The Application of ITSM in Performance Based Contracting: A Theory into Practice

White Paper

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A Working Definition

Performance Based Contracting (PBC) is the structuring of all aspects of an acquisition around the purpose of the work to be performed as opposed to either the manner by which the work is to be performed or broad and imprecise Statements of Work. The following corollary statements could be made given this definition:

1) Contracts for services should use performance based contracting to the maximum extent possible
2) Best practice methods and techniques should be used when contracting for services

A Service Contract can be viewed as one that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply.

The Purpose of Performance Based Contracting

PBC methods are intended to ensure that required performance quality levels are achieved and that total payment is related to the degree that services performed meet contract standards.

The Components of Performance Based Contracting

The following are characteristics of contracts that are performance based:

- Soliciting bids based on the results to be achieved rather than the activities to be performed
- Defining clear performance expectations and measures
- Clearly defined due dates and milestones
- Providing incentives for performance
- Granting flexibility in exchange for accountability for results
- Monitoring to ensure that performance is being achieved

Some recommended Performance Based Contract types are Fixed Price, Cost Reimbursement, and Time and Material/Labor.

Critical Success Areas for PBC

The following areas must be addressed, engaged, and employed fully during the development and management of engagements of Performance Based Contracts:

- Project Management
- Risk Management
- Asset Management
- IT Service Management (best practices based on ITIL)

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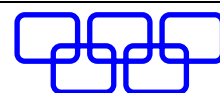
The Role of ITSM in PBC

ITSM is the articulation of ITIL industry accepted best practices to enable IT to be a service provider to the organization. The goal of ITSM is ultimately to provide the highest quality of service at the lowest possible cost.

The affinity of this goal is in direct alignment with the purpose of Performance Based Contracting, which is to ensure that required performance quality levels are achieved and total payment is related to the degree that services performed meet contract standards. Implicit in this is the employing of IT best practices, which is ITIL.

From this perspective, it is readily apparent that ITSM enables Performance Based Contracting. In fact, for projects involving IT, it is feasible that there is not a more direct fashion to perform PBC in a more effective and efficient manner than by employing IT Service Management based on ITIL industry acceptable best practices.

From a Service Provider perspective, the rigor, standard, formal, and consistent best practices employed when utilizing ITSM is in direct support and will enable providing the necessary mechanisms to make PBC an achievable reality. This is the real challenge that ITSM addresses. ITSM, by articulating ITIL into an achievable reality, enables the realization of benefits by ensuring the appropriate qualification and quantification of IT infrastructure service delivery and service support based on proven industry accepted methods and processes is followed.

Subsequently, for any solution that encompasses architecture and design through planning, implementation, and support, the use of ITSM in response to the requirement demands made by Performance Based Contracting can be met and in many cases exceeded. Business and organization based requirements definition is a mandatory procedural step to developing ITSM best practices based on ITIL standards.

Specifically, the rigor and formalized best practices employed in the ITIL/ITSM of Capacity Management and Financial Management are directly relational to PBC. Other ITIL/ITSM inter-related and inter-dependent areas such as Service Level, Configuration, Change, and Availability management have a direct impact on responding to, achieving, managing, and maintaining PBC.

What Benefits are Provided by ITSM in PBC

Initially an ITSM assessment should be done to get a realistic view of the current maturity level of all appropriate ITSM areas against industry accepted best practices. This assessment should include a GAP analysis and a priority analysis that is based on where the organization wants to focus its attention.

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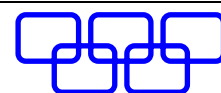
Once done, a conceptual understanding of a future desired state of IT infrastructure and the expertise to manage it from both service delivery and service support aspects is done within the scope of the maturity assessment and the priority areas. At this point a clear understanding of how the ITSM best practice areas integrate within the organization and provide value begin to emerge.

Since ITIL/ITSM by nature has IT in a service provider role within the organization, a common business based focus and perspective is achieved and utilized in the tactical and strategic planning and day-to-day operations of managing IT. In essence, ITIL/ITSM is a business driven, IT as a service provider, approach to managing and improving operational performance and thereby managing and reducing operational costs.

This by definition is what Performance Based Contracting is trying to achieve. Employing ITIL/ITSM therefore enables this to occur.

PBC References

The following is a list of references used in the development of this white paper:
- "Performance Based Contracting and Outsourcing for IT Projects" a Presentation and Workshop – John J Keane, Jr., MELE Associates. The PBC principals presented in this paper were developed directly from this presentation.
- ITIL® Service Delivery and Service Support Guides (ITIL® is a registered trade mark of OGC)
- "IT Service Management – A Practical Operational Approach Guide" – A Compilation of Best Practices for the IT Service Provider, Rick Leopoldi

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