White Paper

How to turbocharge your performance-based contracts

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Businesses looking to boost their efficiencies are increasingly turning to performance-based contracts for results.

What are performance-based contracts?

Performance-based contracting (PBC) is a method of contracting that aims to reward the contractor for achieving key performance indicators (KPIs).

It's a results-driven method that is focussed on performance, not transactional goods or services. A contractor's payment (or contract extension or renewal) is linked to the contractor meeting or exceeding specific and measurable minimum performance indicators. The contracts can include both monetary and non-monetary incentives, and payment will only be made if the performance indicators are met.

Many businesses and government organisations are adopting PBC in a bid to save time, money, and to enhance the value of the services they contract.

PBC is particularly common in sectors such as defence, public transport, manufacturing, maintenance and repair, commercial airlines, health services, energy, and commercial shipping.

Using service level agreements for effective PBCs

In order to achieve the best outcomes, service level agreements (SLAs) are used for building effective performance-based contracts.

An SLA is part of the service contract and is an agreement between the business and the contractor. It clearly defines the minimum performance indicators the contractor will be expected to meet, as well as the contracted delivery of these indicators.

Performance indicators might be related to the quality, outcomes, or output of their work. The metrics by which these indicators are measured will be clearly defined.

The SLA will a describe the incentives that are available to the contractor if they achieve the outlined objectives. It also defines penalties that will be incurred if the contractor fails to meet their outlined objectives.

An effective SLA provides the tools for companies to successfully assess the performance of their contractors.

A performance-based contract that does not include an SLA runs the risk of being misinterpreted (either inadvertently or deliberately). A service level agreement that has been reviewed by legal counsel protects both parties involved.

SLAs should be reviewed when a client's business needs have changed, workloads have changed, the business environment has changed, or measurement tools or metrics have changed.

Benefits of using SLAs

A well considered SLA will pay off in the long term for any company seeking results. They deliver clear performance expectations for the contractor, define the roles of each party, and provide a simple way for the company to monitor performances.

The incentives outlined in the SLA can result in increased contractor motivation and help drive their performance. This can lead to a higher quality output and better efficiencies.

Overall, this can result in massive cost and time savings for companies as well as enhanced customer service.