the transition between personnel. The anecdotal evidence suggests that KM-related losses may have significant financial and operational impact on professional services contracting.

How can government managers address KM on professional services contracts? We identified several best practices that suggest that managers should emphasize KM in ways that depend to a large extent on the purpose of the project and the type of knowledge involved.

### **Simple Recurring Task Content**

If the contracting is done to perform a set of relatively simple, recurring “commodity” style tasks (help desk, data processing, etc.), knowledge management can focus on capturing and transferring knowledge from incremental process improvements. What are the most frequently asked questions? What is the most efficient way to run a report? This type of knowledge can then be easily disseminated from person to person, minimizing the negative impact of turnover.

### **Complex, Expertise-Driven Task Content**

Often, professional services contracting is driven by the need for government managers to obtain

expertise that does not exist within the agency. In these contexts, knowledge transfer is often desired from the contractor back to the government about specific technical knowledge gained or developed during the course of the contract. For example, on a business process reengineering (BPR) contract, the government may wish to retain knowledge of how to conduct BPR in addition to obtaining help reengineering a specific process.

A note of caution is warranted here. In contexts where contracting is driven by needs for specific expertise, there is sometimes a distinct conflict prevalent in outsourcing with respect to knowledge management: Each partner has inherent incentives to exclusively retain intellectual capital generated within the scope of a given contract. The contractor generally wants to control knowledge and expertise in hopes of retaining or expanding the contract upon expiration. The government often wishes to retain knowledge, however, in hopes of capitalizing on it in future efforts. In these types of knowledge-sharing contexts, knowledge-oriented outcomes should be written into the contract as deliverables. For example, a detailed employee training guide for software maintenance and upgrading can be written into technology development contracts to help minimize long-term total cost of ownership. This type of advance planning will help both with accomplishing KM objectives and in developing the partnership.

### **Adapting to Turnover**

As mentioned earlier, government managers had great concern about the loss of valued contractor team members either through “bait and switch” techniques or through natural turnover. From the contractor perspective, this turnover is a fact of life, just as some turnover among government staff is expected. However, effective KM practices can help minimize the disruption and loss of knowledge that often occurs following turnover. This might include documentation such as creation of taxonomies (organization and classification of information), or it might include something as simple as social network mapping, where the contact information for expertise in key areas is documented.

### **Managerial Tools**

There are a variety of KM mechanisms that managers might use to manage in an outsourcing context.

Indeed, there are many technical packages designed to aid knowledge management. These tools are well documented in the world of federal information technology. The “other side” of KM includes behavioral and structural tools.

An overriding aspect of KM in the outsourcing context is cultural—creating a culture of inclusiveness and sharing among government personnel and contractors. This helps open channels of communication, creates shared goals, and aligns incentives. According to the interviews, the result of an inclusive culture generally seemed to be richer knowledge sharing and greater satisfaction with contract outcomes.

Lore and legends are specific cultural-based KM tools. We heard several examples of managers sharing stories about tremendously successful or unsuccessful contracts and relationships to communicate these lessons to newcomers. The essential ingredient here is creating opportunities to share stories, which means taking time out from daily routines—an investment in resources for both parties. Creating low-cost opportunities for personal interaction and idea sharing can be accomplished through the design of the tasks, the structure of the organization, the design of the workspace, and forums and opportunities for formal and informal idea exchange. Lessons learned can be discussed as part of other organizational events (management meetings, COTR training, etc.).

After-action reviews (evaluation and feedback sessions following specific contract events or milestones) are another knowledge management technique that can help project managers capture and disseminate critical knowledge while it is still useful for the current project, and can also help them make adjustments during the project. Many organizations document new knowledge at the end of a project by using After Action Reports, which capture lessons learned from a contract and apply them to other relevant situations or contexts within the organization. These reports are discussed in detail in the next section, but it is interesting to note that in a recent *Harvard Business Review* article (Darling, Parry, and Moore, 2005), it is suggested that managers use action reviews and reports not only at the end of a project, but at regular intervals throughout a project.

Participating in communities of practice is another low-cost KM tool. Communities of practice are people

with common interests from different organizations that share information. These can be facilitated at conferences, through web-based interaction, or through local work groups sponsored by government, universities, industry groups, or civic organizations. In fact, the Office of Federal Procurement Policy is facilitating the development of a network of experts in performance-based services acquisition to participate in interagency working groups that will help promote the effective use of performance-based contracting.

Finally, many KM tools can be specified within the contract language. Some can simply be included in task statements, such as documenting critical decisions, outcomes, or processes. Another approach is to request codification of ideas, terms, and procedures, where terms are defined, technical specifications are logged, refinements are catalogued, and assessment results are shared. Contracts can be written to plan in staffing overlap so the outgoing person can bring the new person up to speed, thus minimizing knowledge loss resulting from turnover. The degree to which knowledge gained on a project is codified and shared could even become a formal part of the assessment plan in performance-based contracts. The action reporting process mentioned previously could certainly be formalized in this manner.

It should be clear that knowledge-management documentation practices during the course of the contract are one important way to help government managers extract maximum value from professional services contracts.

## **Best Practice 12: Use After Action Reports to Help Managers Apply Lessons Learned to Other Projects and Contexts**

An important part of KM is capturing the lessons learned over the course of a contract. The interviews suggested that the knowledge gained from a professional services contract will certainly vary, but is generally significant in some way. Lessons learned from contracts might include best practices to emulate, worst practices to avoid, new processes, new tools, new contact people, or new technology. The benefits from the generation of this new knowledge deserve some attention. Government managers should take active steps to help ensure that those benefits are

not lost when the contractors have delivered on the contract and the final payment has been disbursed.

After Action Reports (AAR) are familiar to managers in defense-oriented work. The AAR is a managerial tool that the military has long used to extract lessons from events, projects, or contracts and to apply those lessons to new contexts and situations. As mentioned earlier, recent work has suggested several ways that managers can apply the concept of AARs to a broad range of organizations, including involving team members to document events from several perspectives, starting each new phase of a contract with a review of the previous phase, and building AARs into strategy processes (Darling, Parry, and Moore, 2005).

Another important part of capturing lessons learned is to examine lessons about the contracting process itself. Given the importance of professional services contracting to many government managers, it should make sense that several of the interviewees expressed concern over ensuring that knowledge gained about the development and management of these contracts is retained. Contracting expertise is, and will continue to be, an important part of government management. KM techniques can play an important role in building and retaining this key element of human capital.

KM is important in terms of learning how to optimize the process of managing a professional services contract. This includes developing contracts (needs analysis, task specification), managing the work performed by contractors (orientation, schedules, work structures), managing the contractor relationship (financial transactions, performance assessment, and conflict resolution), and managing the relationship between government workers and contractors.

One interviewee actually hired an outside organization, the Center for Naval Analysis, to document the knowledge gained in a project and develop a handbook with specific information so the process could be replicated in the event of team member turnover and used by others in the organization. Engaging an outside organization to conduct the post-project review and document the results helps balance the resource demands of this important but underutilized project phase.

## Conclusion

The 12 best practices described in this report provide approaches and tools to assist government project managers through the contract life cycle, from clearly defining contract objectives while obtaining contract support to enhancing government knowledge management in post-contract phases. It is our hope that the insight provided firsthand by professionals from government agencies and contractor organizations, as well as secondary sources, will guide government project and program managers through the successful initiation and execution of professional services contracts, allowing them to “catch” their contractors doing the right thing.

# Acknowledgments

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# Appendix: Study Methodology

The methodology for this study involved four major activities:

- Reviewing relevant scholarly literature and background information
- Interviewing individuals with broad and extensive knowledge of the contracting process and effective practices related to professional services contracting
- Interviewing program and project managers currently or recently engaged in a professional services contract from both government and contractor organizations
- Integrating existing research with interview results to identify the key issues facing federal project managers and ways to effectively manage professional services contracts

## Literature Review

We reviewed all relevant scholarly articles and government publications and used this information as a basis for the interview questions. The articles covered topics such as dual organizational commitment, organizational justice, outsourcing, contingent workers, contracting, performance-based contracting, and turnover. Articles most likely to be of interest to readers are listed in the bibliography.

## Phase 1 Interviews

We conducted six interviews with individuals with vast experience in professional services contracts. Four of the individuals currently hold consulting positions and work with contractors and government agencies on topics such as business development and performance-based contracting. The other two

individuals hold senior-level procurement-related positions at two prominent government agencies.

The Phase 1 interview questions are found in Table A.1. These questions provided rich information on the major concerns and challenges facing government agencies and contractors as they seek to achieve mutually beneficial partnerships.

## Phase 2 Interviews

Nine government program managers and six contractor program managers were interviewed for Phase 2 of the data collection. The government

**Table A.1: Phase 1 Interview Questions**

General Interview Questions
1. How would you define success for a professional services contract between the government and a private contracting firm?
2. Can you describe an example of a highly effective professional services contract? What factors made that contract successful?
3. Can you describe an example of an unsuccessful professional services contract? What factors made that contract unsuccessful?
4. How does co-location between government and contractor employees (either on the government site or at an off-site location) generally affect the delivery of professional services?
5. Are there particular incentives that contribute to contract success?
6. What advice would you give to government project managers about how best to: <ol style="list-style-type: none"> <li>a. Establish a good relationship with the contracting firm?</li> <li>b. Manage a professional services contract?</li> </ol>

managers represented a variety of agencies and specialty areas within those agencies. The contractor program managers represented three different firms in the information technology, defense, and instructional design industries. These interviewees were asked in-depth targeted questions regarding how they handle various aspects of their professional services contracts (see Table A.2 for a list of these questions). These interviews provided numerous specific examples of lessons learned and strategies for managing the complex landscape of professional

services contracts. All interviewees were granted anonymity in exchange for their participation.

## Integration

A thorough analysis of the literature and interview results was conducted. An integration of this information framed the key issues, and recommendations were provided for federal program managers embarking on professional services contracts.

**Table A.2: Phase 2 Interview Questions**

Government Agency Questions	Contractor Questions
1. How does your organization define success with regard to contracting work to a private company?	1. How does your organization define success with regard to government contracts?
2. What impact do the actual contracts have on project success? To what extent do your contracts with private organizations tend to have clear performance standards and/or incentives incorporated in the contract?	2. What impact do the actual contracts have on project success? To what extent do your contracts with government agencies tend to have clear performance standards and/or incentives incorporated in the contract?
3. What other factors are critical for a successful government-contractor relationship and to reach the outcomes you just mentioned?	3. What other factors are critical for a successful government-contractor relationship and to reach the outcomes you just mentioned?
4. How are project managers and Contracting Officer's Technical Representatives (COTRs) chosen for projects in your organization? How important is technical expertise in this selection process? To what extent does the technical expertise of the people in these roles affect contract success?	4. How are project managers chosen for projects in your organization? How important is technical expertise in this selection process? To what extent does the technical expertise of the project manager affect contract success?
5. Can you describe an example of an unsuccessful professional services contract (in any agency, not necessarily yours)? What factors made that contract unsuccessful?	5. Can you describe an example of an unsuccessful professional services contract (in any organization, not necessarily yours)? What factors made that contract unsuccessful?
6. Do private contractors typically work on-site at your organization's facilities? If so, to what extent? (e.g., how many days/week, how many hours/day)	6. Do your employees typically work on-site at the government's workplace? If so, to what extent? (e.g., how many days/week, how many hours/day)
7. Do you have employees working directly with private contractors? In what way (e.g., as part of a work group, working on a specific project)?	7. What are the challenges you face having your employees on-site?
8. What is the general perception within your organization of contractors (e.g., part of your team, outsiders)?	8. How do your employees generally feel about working on government contracts?
9. In what ways, if any, are contractors made aware of the culture or unique demands of your organization?	9. In what ways, if any, are employees informed about the culture and unique demands of the government organization?
10. Related to engaging in productive, successful contracts with private sector employers, is there anything else you would like to share with us that we haven't already covered?	10. Related to engaging in productive, successful contracts with the government, is there anything else you would like to share with us that we haven't already covered?

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## ABOUT THE AUTHORS

**Sandra L. Fisher** has been studying, consulting on, and teaching about issues related to human resource management and organizational performance for over 10 years. After spending five years as a consultant in Arlington, Virginia, she is now an Assistant Professor at the Clarkson University School of Business in Potsdam, New York, where she teaches courses in human resource management and organizational behavior. She has worked with a variety of government and for-profit organizations, helping them improve human resource practices to meet strategic goals. Her primary interests and areas of expertise include the interface between people and technology, changing employment relationships (for example, increased use of outsourcing), training systems, and performance management.



Dr. Fisher has published articles in journals such as *Personnel Psychology* and *Human Resource Management* and has presented numerous papers at national and international professional conferences. She received her Ph.D. in industrial-organizational psychology from Michigan State University in 1998.

**Michael E. Wasserman** is an Assistant Professor at the Clarkson University School of Business in Potsdam, New York, where he teaches strategic management and entrepreneurship. He has been involved at the intersection of strategic management, technology, and human resources for over 15 years as a researcher, manager, consultant, and teacher. His current research focuses on the development and implementation of technology-centered strategies, the impact of outsourcing on business models, and the measurement of value from multiple stakeholder perspectives.



Dr. Wasserman has published and presented his work in a variety of journals, books, and professional conferences. He earned his Ph.D. in management from Michigan State University in 2000.

**Paige P. Wolf** has over 10 years of experience as an internal and external consultant on strategic human resource initiatives. Her work has focused on improving human potential and effectiveness at work and included projects involving competency modeling; development and validation of performance management and employee selection systems; career planning; employee training and development; leadership assessment; and auditing of human resource functions.

Since 2002, Dr. Wolf has been an Assistant Professor of Management at George Mason University and teaches various topics including organizational behavior, human resource management, and teamwork. She also maintains an active independent human resources consulting practice.

Dr. Wolf has presented several papers at the Society for Industrial and Organizational Psychology and Academy of Management annual conferences and has published in the *Journal of Social Psychology*, *Encyclopedia of Creativity*, and *The Industrial/Organizational Psychologist*. She received her Ph.D. in industrial-organizational psychology at Virginia Polytechnic Institute and State University in 1996.



## KEY CONTACT INFORMATION

### To contact the authors:

**Sandra L. Fisher**

Assistant Professor  
Clarkson University School of Business  
P.O. Box 5790  
Potsdam, NY 13699-5790  
(315) 268-6430  
fax: (315) 268-3810

e-mail: [sfisher@clarkson.edu](mailto:sfisher@clarkson.edu)

**Michael E. Wasserman**

Assistant Professor  
Clarkson University School of Business  
P.O. Box 5790  
Potsdam, NY 13699-5790  
(315) 268-7719  
fax: (315) 268-3810

e-mail: [mwasserm@clarkson.edu](mailto:mwasserm@clarkson.edu)

**Paige P. Wolf**

Assistant Professor  
George Mason University School of Management  
Enterprise Hall, Room 225 MSN 5F5  
Fairfax, VA 22030  
(703) 993-1758  
fax: (703) 993-1870

e-mail: [pwolf1@gmu.edu](mailto:pwolf1@gmu.edu)

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### **For additional information, contact:**

#### **Mark A. Abramson**

Executive Director

IBM Center for The Business of Government

1301 K Street, NW

Fourth Floor, West Tower

Washington, DC 20005

(202) 515-4504, fax: (202) 515-4375

e-mail: [businessofgovernment@us.ibm.com](mailto:businessofgovernment@us.ibm.com)

website: [www.businessofgovernment.org](http://www.businessofgovernment.org)