

Why Require a Performance Outcome?

Considering Observability when crafting requirements for a Procurement SOW

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If the Principal (the Owner) to the contract expects to be able to measure the value of the completed work, it's better to require only that outcome; to let the contractor figure out how to do it. This approach allows for innovation. It also enables the contractor's expertise. However, the quality (and absence of defect) in some types of work, especially all Credence and most Experience goods, may be impossible to distinguish at final delivery (and at Acceptance and Payment). Most construction and fabrication work falls into this category. These Requirements should instead be mandated in terms of the methods (processes) that are used to create the result. Process-based specification should of course include a determination of the appropriate standards, process or design.

To the extent possible, the drafter of a contract technical requirement should call for an outcome instead of prescribing how it should be produced. If there's no way of being able to evaluate the quality of the outcome upon delivery, then the processes to be used to achieve the outcome should be specified. If it's necessary to specify a process, it should be an industry standard or an engineered design -- something that will assure the Principal of some level of quality and completeness. And if a process is specified, it's best to also devise a test that will vet the quality upon final deliverable. This test should then be written into a technical requirement, with criteria for Acceptance and Payment. (An example of such a test is a system commissioning, often used for electrical or mechanical systems.)

If a good test isn't feasible, the requirement should be constructed around some other (than just payment for performance) incentives, such as the promise of future work or a set of relational, shared goals. (These incentives are discussed in the following sections.) If there's a combination of process and outcome requirements, their synergy should be evaluated to ensure that the contractor isn't being set on an impossible course ("achieve an X outcome and do it in a Y way").

The following diagram (Table 3) may help guide this decision of how to approach specification depending on the observability of the deliverable’s quality. Note that the horizontal axis is divided into two time spheres: one moiety is before the moment of Testing, Acceptance and Payment; the other is after. The dividing line is a simplification, of course, as tests and payment cycles and warranty period can stretch this on each side. But for the purposes of assigning specification approaches, this simplification is ideal.

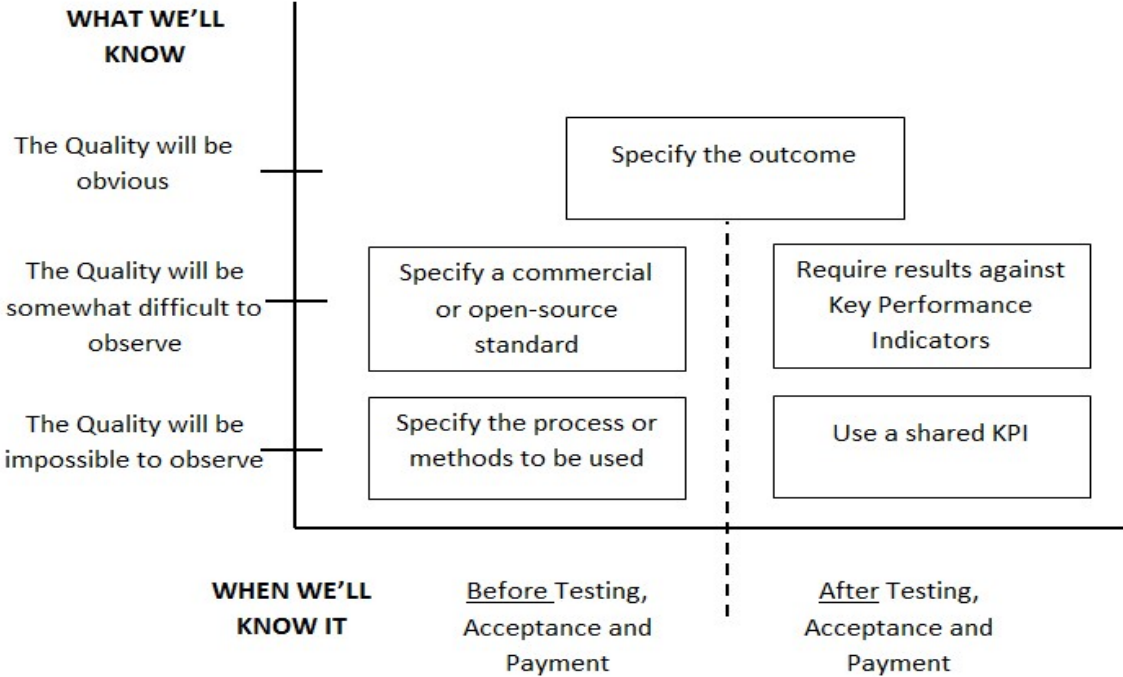


Table 3: Type of specification as it relates to observability of the Quality of a contract deliverable.

Requirements should be treated to strategic levels of specificity after they’ve been distinguished in a Work Breakdown Structure. That is, most contract requirements are composed of multiple and unique parts, and to some extent these parts should be defined to equate with separate deliverables, payments and decision gates.