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Outcome-Based Contracting in U.S. Government

From Policy to Performance

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A joint research initiative of the Commerce & Contract Management Institute (CCM Institute) and the IBM Center for The Business of Government.

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IBM Center for The Business of Government

Outcome-based contracts (OBCs) offer real potential to improve federal performance. But success depends on preparation, alignment, and institutional maturity. Moving from compliance to performance requires more than intent—it requires execution.

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FOREWORD

For years, federal agencies have been encouraged to shift their acquisition strategies from buying activities to buying results—yet the distance between aspiration and execution remains wide. This report, *Outcome-Based Contracting in U.S. Government: From Policy to Performance* by Daniel Finkenstadt and Timothy Cummins, addresses that gap.

The insights and recommendations framed by this report—a collaborative venture of the Commerce & Contract Management Institute (the Institute was co-founded by WorldCC and the National Contract Management Association (NCMA)) and the IBM Center for The Business of Government, can support leaders move toward better outcomes during a time of rising pressures on mission delivery, growing expectations for measurable public value, and the limitations of traditional contracting models.

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Outcome-based contracting (OBC) does not simply constitute a procurement innovation; OBCs can bring strategic capabilities for the federal acquisition and program workforce to implement. As the authors make clear, OBCs require a shared understanding of what constitutes an outcome, robust governance, meaningful data, and a collaborative relationship between government and industry. They require a shift from managing compliance to managing performance.

This report integrates theory, empirical evidence, acquisition policy analysis, and the lived experience of practitioners across government. From this research comes a refined definition of outcome-based contracting, a highlighting of the conditions under which OBCs can succeed, and a roadmap for how agencies can build the necessary institutional maturity for sustainment.

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Outcomes cannot be mandated into existence; as the authors note, they must be designed, governed, measured, and stewarded. OBCs must embed an outcomes focus into requirements, data systems, incentives, and oversight structures, all in a way that promotes agility and learning rather than rigidity. Co-creation becomes a key factor for results, and value from OBCs can emerge through partnership and shared stewardship, not transactional exchange.

The report's timely and actionable recommendations include: elevating outcomes to the requirements stage, expanding the scope of OBCs beyond services, investing in governance training, developing portfolio-level prioritization strategies, and piloting OBCs through low-risk option structures. Each recommendation represents a step toward a more performance-driven federal acquisition system. Together, they outline a future in which agencies leverage contracts not only as instruments of compliance, but as architectures of public value.

This report stands as a reminder that contracting reflects a mission-critical function. Acquisition shapes how government delivers services, manages risk, fosters innovation, and ultimately serves the public. By advancing a deeper understanding of outcome-based contracting and by grounding that understanding in evidence and practice, this report makes a substantive contribution to governance, and provides leaders with insight to translate policy into performance.

This report draws on the long record of research led by the CCM Institute, with citations provided throughout the text. The report also builds on the Center's many prior reports focused on acquisition reform, including *Practical Solutions for Managing Government Supply Chains* by Robert Handfield, *Government Procurement and Acquisition: Opportunities and Challenges Presented by Artificial Intelligence and Machine Learning* by Justin Bullock and Mohammad Ahmadi*, Other Transactions Authorities: After 60 Years, Hitting Their Strides or Hitting The Wall?* By Stan Soloway, Jason Knudson, and Vincent Wroble.

As federal agencies continue pursuing greater accountability, transparency, and mission impact, the ideas presented in this report demonstrate pathways for acquisition stakeholders in government and industry to think more strategically, govern more collaboratively, and design contracts that reflect what truly matters—delivering meaningful results for the American people.

EXECUTIVE SUMMARY

This report addresses a critical question for today's federal acquisition leaders: What are outcome-based contracts, when and how should the U.S. government use them, and what institutional conditions must be in place for them to succeed?

Government leaders face growing pressure to move from paying for inputs and activities to paying for measurable results. Agencies are expected to demonstrate impact, improve performance, and deliver better value for taxpayers. Outcome-based contracts are often presented as the answer. However, while appealing in concept, OBC implementation in the federal environment remains complex and often misunderstood.

This research stems from a partnership between the Commerce & Contract Management Institute (CCM Institute) and the IBM Center for The Business of Government. The two organizations convened expert sessions that combined commercial contracting experience and deep knowledge of the U.S. federal acquisition system, leading to a report that provides practical, evidence-based guidance with an understanding of where government stands today with respect to OBCs.

This research makes a key finding that outcome-based strategy differs from outcome-based contracts. Outcome-based strategy represents a broader approach to mission delivery that focuses on measurable impact. Outcome-based contracting involves a specific contractual structure that links compensation to defined results. Confusing these two can lead to poor implementation. Therefore, agencies must first adopt an outcomes mindset before they attempt to embed outcomes into contract structures.

The findings in this report reflect five critical success factors: Requirements, Data, Trust, Governance, and Oversight. These factors show that outcome-based contracting includes more than a new clause or template. OBCs require an institutional shift requiring alignment across acquisition, program management, finance, and oversight functions.

A clear imperative has arisen around OBCs. The U.S. government has recently issued guidance in the FAR Companion Guide[1] (Parts 11 and 37)[2] that introduces the concept to the workforce, but needs more definition for effective implementation across agencies. The research presented here offers this important additional pathway. The federal government has signaled strong interest in performance-driven procurement. However, without conceptual clarity and workforce readiness, outcome-based approaches risk being reduced to compliance language rather than meaningful reform.

This report provides practical recommendations, including expanded guidance within the FAR Companion Guide, stronger distinction between strategy and contract structure, repositioning of OBC guidance to expand their scope, from FAR Part 37 to Parts 2 and 16, investment in workforce governance capability, a portfolio prioritization schema for outcomes-based strategy, and structured low-risk piloting mechanisms through option periods.

OBCs offer real potential to improve federal performance. But success depends on preparation, alignment, and institutional maturity. Moving from policy to performance requires more than intent—it requires execution.

1. Federal Acquisition Regulatory Council. (2025). *FAR overhaul | New FAR Companion Guide.* U.S. General Services Administration. https://www.acquisition.gov/content/far-overhaul-new-far-companion-guide.
2. Federal Acquisition Regulatory Council. (2025). *Federal Acquisition Regulation (FAR) companion guide,* Part 37.1: *Service contracting and outcome-based approaches*. U.S. General Services Administration.

Part I—Background and Research Methodology

Background

This collaboration started from a shared concern: interest in outcome-based approaches is increasing across both defense and civilian agencies, but confusion remains about what OBCs actually mean and how to use them effectively. Agencies want measurable results, yet the acquisition workforce lacks clear definitions and practical guidance.

OBCs represent a fundamental shift from traditional procurement approaches by prioritizing measurable results over rigid process requirements. This framework empowers suppliers to leverage innovative methods, emerging technologies, and creative delivery strategies to achieve defined outcomes. Such flexibility proves especially valuable in dynamic environments, where requirements evolve and prescriptive specifications can hinder effective responses from both public agencies and their suppliers.

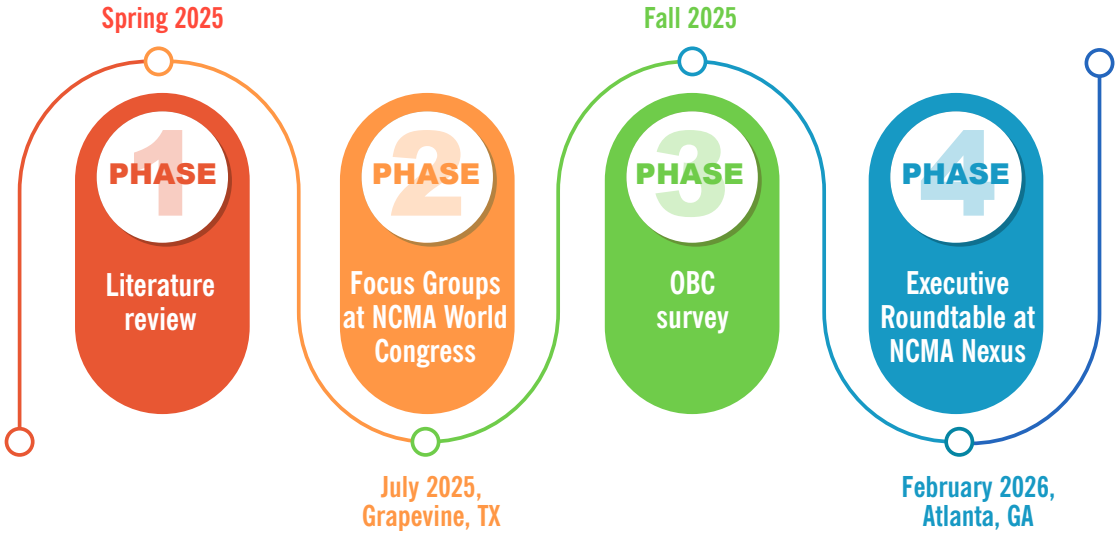
In collaboration with the IBM Center for The Business of Government, the CCM Institute led the research and analysis for this report, drawing on its expertise in commercial contracting, governance frameworks, and global benchmarking, including research undertaken by WorldCC and publications such as the *International Journal of Commerce and Contracting*. The IBM Center provided support to the initiative, including co-convening several discussions with experts as well as offering contextual insights regarding the U.S. federal acquisition environment.

Together, both organizations agreed on a clear objective: clarify what OBCs are (and what they are not), distinguish strategy from contract structure, and identify the practical conditions the U.S. government must have in place to implement OBCs successfully.

The success of OBCs depends on strong capabilities on both sides of the contract. Public agencies must be able to define clear outcomes, measure performance, and manage results-based relationships. Suppliers also need the operational maturity, data capabilities, and governance required to deliver and demonstrate results. However, many contractors have limited experience structuring or operating within outcome-based models, and delivery often depends on close interdependencies between buyer and supplier. This creates both a risk and an opportunity for both sides to learn, adapt, and build the capabilities needed to make an OBC work.

Research Design—Data Collection Roadmap

This section presents the final chronological roadmap of this multi-method data collection effort. Each phase is described with its purpose, scope, participants, and timeframe.



Phase 1: Literature Review (Spring 2025)

The research began with a comprehensive review of academic literature, practitioner insights, and publications on OBCs, performance-based contracting (PBC), and related frameworks. This included examination of historical precedents as well as international examples to understand how outcome-based approaches have evolved in practice. The process helped to clarify common incorrect assumptions and recurring implementation challenges.

The literature review also incorporated foundational theoretical work on the nature of value in contractual relationships. Drawing on David Graeber's anthropological theory of value,[3] Valarie Zeithaml's research on consumer perceived value,[4] and the Service-Dominant Logic framework developed by Vargo and Lusch,[5] [6] the research examined the proposition that contracts function not merely as legal instruments but as structured communications about collective value, where every requirement, incentive, payment term, and performance metric constitutes a statement about what the parties believe matters.

3. Graeber, D. (2001). *Toward an anthropological theory of value: The false coin of our own dreams.* Palgrave Macmillan.
4. Zeithaml, V. A. (1988). Consumer perceptions of price, quality, and value: A means-end model and synthesis of evidence. *Journal of Marketing,* 52(3), 2–22.
5. Vargo, S. L., & Lusch, R. F. (2004). Evolving to a new dominant logic for marketing. *Journal of Marketing,* 68(1), 1–17.
6. Vargo, S. L., & Lusch, R. F. (2008). Service-Dominant Logic: Continuing the evolution. *Journal of the Academy of Marketing Science,* 36(1), 1–10.

This theoretical grounding was further informed by empirical research on perceived service quality and value in business-to-government knowledge-based services,[7] [8] which provided quantitative evidence on how procurement professionals actually weigh quality against price in selection decisions. Together, these frameworks offered an analytical lens for understanding why contracts can remain technically compliant while failing to deliver intended outcomes, a pattern directly relevant to the challenges facing OBC implementation in the federal context.

Insights from early focus group discussions on OBCs further shaped understanding, highlighting concerns around unclear definitions, measurement risk, and workforce readiness. This allowed establishment of the core analytical categories—Requirements, Data, Trust, Governance, and Oversight—that guided the OBC survey and roundtable.

Phase 2: Focus Groups at NCMA World Congress (July 2025, Grapevine, TX)

Two guided focus group discussions took place with 19 participants in the first group and 15 in the second, all senior U.S. procurement leaders, to ensure that the research reflected practical realities. These sessions explored core topics such as OBC definitions, hands-on experiences, typical challenges, and success factors. The group setting encouraged participants to share contrasting viewpoints, question established thinking, and exchange practical lessons. This collaborative approach revealed important themes and conflicts that individual interviews might miss, offering essential practitioner perspectives that enriched our broader data gathering efforts.

Phase 3: OBC Survey (Fall 2025)

On September 1st, 2025, a comprehensive OBC survey was conducted within the federal acquisition community. This quantitative and qualitative research tool aimed to confirm and build upon findings from previous interviews and focus groups. The survey collected information about current OBC usage, perceived benefits, implementation obstacles, and areas requiring additional support. This approach enabled validation of initial findings across a larger population and gain deeper insights into how practitioners actually experience outcome-based contracting methods in their daily work.

Phase 4: Executive Roundtable at NCMA Nexus (February 2026, Atlanta, GA)

In February 2026, an Executive Roundtable was organized during NCMA Nexus in Atlanta, bringing together 62 senior acquisition executives to conclude our research phase. Participants discussed initial findings to confirm major themes and validate preliminary insights. This session centered on actionable recommendations, implementation challenges, and organizational constraints. The final opportunity to capture executive-level insights before report drafting offered a crucial opportunity to gather executive viewpoints, enhance the analysis, and ensure that the report balanced strategic objectives with real-world operational considerations.

7. Finkenstadt, D. J. (2020). Outcome-based contracting in the public sector: A path toward results-focused procurement. *Public Procurement Law Review*.
8. Finkenstadt, D. J., & Zeithaml, V. A. (2020). Outcome-based contracts and value co-creation in complex service systems. *Journal of Business Research.*

Part II—Findings and analysis

This is core section of the report synthesizes all data collected from Spring 2025 through February 2026 into a coherent narrative organized across three major subsections: definitional foundations, the five critical success factors, and two special topics requiring dedicated treatment.

What Are OBCs?—Definitional Foundations

A clear shift in how organizations understand OBCs has occurred over the past eight months. Early discussions showed confusion, especially in distinguishing OBCs from traditional PBCs and in defining what truly counts as an "outcome" versus a performance metric.

This shift reflects a broader challenge: moving from transactional contracts focused on activities and outputs to models centered on measurable end results. OBCs require clearer definitions of success, stronger performance tracking, and a more strategic partnership approach aligned to business outcomes.

The Official FAR Companion Definition

The FAR Companion Guide defines outcome-based contracting as: *"Outcome-based contracting is a variation of performance-based contracting that emphasizes delivery of specific, defined outcomes through a collaborative, adaptive performance framework, rather than transactional delivery of specified services or products."*

The Guide further states: *"The essence . . . is transforming the government-contractor relationship from a transactional exchange to a strategic partnership unified around delivery of defined performance outcomes."*[9]

Theoretical Foundation: Contracts as Value Architecture

To understand why the definitional distinction between OBCs and traditional contracting models matters so deeply, it is useful to examine the theoretical foundations of how contracts create, communicate, and transfer value. The literature review for this drew on the anthropological theory of value developed by David Graeber in *Toward an Anthropological Theory of Value*,[10] which offers three propositions with direct implications for contracting practice.

First, Graeber argued that value measures the importance of actions, not the properties of objects. When parties assign value to something, a commodity, a ceremony, a document, they register a collective judgment about which human actions matter. Applied to contracting, this means that every requirement, deliverable, incentive, and remedy in a contract reflects a judgment about relative importance, as well as what is specified more tightly, allowed flexibility, penalized, and rewarded.[11]

9. Federal Acquisition Regulation, 48 C.F.R. Part 37 (2025).
10. Graeber, D. (2001). *Toward an anthropological theory of value: The false coin of our own dreams.* Palgrave Macmillan.
11. ibid.

Second, objects and documents function as condensed action-claims. They do not hold value intrinsically; they hold it because they encode, stabilize, and make portable a shared understanding of which actions were significant and why. A contract therefore does not constitute the value itself; it is the vessel that preserves a shared understanding of value so coordinated action can occur.[12]

Third, exchange is fundamentally communicative. When parties exchange goods, services, or obligations, they send a signal about what matters in their relationship. The terms of the exchange are never neutral, they always express something about what both parties believe merits action. Every contract communicates a value hierarchy to everyone performing under it.[13]

These three propositions produce a single insight highly relevant to OBC practice: a contract is a structured communication about collective value. That communication either faithfully represents the underlying purpose of the agreement, or it gradually replaces that purpose with something else. This theoretical lens helps explain the persistent challenge identified in this research: the tendency for contracts to drift from purpose toward compliance, even when both parties intend otherwise.

Perceived Value: The Buyer's Assessment

A second theoretical foundation comes from Valarie Zeithaml's seminal research on consumer perceived value. Zeithaml[14] established that perceived value represents the buyer's overall assessment of the utility of a product or service, based on perceptions of what is received relative to what is given. Her research revealed four distinct conceptions of value operating simultaneously among buyers: value as low price (the cheapest option), value as getting what I want (satisfaction of specific needs), value as quality relative to price paid, and value as the total balance of benefits received against all sacrifices made.[15]

The fourth and most integrative conception: encompassing all costs (monetary, time, effort, risk) against all benefits (functional, experiential, relational)—aligns directly with Graeber's action-based view: value emerges from the total relationship between investment and achievement. For OBC practice, this framework reveals that traditional procurement's emphasis on Lowest Price Technically Acceptable (LPTA) represents only the first and narrowest conception of value. Outcomes-based approaches, by contrast, operate in the fourth conception—evaluating the full relationship between investment and results achieved.[16]

Service-Dominant Logic and Value Co-creation

A third theoretical pillar comes from Service-Dominant Logic (SDL), developed by Vargo and Lusch.[17] [18] SDL fundamentally reframes value creation in ways directly relevant to government services and OBC design. Four foundational premises are particularly consequential:

12. ibid.
13. ibid.
14. Zeithaml, V. A. (1988). Consumer perceptions of price, quality, and value: A means-end model and synthesis of evidence. *Journal of Marketing,* 52(3), 2–22.
15. ibid.
16. ibid.
17. Vargo, S. L., & Lusch, R. F. (2004). Evolving to a new dominant logic for marketing. *Journal of Marketing, 68*(1), 1–17.
18. Vargo, S. L., & Lusch, R. F. (2008). Service-Dominant Logic: Continuing the evolution. *Journal of the Academy of Marketing Science, 36*(1), 1–10.

- ***Service is the fundamental basis of exchange.*** All economies involve service economies. Even when goods are exchanged, the underlying exchange is the application of knowledge and skills for the benefit of another party.[19]
- ***Operant resources are the fundamental source of strategic benefit.*** Knowledge and skills rather than physical resources or labor hours constitute the key to differentiation and competitive advantage.[20]
- ***Value is co-created by multiple actors, always including the beneficiary.*** Providers cannot deliver value unilaterally; they can only offer value propositions. Value emerges through joint interaction as providers and beneficiaries integrate resources.[21]
- ***Value is always uniquely and phenomenologically determined by the beneficiary.*** Value is idiosyncratic, experiential, and contextual—determined through the direct experience of the one receiving benefit, not by the provider.[22]

SDL transforms the procurement vocabulary in consequential ways. Traditional procurement treats contractors as suppliers from whom the government extracts deliverables. SDL reframes the relationship as joint value creation, where the government and contractor together produce outcomes neither could achieve alone. This shift from 'market to' to 'market with' is particularly significant for OBCs, where the collaborative, adaptive partnership the FAR Companion Guide describes reflects not merely a contracting preference but a structural requirement for value realization.[23]

Empirical Evidence: Quality, Value, and Procurement Choice

These theoretical frameworks receive direct empirical support from research on business-to-government (B2G) knowledge-based services (KBS). Research with over 630 Department of Defense (now referred to as the Department of War) procurement professionals establishes a clear causal path from perceived quality through perceived value to procurement choice.[24]

Perceived service quality is a second-order construct comprising four dimensions: employee capability, intelligent solutions, dependability, and understanding of customer requirements. Perceived quality strongly predicts perceived value, explaining the vast majority of variance in value perceptions. Critically, perceived service quality attributes are more than twice as important as price in B2G procurement choice. The ability to provide intelligent solutions represents the single most important attribute, more than twice as important as price.[25]

Choice-based conjoint analysis reveals substantial willingness to pay for quality improvements: when comparing offers, procurement agents would trade off up to a 41 percent price premium for high-confidence over low-confidence quality ratings. Agents would nearly always opt out entirely rather than select a low-confidence offer, even at the lowest price. This directly contradicts LPTA assumptions and has profound implications for how OBCs should be valued, structured, and evaluated.[26]

19. Vargo & Lusch, 2004.
20. ibid.
21. Vargo & Lusch, 2008.
22. ibid.
23. Vargo & Lusch, 2004 and 2008
24. Finkenstadt, D. J. (2020). Outcome-based contracting in the public sector: A path toward results-focused procurement. *Public Procurement Law Review;* and Finkenstadt, D. J., & Zeithaml, V. A. (2020). Outcome-based contracts and value co-creation in complex service systems. *Journal of Business Research.*
25. ibid.
26. Finkenstadt, 2020.

How Contracts Perform Three Value Functions

Viewing contracts through this theoretical lens reveals that they perform three functions beyond their legal enforceability, each of which must work for the contract to transmit value effectively:[27]

- **They capture value.** Requirements, deliverables, incentives, and remedies define what counts as worthwhile performance. Every clause reflects a judgment about relative importance.
- **They communicate value.** The structure of the contract sends a signal to every party and every person who performs under it about what matters most. Detailed specifications communicate a preference for predictability and control; flexible performance metrics communicate trust and an orientation toward results.
- **They transfer value over time.** Payment schedules, acceptance criteria, data rights provisions, and risk allocation mechanisms govern how value moves between parties as the agreement is executed. These mechanisms can either reinforce or undermine the original value judgment that motivated the agreement.

When the contractual vessel leaks, when clauses accumulate that are disconnected from purpose, and when incentives drift from the behaviors that produce real outcomes, the value escapes before it can be realized. This dynamic applies fully to physical deliverables, not just services or relational agreements. Technical specifications are not value-neutral: tighter tolerances prioritize reliability over cost; accelerated delivery prioritizes readiness over margin; redundancy requirements prioritize resilience over efficiency. Requirements reflect prioritized beliefs written in technical language.[28]

27. Finkenstadt, D.J. (2026). "Contracts Are Not Paperwork. They Are Value Architecture." Unpublished working paper.
28. ibid.

The Contracting Spectrum: Where OBCs Fit

The contracting literature often presents a clean binary: traditional contracts specify activity, outcomes-based contracts specify results. In reality a spectrum exists, and where a contract sits on that spectrum determines how faithfully it transmits value.[29]

Traditional models sit at one end. They specify tasks, inputs, and methods. The dominant signal to everyone performing under them: follow the instructions. Value comes from compliance with process. Outcomes-based models represent the other end. They specify the final effects that matter and tie payment and evaluation to whether those effects are achieved. Risk becomes a shared performance responsibility. The contract's narrative shifts from a compliance story to a value story.

Performance-based contracting was designed to occupy the productive middle, and in principle it does. Performance-based agreements move beyond specifying how work gets done, and instead call for defined outcomes and measurable effects. But in practice, performance-based models have proven vulnerable to a failure mode structurally similar to the one they were designed to correct: the measures become the mission. Providers optimize for the metric, not the effect the metric was originally meant to capture. This does not stem from cynicism or gaming, but rather from the natural behavioral response to what the contract signals as important.[30]

As a practical implication, performance-based contracting is a necessary but not sufficient reform. Moving from task specification to performance measurement constitutes progress. But the measurement layer itself must be actively defended against the same drift that afflicts any other contract element. Metrics must remain subordinate to the outcomes they were designed to represent, and governance mechanisms must exist to make updates when these two factors diverge. Without that discipline, performance-based contracts do not solve the narrative drift problem; they relocate it.

Illustrative Case: The F-35 Program

The clearest available illustration of what happens when contractual structure drifts from value is the F-35 Joint Strike Fighter program[31] the largest defense acquisition in history, with a projected lifecycle cost now estimated at over $2 trillion.

The F-35's mission is air superiority. Its value to the warfighter is combat capability. For years, however, the program's contract incentive structure rewarded something different: on-time delivery of aircraft. According to a September 2025 Government Accountability Office (GAO) report, the program paid contractors hundreds of millions of dollars in incentive fees, even as contractors delivered engines and aircraft consistently late, and as the aircraft being delivered were frequently non-combat-capable.[32]

The contracts were not fraudulent. The incentive fee structure was technically functioning. But the structure allowed delivery up to 60 days late while still earning partial on-time delivery fees. By July 2024, the program had begun provisionally accepting 174 aircraft that lacked combat-capable software. As of early 2025, the F-35A fleet's mission-capable rate stood at approximately 52 percent, against an 80 percent target.[33]

29. ibid.
30. ibid.
31. U.S. Government Accountability Office. (2025). *F-35 Joint Strike Fighter: Cost and performance updates* (GAO-25-107632). Washington, DC: U.S. Government Accountability Office.
32. ibid.
33. ibid.

In the theoretical terms established above, the contract had stopped communicating the right value hierarchy. Delivery timing became the operative signal. Combat readiness, the actual purpose of the program had been subordinated to production throughput. The incentive structure had encoded a priority that was not the program's real priority. GAO's analysis was direct: unless the program reevaluates its use of incentive fees and better aligns them with desired production outcomes, it will continue to reward contractors for underperformance.[34] That is not a criticism of the contractors, it is a diagnosis of a contract that lost its value narrative.[35]

Availability OBCs vs. Economic OBCs

The research findings support the importance of distinguishing between availability outcome-based contracts (aOBCs) and economic outcome-based contracts (eOBCs) in federal contracting frameworks, as each delivers distinct advantages and presents unique risk considerations. This distinction has been empirically validated in a multi-industry survey of 259 buyers and sellers using OBCs in complex industrial services, which found that the two forms differ meaningfully in their benefit and risk profiles depending on contextual conditions.[36]

aOBCs focus on ensuring the availability of a system, asset, or capability, and the contractor is held accountable for readiness and uptime rather than discrete deliverables. Both contracting parties consistently highlight the benefit of having clearer, quantifiable performance targets such as system uptime, service level agreements, and operational readiness metrics. This clarity enhances accountability mechanisms, enables more effective performance monitoring, and drives improved operational execution. Survey participants also noted enhanced alignment between parties and increased collaborative working relationships, while suppliers gain greater flexibility to determine innovative approaches to service delivery methods.

However, aOBCs face predictable challenges when outcomes fall outside supplier control, such as dependencies on customer actions or third-party providers. Additionally, when performance measures lack clarity or set unrealistic expectations, suppliers encounter profit margin compression and contractual disputes, while buyers risk vendor lock-in situations, unexpected cost escalations, and manipulation of performance metrics.

eOBCs tie contractual outcomes to economic results such as cost savings, efficiency gains, or value delivered relative to investment. This model presents a different value proposition, focusing on deeper strategic alliances and enhanced emphasis on mutual economic benefits including return on investment, cost reduction achievements, and revenue generation impact. eOBCs frequently facilitate innovation opportunities and support value-based pricing strategies that can command premium rates.

Nevertheless, eOBCs introduce elevated attribution and baseline establishment risks, as economic outcomes are influenced by external market conditions, data integrity issues, and buyer implementation effectiveness. This complexity makes robust governance frameworks, disciplined change management processes, and rigorous measurement protocols absolutely critical for success.

34. ibid.
35. Finkenstadt, 2026.
36. E. Böhm, M. Eggert, and W. Thiesbrummel, "Service transition: A viable option for manufacturing companies with deteriorating financial performance?" *Industrial Marketing Management* 60 (2016): 101–111.

Empirical Evidence: When to Use Which OBC Type

The Böhm et al. study[37] provides empirical guidance on the relative merits of each OBC form. Both buyers and sellers attach significantly higher perceived benefits to eOBCs compared to aOBCs, because the shift toward economic results creates stronger incentive alignment and allows suppliers greater flexibility in optimizing delivery. However, on average, both forms are perceived as equally risky and perform equally well.[38]

Contextual conditions determine which form is superior:

- **In technologically turbulent environments,** buyers perceive significantly more benefits from eOBCs, making them the preferred option. Sellers can most effectively capitalize on their comparably better capabilities with regards to operating the systems and services they provide in rapidly changing markets. Importantly, the corresponding risk increase for sellers in these conditions was found to be non-significant—suggesting eOBCs are the preferred option in technologically turbulent markets.[39]
- **When product innovativeness is high,** aOBCs emerge as the better option. Sellers associate significantly higher risks with eOBCs when the underlying products are innovative, because sellers' internal capabilities may still be developing and they lack accumulated experience with deploying innovative offerings in customers' specific processes. In these conditions, the more bounded scope of aOBCs provides a safer foundation.[40]

These findings have direct implications for federal acquisition strategy. For established, well-understood systems and services in rapidly evolving operational environments, eOBCs reflect the preferred model. For contracts involving innovative or emerging technologies where the supplier is still building operational experience, aOBCs provide more appropriate risk boundaries. This contextual guidance aligns with and strengthens the recommendation for a portfolio prioritization schema (Recommendation 4 in this report), which matches OBC type to institutional readiness and contract characteristics.

Historical and International Precedents

The contracting lifecycle framework developed by WorldCC shows how strategy defines commercial models and commitments, while transactional contracting flows through phases: Design, Evaluation, Assembly, Approval, Implementation, Performance, and Closure, generating analytics that inform future strategies. This cyclical approach is particularly relevant for OBCs, where performance data drives continuous improvement.

In the outsourcing and services sector, organizations prioritize different performance measures: cycle time (50 percent), customer satisfaction monitoring (45 percent), supplier satisfaction monitoring (40 percent), and contract terms improvement (35 percent).[41] These metrics align with OBC principles where success is measured by delivered outcomes rather than prescribed inputs.

37. ibid.
38. ibid.
39. ibid.
40. ibid.
41. Source: World Commerce & Contracting data.

Early examples of OBCs demonstrate how shifting incentives from process compliance to measurable results transforms contractor behavior:

- **Glendale, Arizona Afterschool program:** Glendale transformed its youth programming by shifting to an outcome-based, partnership-driven approach. Facing budget cuts, the city collaborated with local nonprofits through a results-driven RFP and active contract management, ensuring affordable after-school programs in low-income neighborhoods. The process attracted qualified operators for nearly all community centers, improved vendor engagement, and set the stage for embedding results-driven contracting into citywide procurement practices.
- **The Australian Prisoner Shipment Case:** This represents an early and illustrative example of how restructuring incentives around outcomes (prisoner survival rates) transformed contractor behavior, realigning commercial relationships around performance rather than inputs.
- **Rolls-Royce "Power by the Hour":** This landmark commercial OBC model in aviation engine maintenance shifted the transaction from purchasing parts and services to purchasing guaranteed thrust hours. Empirical analysis of 305 Rolls-Royce aircraft engines demonstrated that OBCs were associated with a 25–40 percent increase in product reliability compared to traditional input-based contracting forms,[42] confirming that outcome-based incentive alignment produces measurable performance improvements.
- **Australian Defense Navy Sustainment:** Navy sustainment contracts focused on vessel readiness created a shared operational objective that strengthened collaboration and reduced box-ticking behavior.
- **United Kingdom Social Value Act:** The UK further embedded OBC principles through legislation integrating measurable social outcomes into public procurement, providing comparative context for USG implementation.
- **Schiphol Airport Lighting-as-a-Service:** This case demonstrates how purchasing performance rather than products drives accountability, innovation, and sustained service quality.

The Five Critical Success Factors for OBCs

This section of the report identifies five critical areas that determine whether OBCs can be successfully implemented and scaled. These factors consistently emerged across the literature, interviews, focus groups, surveys, and roundtable discussions, forming a consolidated, evidence-based foundation for effective OBC design and execution. Under each factor, findings from across all data sources present a compelling, evidence-based narrative.

If the answer is "no" on any of these five factors, the OBC model will struggle.

42. Guajardo, J. A., Cohen, M. A., Kim, S.-H., & Netessine, S. (2012). Impact of performance-based contracting on product reliability: An empirical analysis. Management Science, 58(5), 961–979.

CRITICAL SUCCESS FACTOR	KEY QUESTION
REQUIREMENTS	Can outcomes be defined in an outcomes-based format?
DATA	Is there sufficient data to hold sellers accountable?
TRUST	Can parties trust each other to manage their side?
GOVERNANCE	Is there governance beyond strict contract terms?
OVERSIGHT	Can we balance oversight with room to innovate?

Factor 1: Requirements—Can Outcomes Be Defined in an Outcomes-Based Format?

The first and most fundamental question involves whether the desired outcomes can actually be articulated in a way that is measurable, attributable, and contractually actionable. This report's research documented a significant evolution over the eight-month data collection period: early participants struggled to distinguish OBCs from PBCs, with confusion around what constitutes an "outcome" versus a "performance metric." Current findings show conceptual maturity, with the discourse shifting from definitional confusion to institutional design complexity.

Specifically, practitioners now focus on more sophisticated questions: what parts of outcomes are genuinely within supplier control, what buyer actions materially affect success, and how to structure uncertainty within the requirements framework. This reflects meaningful progress in shared understanding and sets the stage for practical implementation guidance.

The theoretical framework above reinforces this finding. When requirements fail to capture the true value hierarchy, when they specify proxy activities rather than the outcomes those activities are meant to produce, the contract communicates the wrong priorities to everyone performing under it. As the F-35 case illustrates, even well-intentioned requirements can encode priorities that diverge from the program's actual mission.[43]

Factor 2: Data—Is There Sufficient Data to Hold Sellers Accountable?

Measurement difficulty remains a persistent barrier, but the research here documents greater structural clarity around performance management. Practitioners now articulate specific design choices: clear outcome definition (both quantitative and qualitative), success thresholds (minimum, maximum, and stretch), measures of effectiveness defined in the RFP, protocols for handling unforeseen conditions, milestone approaches, RACI models, and two-way performance accountability mechanisms.

The maturity has shifted from "measurement is hard" to "measurement requires structured design choices and governance discipline." AI integration offers opportunities for improved data analysis, but requires a good data foundation, a theme explored further in the next section: Special Topic—AI's Impact on OBC Management.

43. GAO-25-107632; Graeber, 2001.

The empirical research on B2G procurement reinforces the stakes of this factor. When meaningful quality signals exist, procurement professionals demonstrate a strong capacity to distinguish value with perceived quality accounting for more than twice the importance of price in selection decisions.[44] This means the data infrastructure for OBCs is not merely an administrative requirement; it is the mechanism through which value becomes visible and consequential. As Graeber's framework emphasizes, value must be recognized through measurement to become actionable, while unmeasured performance is effectively valueless to the acquisition system.[45]

Factor 3: Trust—Can Parties Trust Each Other to Manage Their Side?

Risk misalignment remains central to OBC challenges, with recognition that outcomes are often influenced by factors beyond supplier control. Current understanding shows a more layered perspective than earlier research phases captured. Practitioners now draw clear distinctions between products (where the supplier exercises higher control) and services (where control is shared), while recognizing that supplier control depends significantly on buyer readiness and governance capability.

Empirical research on OBC risk perception validates this nuanced view. Bohm et al 2016 multi-industry survey of 259 buyers and sellers,[46] found that OBCs generally tend to shift risk toward the seller; however, on average, sellers do not perceive economic OBCs as more risky than availability OBCs, suggesting that the increased operational responsibility is offset by the stronger incentive alignment and the greater flexibility eOBCs provide. The critical exception occurs with high product innovativeness: in those conditions sellers associate significantly higher risks with eOBCs, because they lack accumulated experience deploying innovative offerings in customers' specific processes.[47] For federal acquisition, this means that the trust factor is not static—it must be assessed relative to the maturity and complexity of the underlying systems, and not assumed from the contract form alone.

Deeper analysis of lifecycle control across design, delivery, regulation, supply chain, and disposal has emerged, along with explicit concern about over-shifting responsibility to buyers, potentially undermining OBC's core value proposition. The trust factor intersects directly with Graeber's theoretical insight that exchange is fundamentally communicative: the risk allocation structure in an OBC sends a signal about what each party believes about the other's capability and commitment.[48]

Empirical evidence from B2G research further illuminates this dynamic. In knowledge-based services, collaborative sharing behaviors, communication, feedback, and teaming, are highly correlated with perceptions of service quality, while unilateral customer-contribution behaviors are not.[49] This suggests that in OBC contexts, the collaborative dimension of value co-creation is more closely tied to quality perceptions than the extractive dimension. Firms and agencies that invest in the working relationship, visible, reciprocal collaboration, are more likely to realize the value OBCs are designed to produce.[50]

44. Finkenstadt, 2020; Finkenstadt & Zeithaml, 2020.
45. Graeber, 2001.
46. Böhm et al., 2016.
47. ibid.
48. Graeber, 2001.
49. Finkenstadt, 2020.
50. Vargo & Lusch, 2008; Finkenstadt, 2020.

Factor 4: Governance—Is There Governance Beyond Strict Contract Terms?

One of the clearest evolutions documented by this research was the growing emphasis on governance, as distinct from traditional contractual clauses. Participants acknowledged that acquisition professionals often default to rigid terms and conditions, that escalation structures and adaptive governance are poorly understood, and that OBCs require collaborative decision-making frameworks rather than compliance-heavy control mechanisms.

This reflects a shift from abstract "cultural change" language to concrete institutional design concerns, though institutional habits still pull contracts back toward compliance-driven structures. The theoretical framework helps explain this dynamic: governance is the institutionalized process for maintaining shared meaning, allowing the social process that produces value to continue throughout performance rather than calcifying at award. Joint governance boards, periodic performance reassessment, data transparency mechanisms, and structured renegotiation triggers are not administrative overhead; they are essential to preserving the contract's value narrative.[51]

SDL reinforces this point: because value is co-created and phenomenologically determined by the beneficiary, governance mechanisms must allow both parties to continuously recalibrate what "success" means as circumstances evolve.[52] Furthermore, the empirical evidence on performance management reveals a systemic value recognition failure: GAO has consistently found that past performance records are rife with untimely, incomplete, and inconsistent ratings; this reflects not merely an administrative problem, but a breakdown in the system's ability to make value visible and consequential for future decisions.[53]

Factor 5: Oversight—Can Oversight Be Balanced with Room to Innovate?

The roundtable revealed a fundamental tension between commercial flexibility (post-award refinement) and the government's preference for full pre-award definition. Current findings emphasize the need for adaptive governance and joint accountability while managing the risk that wrong metrics can distort behavior, especially in complex environments.

AI integration introduces new complexity, but participants demonstrated practical realism about current limitations, emphasizing the need for human-in-the-loop decision authority and workforce capability across builders, users, and validators. The oversight factor embodies the broader challenge of maintaining a contract's original value narrative over time, a challenge that requires leaders to ask different diagnostic questions, ones that test whether the agreement will actually transmit the value it was designed to carry.[54]

Key Insight: *The analysis shows that understanding has improved significantly over the past eight months. The conversation has shifted from defining the concept to determining how it can be implemented within organizations. However, the main barrier remains: organizational capability. Without systematic investment in workforce development, governance infrastructure, and data maturity, OBCs risk becoming a relabeled fixed-price model rather than a transformative contracting approach.*

51. Finkenstadt, 2026.
52. Vargo & Lusch, 2008.
53. Finkenstadt, 2020.
54. Finkenstadt, 2026.

Special Topic—AI's Impact on OBC Management

Artificial intelligence (AI) is emerging as a transformative force in OBC management, though adoption remains cautious and strategic. AI receives dedicated treatment in this report, as a cross-cutting finding that intersects with multiple OBC success factors. Based on data collection across interviews, focus groups, the survey, and the roundtable, this section addresses current applications, opportunities, risks, and practitioner perspectives.

Current Applications and Opportunities

Current applications focus on enhanced data analysis for outcome definition, accelerated solution development, and improved market research capabilities. AI tools show particular promise in several areas directly relevant to OBC success:

- Automated reporting against outcome metrics, reducing the administrative burden of performance monitoring
- Predictive analytics for performance trends, enabling earlier identification of outcome delivery risks
- Natural language processing for contract analysis, improving the quality and consistency of outcome definitions
- Enhanced data analysis capabilities that could significantly strengthen the measurement frameworks upon which OBC success depends

These applications align with broader trends in the contracting profession. The CCM Institute's AI in Contracting 2026 survey[55] of 518 global contracting professionals found that practitioners see the greatest value for AI in risk assessment and compliance (65 percent), contract performance monitoring (60 percent), and contract generation (55 percent). Interest drops sharply for negotiation support (29 percent), indicating that judgment, context, and relationship management remain firmly in the domain of human expertise. This pattern maps directly onto OBC management. AI is well suited for structured, repeatable measurement tasks such as tracking outcome metrics and flagging performance deviations; however, the collaborative governance decisions that distinguish OBCs from traditional contracts—such as interpreting outcome data jointly with vendors, determining whether an outcome has been meaningfully achieved, and adapting performance frameworks as conditions change—require the kind of contextual judgment that practitioners themselves remain unwilling to delegate.

A critical challenge for AI-enabled OBC management, however, is not the sophistication of the AI tools themselves but the quality and intentionality of the data they rely on. This report's research consistently identified data as a foundational barrier, a finding reinforced by the GDSD (Goals–Decisions–Signals–Data) model developed by Finkenstadt, Handfield, and Guinto.[56] The GDSD model argues that in a data-saturated environment, organizations must resist the instinct to begin with observation (i.e., collecting all available data) and instead start with the intended outcome. The model's logic proceeds in four steps: define the goal, identify the decisions required to achieve it, determine what signals would inform those decisions, and only then specify the data needed to generate those signals. Data that does not connect to a decision-relevant signal is noise, regardless of how easy it is to collect.

55. CCM Institute. (2026). *AI in Contracting 2026: From Experimentation to Impact.* Commerce & Contract Management Institute. Supported by Icertis.
56. Finkenstadt, D.J., Handfield, R. & Guinto, P. (2022). "How Firms Can Plan for Risk in a Data Saturated World: The Goals, Decisions, Signals, Data (GDSD) Model." *California Management Review Insights.*

This framework has direct implications for how agencies should structure AI-enabled performance monitoring in OBCs. For example, an agency managing an outcome-based contract for fleet readiness should not begin by feeding every available maintenance record and logistics data point into an AI system. It should begin by defining the readiness outcome, identifying the governance decisions that will be required during performance (such as whether to adjust maintenance intervals, reallocate resources, or invoke adaptive contract mechanisms), determining what signals would inform those decisions (such as trends in mission-capable rates or leading indicators of parts shortages), and then specifying the data streams needed to produce those signals. Without this intentional structure, AI-enabled analytics risk producing what the GDSD model's authors observed during the federal government's COVID-19 response: an abundance of data that generated impressive visualizations but failed to support the actual decisions responders needed to make.[57]

The GDSD framework also reinforces a finding from the Factor 2 analysis (Data): the data infrastructure for OBCs represents not merely an administrative requirement, but the mechanism through which value becomes visible. When the data foundation is weak and fragmented across systems, inconsistent in format, or disconnected from the outcome hierarchy, AI amplifies rather than solves the problem. Agencies that invest in AI for OBC management without first establishing a goal-aligned data strategy risk automating confusion rather than generating insight.

Risks and Limitations

Practitioners emphasize critical limitations that must be addressed. Data quality remains foundational: *"Bad data leads to bad AI,"* as a roundtable participant noted. The technology introduces risks of algorithmic bias in performance evaluation and requires substantial workforce development for builders, users, and validators.

57. ibid.

The CCM Institute's AI in Contracting 2026 survey[58] provides quantitative evidence for these concerns. Security and privacy remain the top barrier to AI adoption, cited by 68 percent of respondents. This figure that has risen each year since the survey began tracking it in 2024. Data output quality, including the risk of AI-generated errors and hallucinations, is the second-highest barrier at 55 percent, also rising year over year. Critically, over-reliance on AI emerged as the most pronounced area of worsening concern: a majority of practitioners reported that conditions around over-reliance had deteriorated since AI implementation began, reinforcing concerns that human judgment is being diluted rather than augmented. For OBC management, where outcome interpretation inherently involves subjective assessment and collaborative negotiation between buyer and supplier, this risk is particularly acute. An AI system that flags an outcome as "not met" based on quantitative thresholds may miss contextual factors, such as buyer-caused delays or force majeure conditions, that a governance board would weigh in its assessment.

The survey also documents a meaningful gap between individual and institutional readiness. While organizational enthusiasm for AI surged from 36 percent to 56 percent between 2025 and 2026, personal enthusiasm among practitioners moderated from 77 percent to 70 percent. This is not because of disengagement, but because hands-on experience has exposed the governance gaps, data limitations, and ethical questions that abstract enthusiasm does not address. This enthusiasm gap mirrors a pattern that CCM's OBC research identified independently: individual practitioners are often ahead of their institutions in understanding both the potential and the limits of outcome-based approaches, while the organizational infrastructure of governance frameworks, cross-functional coordination, data discipline still lags behind. AI adoption in OBC management faces the same structural challenge: individual tools may be powerful, but institutional maturity determines whether they produce insight or dysfunction.

The AI survey further found that adoption is frequently driven by personal initiative rather than enterprisewide strategy. When AI tools are adopted in silos (i.e., a contracting officer using one tool, a program manager using another, a financial analyst using a third) the result is fragmented intelligence rather than the integrated performance picture OBCs require. As the survey report concluded, AI thrives where processes are coherent, data is structured, and decision rights are clear; many contracting environments offer the opposite—fragmented ownership, inconsistent practices, and poor lifecycle visibility. This diagnosis applies with full force to OBCs, where successful outcome delivery depends on cross-functional alignment between acquisition, program management, finance, and operational stakeholders.

Most importantly, human judgment remains essential for governance decisions, with AI serving as a decision-support tool rather than a replacement for collaborative oversight. The integration of AI into OBCs presents both opportunities and complexities. While offering pathways to more sophisticated outcome measurement and performance monitoring, successful AI implementation requires robust cybersecurity controls, misinformation safeguards, and a clear human-in-the-loop authority structure that preserves the collaborative governance essential to OBC success.

58. CCM Institute, 2026.

The risk of over-reliance on AI is compounded by what Jessica Tillipman identifies[59] as automation bias in the federal procurement context: the tendency for acquisition professionals to defer to AI-generated outputs rather than independently evaluate them, particularly under the severe time and resource pressures that characterize the current workforce environment. In OBC governance, this dynamic is especially consequential. When an understaffed program office receives an AI-generated performance assessment indicating that an outcome has been met or missed, the institutional incentive is to accept the output and move forward, not to interrogate the methodology or weigh contextual factors that the system may not have captured. This converts what was designed as decision support into de facto decision replacement, precisely the failure mode that collaborative OBC governance is meant to prevent.

A related and largely unaddressed risk involves what Tillipman terms "nested opacity."[60] When agencies procure AI tools from commercial vendors, tool architecture, training data, and internal decision logic are frequently shielded by commercial licensing terms. This creates a compounding problem: technological complexity makes the system's reasoning difficult to examine, and contractual restrictions make it impermissible to try. For OBCs, this risk is particularly acute. If an agency relies on a vendor's proprietary AI system to assess whether contract outcomes have been achieved, and the basis for that assessment cannot be reconstructed or challenged, the collaborative performance review process that distinguishes OBCs from compliance-driven models is undermined at its foundation. Agencies deploying AI for OBC performance monitoring should secure contractual rights sufficient to understand how the tool applies outcome criteria and to question, override, or reject its outputs when governance judgment warrants.[61]

Special Topic—The urgent need for Contract Governance training

The transition to outcome-based contracting exposes a critical capability gap in the U.S. public sector acquisition workforce: the fundamental misunderstanding between contract management and contract governance. This section makes a forceful case, grounded in the report's research findings, for a workforce development imperative.

Contract management focuses on administrative compliance and transactional oversight. **Contract governance** demands strategic relationship management, adaptive problem-solving, and collaborative outcome interpretation throughout the contracting lifecycle. This distinction is poorly understood across government contracting professionals, creating a workforce development challenge that threatens OBC success.

This research reveals that in the outsourcing and services sectors, administrative performance measures dominate: cycle time emerges as the top performance measure at 50 percent, while monitoring customer satisfaction ranks at 45 percent and supplier satisfaction at 40 percent. However, critical governance capabilities receive significantly less attention, collaborative compliance monitoring stands at only 20 percent, and joint risk management at just 15 percent,[62] highlighting the administrative bias in current practices.

59. Tillipman, J. (2026). "Abdicated Judgment: AI Tools and the Future of Reasoned Decision-Making in Federal Procurement." Notice & Comment, *Yale Journal on Regulation* (Symposium on AI and the APA).
60. ibid.
61. ibid.
62. Source: World Commerce & Contracting data.

OBCs require contracting professionals to master entirely new competencies: managing contractual ambiguity, facilitating joint problem-solving sessions, interpreting outcome data collaboratively with vendors, and maintaining strategic alignment as requirements evolve. These governance behaviors extend beyond OBCs to any outcomes-based requirement, regardless of contract vehicle type.

The need for governance training is further reinforced by the theoretical insight that governance mechanisms are not administrative overhead, but rather institutionalized processes for maintaining shared meaning throughout contract performance. Without governance capability, the value narrative that animates an OBC at award will inevitably drift toward compliance-driven proxies, precisely the failure mode OBCs were designed to correct.[63] SDL's co-creation premise underscores this: because value emerges through joint interaction rather than unilateral delivery, the governance workforce must be equipped to manage collaborative relationships, not merely enforce contractual compliance.[64] The empirical evidence further confirms that collaborative sharing behaviors are the dimension of co-creation most closely associated with quality perceptions in B2G contexts, suggesting that training investments in relationship management will yield direct returns in outcome quality.[65]

The federal government should invest immediately in comprehensive training programs, develop governance-specific competency frameworks, and restructure acquisition career paths to emphasize relationship management and strategic thinking over purely administrative functions.

63. Finkenstadt, 2026.
64. Vargo & Lusch, 2008.
65. Finkenstadt, 2020.

Part III—Recommendations, Limits, and Next Steps

A Refined Definition of OBCs

Based on the research, this report defines OBCs as follows:

Extended Definition: *"The essence of outcome-based contracts lies in shifting focus from 'how work is done' to 'what results are achieved.' Suppliers are given flexibility in methodology and approach while being held accountable for delivering agreed-upon outcomes through clear performance metrics, risk-sharing arrangements, and adaptive frameworks that encourage innovation and continuous improvement. Payment structures are contingent upon successful delivery of these outcomes, creating aligned incentives that drive both parties toward shared strategic objectives."*

Alignment with the FAR Companion Guide

The new definition demonstrates strong conceptual alignment with the updated Federal Acquisition Regulation (FAR) Companion Guides, particularly in their shared emphasis on results-oriented contracting approaches. However, there are important distinctions in scope, implementation mechanisms, and regulatory context.

Core Alignment Areas:

- **Focus on Results over Process:** Both the OBC definition and FAR guidance emphasize shifting from prescriptive "how" instructions to outcome-focused "what" requirements. The extended definition's emphasis on shifting focus from how work is done to what results are achieved directly mirrors the FAR Part 11 Companion Guide's recommendation for outcome-oriented need statements rather than overly prescriptive technical instructions.
- **Supplier Flexibility and Innovation:** The OBC definition's provision for flexibility in methodology and approach aligns with the FAR's encouragement of strategic partnerships and collaboration. Both frameworks recognize that allowing suppliers discretion in execution methods can drive innovation and improve performance outcomes.
- **Performance Accountability:** The definition's emphasis on clear performance metrics and accountability for delivering agreed-upon outcomes corresponds with FAR Part 37 guidance on performance-based and outcome-oriented approaches, and the importance of documenting expectations and planning for performance oversight.

Key Contrasts and Distinctions:

- **Payment Structure Mechanisms:** The OBC definition above explicitly states that payment structures are contingent upon successful delivery of outcomes, representing a fundamental shift in financial risk allocation. The FAR guidance, while supporting PBCs, operates within existing federal payment frameworks that may not fully embrace contingent payment models due to regulatory and budgetary constraints inherent in government contracting rules.
- **Risk-Sharing Arrangements:** The definition's inclusion of risk-sharing arrangements suggests a more collaborative risk distribution model than typically found in traditional government contracting. Federal acquisition rules generally maintain clearer delineations of risk responsibility.
- **Adaptive Framework Implementation:** While the OBC definition promotes adaptive frameworks that encourage innovation and continuous improvement, government contracting must balance adaptability with accountability requirements, compliance obligations, and standardized processes that may limit the degree of framework flexibility.

Implementation Considerations for U.S. Public Sector

Based on this analysis, U.S. public sector agencies should consider:

- **Leveraging FAR Flexibility:** Utilize the outcome-oriented guidance in Parts 11 and 37 to structure requirements that embrace OBC principles within existing regulatory boundaries.
- **Graduated Implementation:** Begin with pilot programs and modular approaches, as suggested in the FAR guidance, to test OBC principles before full-scale deployment.
- **Enhanced Industry Engagement:** Use the FAR's recommendation for early industry engagement to better understand how suppliers can deliver outcomes within government contracting constraints.
- **Performance Framework Development:** Develop robust performance measurement systems that satisfy both OBC accountability requirements and government oversight obligations.

Regulatory constraints remain significant. The FAR Companion Guides operate within existing regulatory frameworks that may not fully accommodate all OBC principles. Federal appropriations law and anti-deficiency requirements may limit the extent to which payment can be made truly contingent on outcomes. Government contracting often requires additional layers of oversight, reporting, and compliance measurement that may complicate the streamlined performance focus described in the OBC extended definition. Government agencies must also balance multiple stakeholder interests and public accountability requirements that may not exist in private sector OBC implementations.

Policy Recommendations

Recommendation 1: Elevate Outcomes to the Requirements Stage—Update FAR Part 11 Guidance

The FAR Part 11 Companion Guide[66] reflects meaningful progress toward performance-oriented acquisition. It encourages modular strategies, rapid capability integration, performance-based specifications, and collaborative requirements development. However, by positioning OBCs as a contracting approach rather than as a requirements discipline, the guidance may reinforce a critical misunderstanding: that outcomes are a contract feature, rather than a strategic starting point.

What distinguishes true OBCs from traditional PBCs is not contract form, it is the elevation of outcomes to the earliest stage of requirements development. Outcomes must be defined before acquisition planning, before market research, and before contract structure is selected. The contract vehicle, whether modular, milestone-based, or traditional, is a tool in service of the outcomes strategy, not the strategy itself.

Part 11 correctly encourages flexibility and innovation. The Guide could advance from current practices by positioning OBCs as more than a contract drafting tool. Part 11 can emphasize that defining outcomes is a fundamental requirements responsibility. By establishing outcomes at the requirements stage, organizations can ensure that acquisition planning, performance metrics, governance structures, and incentives are aligned from the start, making strategy the driver of contract design rather than an afterthought.

66. Federal Acquisition Regulation, 48 C.F.R. Part 11 (2025).

This approach aligns with WorldCC's contracting lifecycle framework, where strategy defines the commercial models and commitments that guide transactional contracting activities. The lifecycle demonstrates that effective contracting begins with strategic clarity, which then informs the design, evaluation, assembly, and approval phases that follow.

This recommendation is grounded in the value architecture framework: organizations that invest in value articulation at the requirements stage, defining the desired outcome first, establishing how success will be recognized, and aligning incentives with that recognition, produce strategically strong agreements. By serving the value narrative rather than replacing it, the contract document fulfills its real function.[67] As currently framed, the guidance risks producing the opposite: practitioners may treat OBC as a contracting technique rather than a strategic orientation.

SDL's foundational premise that value is phenomenologically determined by the beneficiary reinforces this urgency: outcomes must be defined in terms of results that matter to end users, not activities performed by contractors. Zeithaml's integrative conception of value, the total balance of benefits received against all sacrifices made, further argues that requirements framed around outcomes naturally encompass the full value equation, whereas task-based requirements capture only the input side.[68] Elevating outcomes to the requirements stage is not merely a procedural improvement; such elevation creates the precondition for aligning the entire acquisition to actual value.

Recommendation 2: Expand OBC Scope by Repositioning Guidance in the FAR—Move OBCs from Part 37 to Parts 2 and 16[69]

The existing placement of OBC guidance within FAR Part 37 (Service Contracting)[70] can lead to a fundamental misconception about the scope and applicability of outcome-based contracting approaches. This positioning may inadvertently restrict practitioners' understanding of OBCs as exclusively service-oriented mechanisms, when research evidence demonstrates their broader utility across diverse contract categories.

Comprehensive research conducted with acquisition organizations, including specialized deal teams, reveals that outcome-based contracting structures successfully operate across multiple contract types beyond services, including production and manufacturing contracts, construction and infrastructure projects, and various other specialized contract categories. This evidence contradicts the narrower implication that current FAR placement encourages.

This report recommends a two-part repositioning:

- **FAR Part 2 (Definitions):**[71] Establish the fundamental OBC definition within FAR Part 2, which houses core acquisition terminology. This placement would establish OBCs as an enterprise-wide contracting concept, signal universal applicability across all government acquisition activities, and provide foundational understanding for all acquisition professionals.
- **FAR Part 16 (Types of Contracts):** Place the detailed description of when and how to structure OBCs in FAR Part 16,[72] the natural home for contract structure and design guidance where practitioners already look for vehicle selection decisions.

67. Finkenstadt, 2026.
68. Vargo & Lusch, 2008; Zeithaml, 1988.
69. Federal Acquisition Regulatory Council. (2025, September 9). *FAR overhaul | New FAR Companion Guide*. U.S. General Services Administration. https://www.acquisition.gov/content/far-overhaul-new-far-companion-guide.
70. Federal Acquisition Regulation, 48 C.F.R. Part 37 (2025).
71. Federal Acquisition Regulation, 48 C.F.R. Part 2 (2025).
72. Federal Acquisition Regulation, 48 C.F.R. Part 16 (2025).

This repositioning would fundamentally reframe OBCs from a specialized services technique to a comprehensive contracting philosophy with universal government acquisition applicability. The restructuring acknowledges that outcome-based approaches represent strategic contracting options available across the complete spectrum of federal procurement activities, rather than applications limited to service contracts.

Recommendation 3: Develop and Pilot OBC Governance Training Across Federal Procurement

This report's research consistently surfaces a critical workforce gap: acquisition professionals lack the training, competency frameworks, and institutional support to develop and execute contract governance management plans, the very plans that make OBCs viable.

Recommendations include:

- Develop a dedicated OBC governance training curriculum that covers governance plan development, relationship management, joint performance review facilitation, adaptive decision-making, and outcome interpretation.
- Pilot this training across federal procurement organizations, beginning with agencies that have expressed interest in or have already attempted OBC approaches.
- Expand the training should beyond contracting officers, to reach program managers, contracting officer representatives, requirements owners, financial oversight staff, and industry partners who together form the governance ecosystem.
- Use pilot results to refine the curriculum and build the case for enterprise-wide adoption.

The absence of governance capability is the single largest barrier to OBC success, and no amount of policy guidance will compensate for a workforce that has never been taught how to govern an outcomes-based relationship.

Recommendation 4: Partner with GSA and Other Agencies to Develop a Portfolio Prioritization Schema for OBC Strategy

The current approach to OBC guidance reflects an understandable but limiting instinct: start with what is closest and most visible. The placement of OBC guidance in FAR Part 37 signals that the government's initial priority is professional services contracting, to the "gators nearest the boat." While professional services are a logical starting point, the conversation should address to the entire acquisition portfolio.

Recommendations include:

- GSA, DoD, and other major procurement agencies should partner to develop a structured prioritization schema that identifies which portfolio segments are most suitable for outcomes-based strategy enforcement, and in what sequence.
- The schema should assess portfolio segments against the five critical success factors (Requirements, Data, Trust, Governance, Oversight) to determine readiness and potential impact.
- Agencies should move beyond the reflexive focus on professional services to evaluate production contracts, IT modernization, facilities and construction, logistics, and other major spending categories for outcomes-based strategy applicability.
- The prioritization schema should help leadership make informed, strategic decisions about where to enforce outcome-based strategy as the preferred approach—not as a one-size-fits-all mandate, but as a deliberate, portfolio-by-portfolio rollout that matches ambition to institutional readiness.

This effort ensures the government does not inadvertently constrain a powerful concept by associating it only with the contract types that happened to receive attention first. The approach aligns with the contracting lifecycle framework, where strategic decisions should inform transactional execution across all phases from design through performance management. Rather than applying OBC as a universal mandate, this methodical rollout would match implementation ambition with institutional capabilities, ensuring sustainable adoption while maximizing the government's return on contracting excellence investments across diverse acquisition categories.

Empirical research provides concrete guidance for this schema. Bohm et al[73] demonstrate that the optimal OBC form depends on contextual conditions: economic OBCs should be preferred for established, well-understood systems in technologically turbulent environments, while availability OBCs provide more appropriate risk boundaries for innovative or emerging technologies. Incorporating these contextual moderators (alongside the five critical success factors) into the prioritization schema would give leadership an empirically grounded basis for matching OBC type to portfolio segment characteristics.

Recommendation 5: Structure Contracts to Enable Low-Risk OBC Piloting Through Option Mechanisms

One of the most significant barriers to OBC adoption in the public sector is the perceived risk of committing to an untested approach. To address this challenge, this report recommends implementing two proven contract structuring methods that leverage option periods to create safe, reversible OBC pilots.

Method A—Mid-Flight Conversion via Negotiated Option: For contracts already in performance, teams can add an option period to the end of the existing contract and negotiate a conversion of the nearest-term option to an OBC approach. Under this approach, the buyer and seller teams would pilot the OBC model for that option term. If the pilot fails, both parties would revert to the original contracting method for the remainder of the contract. The incentive for the contractor to participate at low or no additional cost is a guaranteed additional option period, a carrot that rewards success if the OBC works well—and it provides a recovery runway if the OBC period is a difficult experience. This approach lets teams experiment with OBCs on a live contract without jeopardizing the base relationship.

73. Böhm et al., 2016.

Method B—Parallel Option Tracks at Initial Award: For new contract awards, the government can build parallel option period structures into the contract from the outset. Under this approach, each option period would offer two tracks: a traditional or performance-based track and an OBC track. At the end of each performance year, the buyer and seller would mutually agree on which track to exercise for the next period. This structure provides built-in flexibility and easier offramps; if the OBC track underperforms or conditions change, the parties simply select the traditional track for the next period without requiring a contract modification or re-competition.

Both methods lower the stakes of OBC experimentation. They give practitioners a way to learn by doing, build governance muscle, and generate the performance data needed to assess OBC viability, all within existing contracting authorities and without betting the entire contract on an unfamiliar model. These mechanisms significantly reduce implementation risk by providing built-in flexibility and clear exit strategies, while incentivizing contractor participation through guaranteed additional option periods.

The value of these strategies lies in their operational practicality. They allow organizations to test the waters of outcome-based contracting without diving headfirst into unfamiliar territory. By taking measured steps, contracting professionals can build confidence, refine their approach, and make informed decisions about broader OBC implementation based on real-world evidence rather than theoretical assumptions.

Limitations of This Research

This study has several important limitations. While the research draws on insights from seasoned federal contracting professionals and subject-matter experts, the participant groups do not fully capture the wide range of government agencies, contract categories, or procurement contexts found throughout the U.S. federal system. Therefore, the results should be viewed as providing general direction and trends rather than definitive conclusions that apply universally across all government contracting situations.

Furthermore, federal policies governing OBCs, especially those found in supporting Federal Acquisition Regulation (FAR) materials, were still evolving while this research was conducted. This means that some of the policy interpretations presented may change as guidance continues to develop.

Lastly, since OBC implementation varies significantly from one agency to another, there is still insufficient empirical data from actual contract performance to conduct comprehensive long-term analysis. This uneven adoption pattern limits capacity to draw firm conclusions about performance trends over extended period.

Next Steps—Phase II Research

This report represents the completion of Phase I in our collaborative research program. Moving forward, the CCM Institute has identified a comprehensive Phase II research agenda designed to build upon these foundational findings and provide practical implementation guidance for the U.S. public sector.

Phase II, Objective 1: Comprehensive OBC Case Study Analysis

The first research objective focuses on developing an extensive repository of real-world OBC implementations through detailed case study analysis. This comprehensive examination will encompass:

- Documentation of OBC applications across both government and private sector environments, capturing the full spectrum of implementation experiences including successful deployments and unsuccessful attempts.
- Analysis spanning diverse contract categories including service delivery agreements, production contracts, and construction projects.
- Cross-agency examination to demonstrate the versatility and adaptability of OBC approaches across different organizational contexts.
- Each case study should analyze which of the five critical success factors were present or absent and how that influenced outcomes.
- Integration of international case studies where relevant to establish comparative performance benchmarks and identify best practices from global implementations.

Phase II, Objective 2: Practical OBC Decision Framework

The second objective centers on creating a structured decision-support tool that will enable acquisition professionals to make informed determinations about OBC suitability and design. This framework will provide:

- A systematic methodology for evaluating whether an OBC approach aligns with specific acquisition requirements and organizational contexts
- Guidance for conducting comprehensive assessments of the five critical success factors within particular procurement scenarios
- Clear criteria to help practitioners distinguish between situations calling for outcomes-based requirements fulfilled through traditional vehicles versus situations warranting a specially structured OBC.
- Development of practical, user-friendly tools that can be readily adopted by acquisition professionals
- Integration capabilities designed for incorporation into existing workforce development programs and agency procurement guidance
- Actionable recommendations that bridge the gap between theoretical understanding and practical application

This Phase II research initiative will provide the U.S. public sector with both the empirical evidence and practical tools necessary to make informed decisions about OBC implementation, ultimately supporting more effective and efficient government contracting outcomes.

CONCLUSION

OBCs represent a major shift in how U.S. federal agencies approach procurement. They move contracting away from detailed input requirements and process compliance toward measurable results and mission outcomes. This change is not simply procedural; it requires rethinking how contracts are designed, managed, and evaluated across the entire lifecycle.

The research presented in this report shows that successful OBC implementation depends on five core areas: outcome-focused requirements, strong data capabilities, trust-based collaboration, effective governance structures, and accountability centered on results. Regulatory flexibility alone is not enough. Agencies must build workforce skills, strengthen cross-functional coordination, and redesign governance practices to support performance-driven relationships.

The theoretical foundation established in this report reinforces a fundamental point: Contracts are not paperwork; they are value architecture. Every requirement, incentive, and performance metric makes a statement about what the parties believe matters. When that statement faithfully represents the underlying purpose of the agreement, the contract fulfills its real function. When the document replaces the value narrative rather than serving it, even technically compliant contracts can fail to deliver intended outcomes.[74]

The convergence of Graeber's anthropological insight, Zeithaml's perceived value framework, and Service-Dominant Logic yields a consistent message: value emerges through action, is co-created through interaction, is perceived rather than objective, and must be recognized through measurement to become actionable. The empirical evidence demonstrates that procurement professionals understand this intuitively, and they value quality and outcomes over price by substantial margins when given meaningful signals about likely results.[75] The practical imperative is a shift from buying tasks and things to buying outcomes and valuing them appropriately, defining requirements in terms of results, evaluating proposals based on outcome achievement potential, structuring contracts that align payment with results, and measuring what matters.

OBCs are not just a contracting technique. They are an institutional capability. To achieve measurable mission impact, federal agencies must invest in the governance, skills, and alignment necessary to turn outcome ambitions into sustained operational success.

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Disclosure: Use of Artificial Intelligence in Document Preparation

Portions of this document were prepared with the assistance of LLM. Specifically, AI was used to synthesize the foundational OBC research report into the structural framework established by the lead author's outline memorandum, and to integrate the authors' independent research on the theory of value in contractual relationships and on perceived value in government procurement with the policy recommendations developed from the research team's findings. All substantive analysis, research findings, policy recommendations, and intellectual contributions originate from the research team. The AI tool served as a drafting and synthesis aid; it did not generate original research, conduct independent analysis, or contribute novel conclusions. The lead authors reviewed, revised, and take full responsibility for all content presented in this report.

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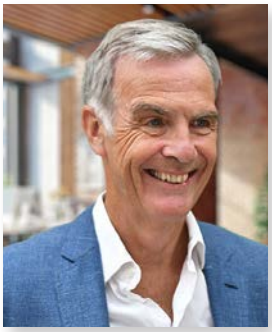

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Tim's inspiration came from a career (1974-1999) in Finance and Commercial Management, spanning multiple countries and the banking, automotive, aerospace and technology industries. These experiences provided insight to the critical role that commercial innovation plays in delivering business and social value.

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