

Performance-based Management — The Devil is Truly in the Details

An Initiative Loaded With Good Intentions, But Ultimately a Bad Idea. Here's Why...

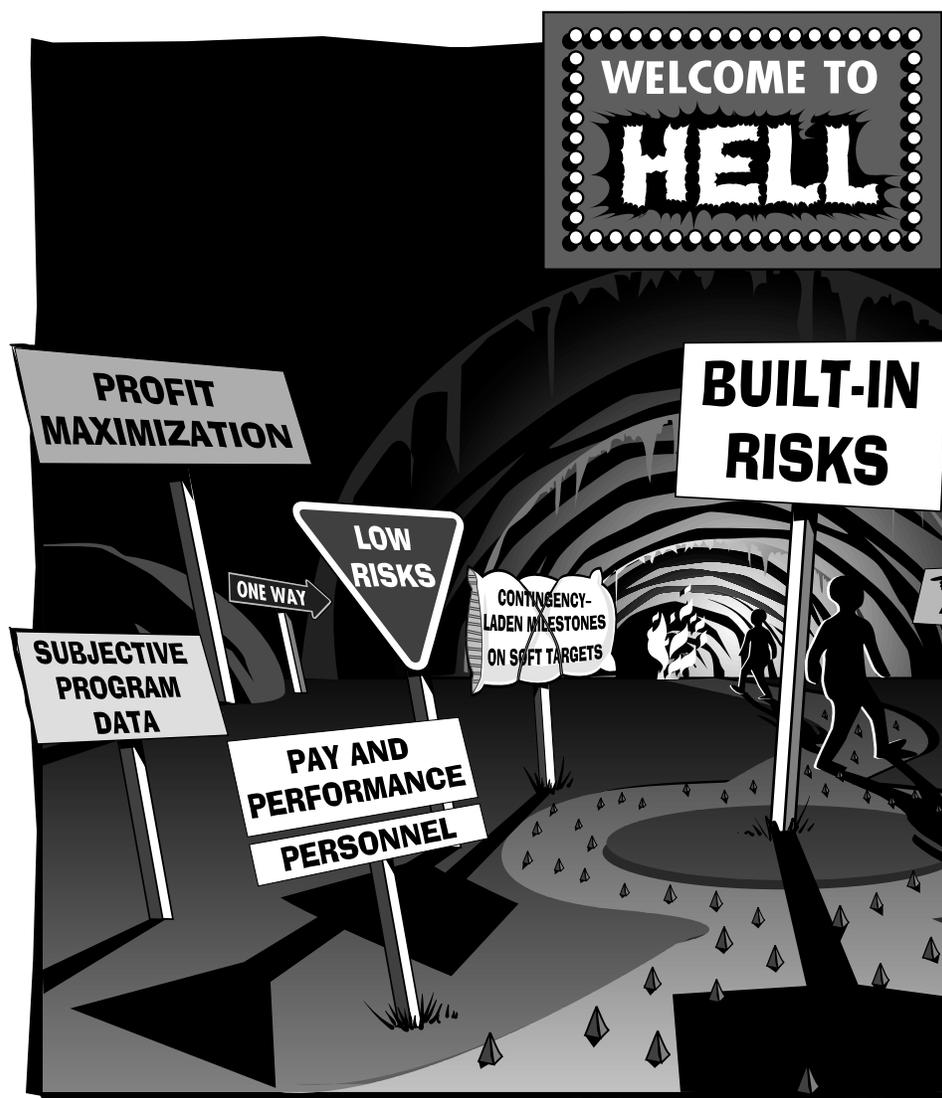
JAMES H. GILL

The Federal Acquisition Streamlining Act of 1994 (FASA) contains many worthwhile and beneficial changes to the federal acquisition system. One section contained in the Bill attempts to relate pay and promotion to performance (TITLE V – ACQUISITION MANAGEMENT, Subtitle A – Armed Services Acquisitions, SEC 5001 Performance-based Management 2220, Performance-based Management: Acquisition Programs). As with the road to hell, this initiative is paved with good intentions; however, *the devil is truly in the details.*

Background

The language of the law states that within one year after the enactment of FASA, the Secretary of Defense will review the “incentives and personnel actions available to the Secretary of Defense for encouraging excellence in the management of defense acquisition programs and provide an enhanced system of incentives to facilitate the achievement of goals...”

It further goes on to state that pay should be related to the performance of personnel in such programs as they contribute to the achievement of cost, schedule, and performance goals established for acquisition programs of the DoD. Personnel evaluations and promotions should also be influenced by the success of the respective pro-



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grams and the contribution of government individuals toward that success.

This legislation may be the collective work of many truly bright staffers; however, the flaw in performance incentives has always been the relationship between government and contractor personnel working on major acquisition programs. While both groups are motivated toward the successful completion of a program's cost, schedule, and performance, there are markedly different agendas. A con-

tractor will be motivated toward profit maximization, while concurrently satisfying the customer with regard to schedule and performance. The government wants a quality product, on-schedule, for the minimum cost possible.

Inherent Incongruities/ Inconsistencies

The differing agendas provide visibility into the inherent incongruity in tying the promotions and incentives for government employees to the success of a contractor in the performance of a contract. While program success is of critical importance to all members of the Integrated Product Team, accountability for success or failure should rest on the shoulders of the contractor portion of the team. To do otherwise is

the Integrated Product Teams? Where are the funds necessary to reward successful performance? How often are these performance incentives allocated to the affected members?

Performance Measurement and Incentivized Management

One of the most crucial aspects of measuring performance is the confidence or fidelity associated with the metrics established to quantify success. Success-oriented schedules and optimistic contract targets will be replaced with contingency-laden milestones and "soft" targets. This will guarantee success both to the contractor and the government personnel whose incentives are driven by these baselines. This is most certainly not a formula for successful acquisition.

The government has an obligation to support both the customer in the field and the taxpayer who pays the bills. These are difficult responsibilities in the often adversarial relationship between government and contractor. When the process is established that effectively incorporates the government and contractor teams into one entity, the potential for abuse magnifies exponentially.

A second concern with this approach to performance incentivized management relates to the need for management discretion in the assignment of personnel. Those programs in trouble, which desperately need the resources of the most proficient personnel, will not be attractive inasmuch as their promotion potential and pay incentives are to be tied to the contractor, who has already demonstrated poor performance.

This initiative presumes that there is a stability of personnel that is just not reasonable in these times of downsizing. While it may be attractive to have a stable group of government team members on a program, this is unlikely to occur. Personnel are rotated, most especially military team members, and some people are assigned to work multiple programs. How are we



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intrinsically foolish for a number of reasons.

Several inconsistencies reside in the language of the law. Who exactly will be covered by this requirement? Will it be senior program management, e.g., Program Executive Officers, Service Acquisition Executives? Or will it be filtered down to the working level, i.e., the Program Manager and members of

THE A-12 – WHAT HAPPENED?

The A-12 was to have been the Navy's replacement for the A-6 Intruder as its premier radar evading attack plane. The government awarded a fixed-price, full-scale engineering development contract to McDonnell Douglas Corporation and General Dynamics in 1988. On June 1, 1990, the contractor team advised the Navy of a significant slip in schedule and cost overrun. Performance was determined to be unsatisfactory by [then] Secretary of Defense Dick Cheney, and the program was canceled and the contract terminated for default. The resultant contractor claim is currently in litigation with a potential \$3 billion at risk.

While there are numerous issues associated with the case, one relevant aspect is the lack of appropriate management visibility into the performance of the contractor. In July 1990, the Secretary of the Navy ordered an administrative inquiry to determine the "facts and circumstances surrounding the variance between the current status of the A-12 Program and representations made to the Office of the Secretary of Defense on behalf of the Department regarding the program during the course of the Major Aircraft Review."¹ The report was highly critical of both the process and the people involved in communicating cost, technical, and schedule problems associated with weapon system performance.

The claim² resulting from the termination decision is the largest in the history of the Department of Defense. The contractor's lack of success on the program (alleged by the Navy to be one year behind schedule and \$1 billion over ceiling price) was not elevated by the program manager to senior Department of Defense management in a timely manner. The report found in its conclusion that neither the program manager, "nor the similarly well-qualified and dedicated officers in his chain of supervision, met the needs of senior civilian leaders within the Department of Navy and Department of Defense for an accurate assessment of the program's status and risk." This obfuscation contributed to the delay in the program's cancellation, and most likely, substantially increased the cost to the American taxpayer. If this behavior occurred with no formal process in place to tie promotions and performance bonuses to program success, it is not unlikely that such a process could contribute to the possibility of similar situations in the future.

END NOTES

1. The Beach Report, November 28, 1990, p. 4.
2. McDonnell Douglas Corp. v. U.S., ClsCt. No. 91-1204C, complaint filed 6/7/91.

to assess their performance vis-a-vis the program's performance?

Program data, especially in the early stages of a program's development, will often be the subject of varying degrees of interpretation. Who will make the objective assessment as to the program's performance? Will these program control personnel be subject to the same performance incentives as the other members of the IPT? What is to preclude the possibility of "cooking the books" on program data? Will not the government personnel be more susceptible to contractor interpretation of data? The A-12 scandal centered upon the failure of government personnel to provide senior management with the necessary visibility as to the contractor's failure to make expected progress. Will there not be more of these actions if we tie program performance to personnel incentives?

Degree of Risk

Another issue with regard to performance incentives relates to the high-risk vs. low-risk program. If there is a possibility that the program will have technical impossibilities during the early phases of its development, won't this negatively impact the performance incentive? Will this discourage some quality personnel from participating on these programs? Also, what degree of choice will personnel have with regard to working on selected programs that may have significant built-in risk? Will there be a floating scale associated with the degree of risk, i.e., higher-risk programs would contain greater incentives for participation?

The Need for a Healthy Dose of Realism

Given the reality that there has been a serious underfunding of major programs during the last 20 years, what is the likelihood that there will be a concerted effort on the part of the Services to inject a healthy dose of realism into program forecasts in the future? If there are questions concerning the reasonableness of the forecasting effort in the past, what degree of confidence should we have that there will be more

reasonable ones in the future? If promotions and incentives are tied to these forecasts, will this have a serious impact upon the morale of those individuals assigned to work these programs? Does the performance incentive relate to the program's performance, i.e., if individuals do a superlative job with regard to technical manuals, for instance, do their contributions to the overall program's performance result in incentives to them, even if the program itself is behind schedule and over cost?

The role of government personnel on acquisition programs is to do all they can to contribute to the success of their programs while concurrently ensuring that contractors fulfill their contractual responsibilities in the performance of the contract. In short, the planning and programming of a successful program is a reasonable basis for evaluating the performance of government personnel and their potential for future promotion. The actual performance by the contractor is not the responsibility of the government team and should not be reflected in their individual performance evaluations.

Arm's Length is Best

Examples abound of government individuals associating their interests too closely with those of the contractor. Don't institutionalize this type of behavior through performance and promotion incentives. Government/contractor relationships are most effective with an arm's length between each other; let us continue this practice by avoiding the "bedding down" of government and contractor personnel in the incentive arena. Just because the road to hell is paved with performance incentives doesn't mean that we need to take it. They are a bad idea, and should be removed from an otherwise good legislative Act.

FASA and Performance-based Management

Not only did they not remove the language that related to performance-based management, Congress was

apparently not satisfied with the implementation effort of the DoD with regard to the FASA requirement for performance-based management. The next round of acquisition reform may direct DoD to make a better effort at incorporating the principles of performance-based management into the system.

The Congress, after attempting to tie their own pay to the successful completion of balancing the budget and accomplishing deficit reduction, has seen the light and will ask DoD to demand pay for performance. The details in the case of congressional pay will be the matter of the how, not the what. For example, if they balance the budget on the backs of the poor and elderly, will the liberal Democrats consider this successful performance? Or, if they balance the budget at the expense of defense readiness, will conservative Republicans consider this "successful performance?"

The importance of how is truly critical to successful performance evaluation. It is not enough to say that a contractor overran or underran a contract. Without true analysis of the "why," the "what" is meaningless. It is possible that the effort should have been underrun by more, and the contractor was ultimately not that successful. Perhaps the technical complexity of the effort was of a magnitude that even in an overrun situation, the contractor did a truly outstanding job. In an age of easy, simple solutions, it is not acceptable to some to present the difficulties associated with a popular solution. Like apple pie, motherhood, and baseball, rewarding productivity and punishing failure is the American way.

Unfortunately, it requires judgment and expertise to evaluate whether a program has truly been "successful." The concept of tying pay and promotion to the "successful" performance of a contractor on a program may prove to be more complicated than is possible in the current military and civilian personnel systems. A noble end doesn't always justify the means.

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—Collie Johnson
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