



OFFICE OF FEDERAL
PROCUREMENT POLICY

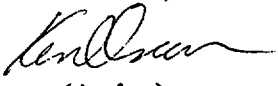
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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Appropriate Action

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MEMORANDUM FOR AGENCY SENIOR PROCUREMENT EXECUTIVES
AND DEPUTY UNDER SECRETARY OF DEFENSE
(ACQUISITION REFORM)

FROM: Kenneth J. Oscar 
Deputy Administrator (Acting)

SUBJECT: New Initiative on Contract Incentives

The Office of Federal Procurement Policy (OFPP) is seeking your support of and participation in a new initiative to fundamentally examine the manner by which the Government develops and applies incentives to its contracts.

As you know, recent acquisition reform initiatives are significantly changing the way the Government acquires supplies and services, moving from a process-oriented, rules-based, risk avoidance culture to one emphasizing performance outcomes, business judgment, streamlined procedures, and risk management. While the reforms provide contracting officers increased flexibilities in negotiations and communication with contractors, research by the Army and studies by OFPP and industry found that innovative contracting methods are being used insufficiently, and effective incentives exist which are not being considered.

The rules-based culture constrained contracting officials' flexibility to serve as business advisors focusing on the overall business arrangements. Consideration of incentives typically was limited to the fee portion of contracts to the detriment of other incentives that contractors would find more important, such as a consistent revenue flow and future business. In addition, incentives too often focused on the process of the work to be performed vs. the outcomes, thereby rewarding unnecessary and/or even counterproductive behavior. Furthermore, fee does not motivate non-profit contractors such as universities and research laboratories. As a result, contractors often did not provide their best solutions and Government requirements were not fulfilled in as timely, quality-related, and cost-effective manner as possible.

OFPP is looking to develop a new contracting paradigm that will encourage acquisition officials to develop joint objectives with contractors and effectively incentivize both parties to create "win/win" business arrangements. We will consider fundamentally restructuring our contractual relationships to accommodate improving our business arrangements, and so would welcome any appropriate recommendations as well as the identification of any impediments (legal, regulatory, and policy) you may be aware of.

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In pursuing this initiative, we envision pulling together any experiences and literature regarding non-fee type incentives. Consultation with the private, non-profit, and public sectors is essential; we are publishing a Federal Register notice to obtain their participation.

Accordingly, OFPP is seeking your participation in this initiative, as well as any ideas, innovative practices, recommendations, practices, lessons learned, etc. you may have. Such information may be general in nature or tailored to specific industries (e.g., manufacturing, services, construction), subsets of industries (e.g., information technology, advisory and assistance services, environmental remediation), types of contractors (e.g., universities, small businesses) and types of endeavors (e.g., research and development). We also would welcome any studies or literature you are aware of that analyzes, assesses, or validates these practices, as well as information on relevant training courses and materials.

We are also considering a public meeting to facilitate the exchange of information between the Government and general public to explore this issue if sufficient interest exists. Topics could include: developing alternative incentive strategies; providing recommendations; sharing best practices and lessons learned; reviewing existing literature; and identifying barriers and potential benefits and disadvantages for both agencies and contractors. Please let us know if you believe such a meeting would be helpful and, if so, the extent to which you could contribute.

As you know, I presented this initiative to the Procurement Executives Council for endorsement at the September 12 meeting and requested the establishment of an interagency working committee led by a senior procurement executive to achieve the initiative's objectives. Stanley Kaufman will represent OFPP. If you have any relevant information regarding this matter, please provide it to him within 60 days. Stan may be reached electronically at skaufman@omb.eop.gov or by phone at 202-395-6810. Your support is appreciated.

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Ms. Patricia G. Norry
Deputy Executive Director for Management Services
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