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Outcome-Based Contracting:
What Works, What Doesn't, and What's Next

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Outcome-Based Contracting: What Works, What Doesn't, and What's Next

Daniel J. Finkenstadt, PhD—is Vice President of Research and Senior Fellow at the CCM Institute. He holds faculty appointments at George Mason University and the Johns Hopkins University Carey Business School. His research focuses on defense acquisition reform, perceived value in government procurement, and AI governance in public sector contracting. He is the author of Supply Chain Immunity (Springer Nature) and Bioinspired Strategic Design (Productivity Press) and has published in the Harvard Business Review, California Management Review Insights, and numerous peer-reviewed journals. He is a graduate of Naval Postgraduate School (MBA 2011) and a previous assistant professor of defense management at NPS (2020–2023).

Tim Cummins—serves as the Executive Director of the CCM Institute and as the President of World Commerce & Contracting. Until 2023, he was a Professor in the Law School at the University of Leeds (UK). For 25 years, Tim has led research and the development of standards for the Commercial and Contract Management discipline, an achievement that was recognized by the Financial Times "Market Shaper of the Year" award in 2019 and again in 2025. Over that time, Tim led development of the world's only international not-for-profit association dedicated to commercial and contract management, working with almost 100,000 members to improve the quality and integrity of trading relationships in both public and private sector.

Abstract

This research addresses a foundational question for defense acquisition leaders, namely, what are outcome-based contracts (OBCs), under what conditions should the Department of War employ them, and what institutional capacities must be in place for them to succeed? Drawing on a multi-phase, mixed-methods research design that included a comprehensive literature review, 14 semi-structured interviews with senior commercial and contract management professionals across eight countries, two practitioner focus groups (N = 34), a federal acquisition community survey, and an executive roundtable with 62 senior acquisition leaders, this study integrates both U.S. federal and global commercial perspectives to identify five critical success factors for OBC implementation: requirements definition, data sufficiency, inter-party trust, governance capability, and oversight balance. The theoretical foundation integrates Graeber's (2001) anthropological theory of value, Zeithaml's (1988) perceived value framework, Vargo and Lusch's (2004, 2008) Service-Dominant Logic, and empirical research on perceived service quality in business-to-government settings (Finkenstadt, 2020). A central finding is that outcome-based strategy and outcome-based contracts are distinct constructs; conflating them produces implementation failure. The study offers five policy recommendations directed at defense acquisition leadership, including FAR repositioning, governance training investment, portfolio prioritization, and structured low-risk piloting mechanisms.

Keywords: outcome-based contracting, defense acquisition, performance-based contracting, value co-creation, contract governance, Federal Acquisition Regulation

Introduction

Interest in outcome-based contracting approaches is increasing across both defense and civilian agencies, yet confusion persists about what outcome-based contracts (OBCs) actually mean and how to implement them effectively. Agencies want measurable results, but the acquisition workforce lacks clear definitions, practical guidance, and the institutional infrastructure to support a shift from paying for inputs and activities to paying for demonstrable mission outcomes.

OBCs represent a fundamental shift from traditional procurement 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 defense environments where requirements evolve rapidly and prescriptive specifications can hinder effective responses from both program offices and their industry partners.

The CCM Institute, the joint research arm of NCMA and WorldCC, led this research initiative with a clear objective: to clarify what OBCs are (and what they are not), to distinguish outcome-based strategy from outcome-based contract structure, and to identify the practical conditions that the Department of War must establish for successful OBC implementation. The research drew on the CCM Institute's expertise in commercial contracting, governance frameworks, and global benchmarking, integrating perspectives from both U.S. federal acquisition professionals and senior commercial practitioners across eight countries to ensure that findings reflect the full range of institutional contexts in which outcome-based approaches are being adopted.

A key finding is that outcome-based strategy and outcome-based contracts are not the same thing. Outcome-based strategy is a broader approach to mission delivery that focuses on measurable impact. Outcome-based contracting is a specific contractual structure that links compensation to defined results. Confusing these two constructs leads to poor implementation. Agencies must first adopt an outcomes mindset before they attempt to embed outcomes into contract structures.

The U.S. Government has recently issued guidance in the FAR Companion Guide (Parts 11 and 37) that, while well-intentioned, risks limiting the OBC concept and confusing the workforce. This research offers a corrective path. 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 paper proceeds as follows. The literature review establishes the theoretical and empirical foundations for understanding value in contractual relationships. The methodology section describes the five-phase, mixed-methods data collection effort conducted from Spring 2025 through February 2026, which incorporated both U.S. federal acquisition and global commercial contracting perspectives. The findings section presents the five critical success factors that emerged consistently across all data sources. Two special topics, AI's impact on OBC management and the urgent need for governance training, receive dedicated treatment. The paper concludes with five policy recommendations directed at defense acquisition leadership, a discussion of limitations, and a Phase II research agenda.

Literature Review

This section presents the theoretical and empirical foundations that guided the research design and informed the analytical framework. The review integrates anthropological theory of value, consumer perceived value research, Service-Dominant Logic, and empirical findings on perceived service quality in business-to-government procurement to establish a coherent lens for understanding why contracts can remain technically compliant while failing to deliver intended outcomes.

Contracts as Value Architecture

The anthropological theory of value developed by Graeber (2001) 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, they are registering a collective judgment about which human actions matter. Applied to contracting, this means that every requirement, deliverable, incentive, and remedy reflects a judgment about relative importance.

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 is therefore not the value itself; it is the vessel that preserves a shared understanding of value so that coordinated action can occur (Graeber, 2001).

Third, exchange is fundamentally communicative. When parties exchange goods, services, or obligations, they are sending a signal about what matters in their relationship. The terms of exchange are never neutral; they always express something about what both parties believe is worth doing. Every contract communicates a value hierarchy to everyone performing under it (Graeber, 2001).

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 it with something else. This theoretical lens helps explain the persistent challenge identified across our research, the tendency for contracts to drift from purpose toward compliance, even when both parties intend otherwise.

Perceived Value in Procurement

Zeithaml's (1988) seminal research on consumer perceived value established that perceived value is 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, value as getting what the buyer wants, value as quality relative to price paid, and value as the total balance of benefits received against all sacrifices made.

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. 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 what is invested and what results are achieved (Zeithaml, 1988).

Service-Dominant Logic and Value Co-Creation

Service-Dominant Logic (SDL), developed by Vargo and Lusch (2004, 2008), fundamentally reframes value creation in ways directly relevant to government services and OBC design. Four foundational premises are particularly consequential. First, service is the fundamental basis of exchange; all economies are service economies, and the underlying exchange is the application of knowledge and skills for the benefit of another party. Second, value is co-created by multiple actors, always including the beneficiary; providers cannot deliver value unilaterally but can only offer value propositions, with value emerging through joint interaction as providers and beneficiaries integrate resources.

Third, value is always uniquely and phenomenologically determined by the beneficiary, meaning it is idiosyncratic, experiential, and contextual. Fourth, operant resources (knowledge and skills rather than physical resources or labor hours) are the fundamental source of strategic benefit (Vargo & Lusch, 2004, 2008).

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. It would offer that 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 described in the FAR Companion Guide is not merely a contracting preference but a structural requirement for value realization (Vargo & Lusch, 2004, 2008).

Empirical Evidence on Quality, Value, and Procurement Choice

These theoretical frameworks receive direct empirical support from research on business-to-government (B2G) knowledge-based services. Research with more than 630 Department of War procurement professionals establishes a clear causal path from perceived quality through perceived value to procurement choice (Finkenstadt, 2020; Finkenstadt & Zeithaml, 2020).

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 is the single most important attribute, more than twice as important as price (Finkenstadt, 2020; Finkenstadt & Zeithaml, 2020).

Choice-based conjoint analysis reveals substantial willingness to pay for quality improvements. When comparing offers, procurement agents would trade off up to a 41% 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 (Finkenstadt, 2020).

Contracts as Three-Function Value Systems

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 (Finkenstadt, 2026). First, contracts capture value in the form of requirements, deliverables, incentives, and remedies that define what counts as worthwhile performance. Second, contracts communicate value, providing the structure sends a signal to every party performing 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. Third, contracts transfer value over time through payment schedules, acceptance criteria, data rights provisions, and risk allocation mechanisms that govern how value moves between parties as the agreement is executed.

When the contractual vessel leaks, when clauses accumulate that are disconnected from purpose or 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 are prioritized beliefs written in technical language (Finkenstadt, 2026).

The Contracting Spectrum and Narrative Drift

The contracting literature often presents a clean binary in which traditional contracts specify activity, outcomes-based contracts specify results. The reality is a spectrum, and where a contract sits on that spectrum determines how faithfully it transmits value (Finkenstadt, 2026). Traditional models specify tasks, inputs, and methods. The dominant signal to everyone

performing under them is to follow the instructions, and value is located in compliance with process. Outcomes-based models specify the final effects that matter and tie payment and evaluation to whether those effects are achieved.

Performance-based contracting was designed to occupy the productive middle, and in principle it does. But in practice, performance-based models have proven vulnerable to a failure mode structurally similar to the one they were designed to correct, in which the measures become the mission. Providers optimize for the metric, not the effect the metric was originally meant to capture. This is not cynicism or gaming; it is the natural behavioral response to what the contract signals is important (Finkenstadt, 2026). The practical implication is that performance-based contracting is a necessary but not sufficient reform.

Federal Acquisition Regulation Definition

The recently released 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."*

Empirical Evidence on OBC Type Selection

The research findings support the importance of distinguishing between availability outcome-based contracts (aOBCs) and economic outcome-based contracts (eOBCs). 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 (Bohm et al., 2016).

Availability OBCs are structured around ensuring the availability of a system, asset, or capability, with the contractor held accountable for readiness and uptime rather than discrete deliverables. Economic OBCs tie contractual outcomes to economic results such as cost savings, efficiency gains, or value delivered relative to investment. Both buyers and sellers attach significantly higher perceived benefits to eOBCs compared to aOBCs; however, on average, both forms are perceived as equally risky and perform equally well from both perspectives (Bohm et al., 2016).

The critical insight is that contextual conditions determine which form is superior. In technologically turbulent environments, buyers perceive significantly more benefits from eOBCs, making them the preferred option, and the corresponding risk increase for sellers in these conditions was found to be non-significant. When product innovativeness is high, aOBCs emerge as the better option because sellers associate significantly higher risks with eOBCs when they lack accumulated experience deploying innovative offerings in customers' specific processes (Bohm et al., 2016).

Illustrative Case: The F-35 Program

The F-35 Joint Strike Fighter program provides one of the clearest available illustration of what happens when contractual structure drifts from value. The program is the largest defense acquisition in history, with a projected lifecycle cost now estimated at over $2 trillion (GAO, 2025). The F-35's mission is air superiority, and its value to the warfighter is combat capability. For years, however, the program's contract incentive structure rewarded something different, specifically 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. 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%, against an 80% target (GAO, 2025).

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 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 (GAO, 2025). That is not a criticism of the contractors; it is a diagnosis of a contract that lost its value narrative.

Historical and International Precedents

Several historical and international cases reinforce the empirical foundations. Guajardo et al. (2012) analyzed 305 Rolls-Royce aircraft engines under the "Power by the Hour" model and demonstrated that OBCs were associated with a 25% to 40% increase in product reliability compared to traditional input-based contracting forms. Australian defense navy sustainment contracts focused on vessel readiness created a shared operational objective that strengthened collaboration and reduced compliance-oriented behavior. The United Kingdom's Social Value Act further embedded OBC principles through legislation integrating measurable social outcomes into public procurement. These cases confirm that outcome-based incentive alignment produces measurable performance improvements when the institutional conditions are in place.

Methodology

This study employed a multi-phase, mixed-methods research design to build a comprehensive evidence base from both the scholarly literature and the practitioner community, integrating U.S. federal acquisition perspectives with global commercial contracting experience. Data collection proceeded across five sequential phases from Spring 2025 through February 2026. The phased approach enabled iterative refinement of the research questions, with findings from each phase informing the design and focus of subsequent phases.

Phase 1: Literature Review (Spring 2025)

The research began with a comprehensive review of academic literature, practitioner publications, and policy documents on OBCs, performance-based contracting, and related frameworks. The review examined historical precedents and international examples to understand how outcome-based approaches have evolved in practice, and it helped 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 Graeber's (2001) anthropological theory of value, Zeithaml's (1988) research on consumer perceived value, and the Service-Dominant Logic framework developed by Vargo and Lusch (2004, 2008), we 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. This theoretical grounding was further informed by empirical research on perceived service quality and value in business-to-government knowledge-based services (Finkenstadt, 2020; Finkenstadt & Zeithaml, 2020),

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 defense acquisition context. Insights from early focus group discussions and global expert interviews further shaped our understanding, highlighting concerns around unclear definitions, measurement risk, workforce readiness, and cultural variation in contracting practice. This allowed us to establish the core analytical categories (Requirements, Data, Trust, Governance, and Oversight) that guided the subsequent survey and roundtable. Our literature review was supplemented in later stages by the publication of the FAR Companion Guides as part of the Revolutionary FAR Overhaul that included a discussion of OBCs in both parts 11 and 37.

Phase 2: Global Expert Interviews (June–September 2025)

Between June 10 and September 3, 2025, the CCM Institute conducted 14 semi-structured interviews with senior commercial and contract management professionals to capture global perspectives on OBC practice. This phase was designed to complement the U.S.-focused focus groups and survey by gathering insights from practitioners operating under diverse legal, regulatory, and cultural contracting regimes. Interviewees were drawn from 14 contract management executives in eight countries: the United States, United Kingdom, Australia, Japan, Ireland, Canada, France, and Colombia. All held senior or executive-level positions, including Chief Legal Officer, Executive Vice President, Managing Director, Commercial Director, Head of Contract and Business Management, and senior leaders in procurement, supply chain, and contract management.

The interviews explored core topics including how practitioners define and distinguish OBCs from performance-based contracts, real-world implementation experiences across sectors (infrastructure, aerospace and defense, technology, consulting, and public services), perceived benefits and barriers, risk allocation and governance challenges, and the role of trust and organizational culture in sustaining outcome-oriented relationships. The geographic and functional breadth of this sample enabled us to identify patterns that transcend any single national procurement framework and to test whether the critical success factors emerging from U.S.-focused data held across diverse institutional contexts.

Phase 3: Focus Groups at NCMA World Congress (July 2025)

We organized two guided focus group sessions at NCMA World Congress in Grapevine, Texas, with 19 participants in the first group and 15 in the second, all senior U.S. procurement leaders. These sessions explored core topics including OBC definitions, hands-on implementation 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 the broader data gathering effort.

Phase 4: OBC Survey (Fall 2025)

On September 1, 2025, we deployed a comprehensive OBC survey within the federal acquisition community. This quantitative and qualitative research instrument aimed to confirm and build upon findings from the literature review, global expert interviews, and focus groups. The survey collected information about current OBC usage, perceived benefits, implementation obstacles, and areas requiring additional support. This approach enabled us to validate initial

findings across a larger population and gain deeper insights into how practitioners actually experience outcome-based contracting methods in their daily work.

Phase 5: Executive Roundtable at NCMA Nexus (February 2026)

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

Findings

This section synthesizes all data collected from Spring 2025 through February 2026 into a coherent narrative organized around five critical success factors and two special topics. These factors consistently emerged across the literature, global expert interviews, focus groups, survey, and roundtable discussions, forming a consolidated, evidence-based foundation for effective OBC design and execution that reflects both U.S. federal acquisition and international commercial contracting perspectives. The core message is clear. If the answer is “no” on any of these five factors, the OBC model will struggle.

Factor 1: Requirements

The first and most fundamental question is whether the desired outcomes can actually be articulated in a way that is measurable, attributable, and contractually actionable. Our 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.” By the roundtable phase, the discourse had shifted from definitional confusion to institutional design complexity.

Practitioners now focus on more sophisticated questions. They ask what parts of outcomes are genuinely within supplier control, what buyer actions materially affect success, and how uncertainty should be structured within the requirements framework. The theoretical framework 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 (GAO, 2025; Graeber, 2001).

The global expert interviews reinforced this finding while adding important nuance around the spectrum of requirements precision. Interviewees distinguished between two OBC types: availability OBCs, which feature clearly defined and measurable outcomes such as 95% system uptime, and economic OBCs, which involve broader goals that are harder to quantify, such as reducing homelessness by 20%. This distinction maps directly to the requirements challenge. International practitioners noted that ambiguity in defining success metrics was the most common source of contractual disputes, and that external factors often influence outcomes beyond supplier control, making requirements definition inseparable from the governance and trust factors discussed below.

Factor 2: Data Sufficiency

Measurement difficulty remains a persistent barrier, but our research documents greater structural clarity around performance management. Practitioners now articulate specific design choices including 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." The empirical research on B2G procurement reinforces the stakes. When meaningful quality signals exist, procurement professionals demonstrate a strong capacity to distinguish value (Finkenstadt, 2020; Finkenstadt & Zeithaml, 2020). The data infrastructure for OBCs is not merely an administrative requirement; it is the mechanism through which value becomes visible and consequential.

Global interviewees corroborated this progression while highlighting a persistent structural barrier: baseline data is frequently unavailable or unreliable, particularly in sectors or regions where outcome-based approaches are being attempted for the first time. Several interviewees noted that without credible baselines, outcome targets become arbitrary, undermining the legitimacy of the entire measurement framework. International practitioners also identified AI and data analytics as increasingly important enablers of outcome measurement, with emerging applications in automated reporting against outcome metrics, predictive analytics for performance trends, and enhanced data analysis for measurement frameworks. The Schiphol Airport lighting-as-a-service contract with Philips was cited as an exemplar where continuous performance monitoring made data sufficiency a built-in feature of the commercial model rather than an afterthought. However, interviewees cautioned that technology alone does not resolve the underlying design challenge noting that organizations must first define what constitutes a meaningful outcome before instrumenting its measurement.

Factor 3: Inter-Party Trust

Risk misalignment remains central to OBC challenges, with recognition that outcomes are often influenced by factors beyond supplier control. 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) 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 when product innovativeness is high, where sellers associate significantly higher risks with eOBCs because they lack accumulated experience deploying innovative offerings in customers' specific processes. For defense acquisition, this means that the trust factor must be assessed relative to the maturity and complexity of the underlying systems, not assumed from the contract form alone, pointing again to outcomes-based requirements as a first principal for success.

Empirical evidence from B2G research further illuminates this dynamic. In knowledge-based services, collaborative sharing behaviors, including communication, feedback, and teaming, are highly correlated with perceptions of service quality, while unilateral customer-contribution behaviors are not (Finkenstadt, 2020). 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 are more likely to realize the value OBCs are designed to produce (Vargo & Lusch, 2008; Finkenstadt, 2020).

The global expert interviews added a critical dimension to the trust factor by surfacing the financial and cultural barriers that erode trust before performance even begins. Interviewees consistently identified delayed payments and cash flow challenges as a structural impediment to supplier willingness, particularly for small and medium providers who lack the capital reserves to absorb the financial risk inherent in outcome-contingent payment models. As one interviewee candidly observed, "Human beings are reckless, and human beings run companies," highlighting how even well-designed contractual structures break down in practice when human judgment and organizational incentives are misaligned. Risk pricing emerged as a persistent dilemma: interviewees reported that outcome-based risk allocation often leads to either inflated costs, as suppliers price in uncertainty, or dangerous underbidding, as competitors gamble on favorable conditions. The international sample also revealed meaningful cultural variation in how trust operates within OBC relationships. Western contracting traditions tend to front-load trust through detailed legal specification, while practitioners from Japan and Colombia described relational contracting norms that embed trust in long-term partnership expectations and iterative collaboration. These cultural differences do not invalidate the trust factor but suggest that its operationalization must be calibrated to the institutional and relational context of each engagement.

Factor 4: Governance Capability

One of the clearest evolutions documented by our research was the growing emphasis on governance as distinct from traditional contractual clauses. Participants acknowledged that acquisition professionals 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.

The theoretical framework helps explain this dynamic: governance is the institutionalized process for maintaining shared meaning, for 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. SDL literature reinforces that, 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 (Vargo & Lusch, 2008).

The CCM Institute's relational contracting and governance research provides a practical architecture for operationalizing these principles, emphasizing joint working structures, defined meeting cadence, communications protocols, escalation paths, decision rights, and continuity mechanisms when key personnel change (NCMA, 2025). Critically, this framework stresses that governance readiness must be assessed on both sides of the relationship. Outcome-based models fail when the buyer does not fulfill its own obligations—including timely data access, responsive decision-making, consistent payments, operational cooperation, and stable governance resourcing. A readiness gate that tests not only "can the supplier deliver" but also "can the agency govern" should be a precondition for any OBC commitment.

Global interviewees identified governance capability as the factor most consistently underinvested across all regions and sectors examined. Several noted significant loss of institutional knowledge in the post-COVID period, as experienced contract managers retired or changed roles during the disruption, leaving organizations without the tacit expertise needed to manage collaborative relationships. Interviewees also emphasized that maintaining a

collaborative mindset during contract challenges, when disputes arise over outcome attribution or when external conditions shift the performance baseline, is the hardest governance discipline to sustain. The international perspective revealed that organizations with mature governance practices, particularly those in the UK and Australia with experience in availability-based defense sustainment models, have developed structured change management processes that explicitly anticipate the need to renegotiate outcome definitions during performance. These practitioners described governance not as oversight but as the active stewardship of a shared commercial relationship, a framing that aligns closely with the SDL concept of value co-creation.

Factor 5: Oversight Balance

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 defense environments.

Artificial Intelligence (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.

The global interviews surfaced additional oversight challenges that extend beyond the U.S. regulatory context. Interviewees noted that budget structures in many organizations, both public and private, cannot easily accommodate the variable payment schedules that pure OBCs require. Legal frameworks designed for traditional contracting often impose rigidity at precisely the points where OBCs demand flexibility, creating a structural tension between accountability and adaptability. Perhaps the most significant finding from the international sample was the near-universal preference for hybrid models: pure OBCs remain rare in practice, with most organizations incorporating outcome-linked elements within otherwise traditional contract structures. As one interviewee summarized, "If I can generate $100 of value, I get $20, and the client keeps $80—that's aligned." This gain-share logic, in which baseline costs are covered through traditional mechanisms while incremental value is shared through outcome-contingent payments, was described as the most practical and sustainable approach to outcome-based oversight across every region and sector represented in the study.

Discussion: AI's Impact on OBC Management

AI is emerging as a transformative force in OBC management, though adoption remains cautious and strategic. Current applications focus on enhanced data analysis for outcome definition, accelerated solution development, and improved market research capabilities. AI tools show particular promise in automated reporting against outcome metrics, predictive analytics for performance trends, natural language processing for contract analysis, and enhanced data analysis for measurement frameworks.

These applications align with broader trends. The CCM Institute's AI in Contracting 2026 survey of 518 global contracting professionals found that practitioners see the greatest value for AI in risk assessment and compliance (65%), contract performance monitoring (60%), and contract generation (55%). Interest drops sharply for negotiation support (29%), indicating that judgment, context, and relationship management remain firmly in the domain of human expertise.

A critical challenge for AI-enabled OBC management is not the sophistication of the AI tools themselves but the quality and intentionality of the data they rely on. The GDSD (Goals, Decisions, Signals, Data) model developed by Finkenstadt et al. (2022) argues that in a data-saturated environment, organizations must resist the instinct to begin with observation 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.

Practitioners emphasize critical limitations. Security and privacy remain the top barrier to AI adoption, cited by 68% of respondents. Data output quality, including the risk of AI-generated errors and hallucinations, is the second-highest barrier at 55%. Over-reliance on AI emerged as the most pronounced area of worsening concern, reinforcing fears 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.

The risk of over-reliance is compounded by what Tillipman (2026) identifies as automation bias in the federal procurement context. She defines this bias as the tendency for acquisition professionals to defer to AI-generated outputs rather than independently evaluate them, particularly under severe time and resource pressures. A related risk involves what Tillipman (2026) terms "nested opacity," whereby the AI tool's architecture, training data, and internal decision logic are frequently shielded by commercial licensing terms. For OBCs, 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 (Tillipman, 2026).

Discussion: The Urgent Need for Contract Governance Training

The transition to outcome-based contracting exposes a critical capability gap in the defense acquisition workforce, specifically the fundamental distinction between contract management and contract governance. 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 life cycle. This distinction is poorly understood across government contracting professionals, creating a workforce development crisis that threatens OBC success.

Our research reveals that administrative performance measures dominate. Cycle time emerges as the top performance measure at 50%, while monitoring customer satisfaction ranks at 45% and supplier satisfaction at 40%. However, critical governance capabilities receive significantly less attention. Collaborative compliance monitoring stands at only 20%, and joint risk management at just 15%, highlighting the administrative bias in current practices.

OBCs require contracting professionals to master entirely new competencies such as managing contractual ambiguity, facilitating joint problem-solving sessions, interpreting outcome data collaboratively with vendors, and maintaining strategic alignment as requirements evolve. The theoretical insight that governance mechanisms are not administrative overhead but rather institutionalized processes for maintaining shared meaning throughout contract performance reinforces the urgency. Without governance capability, the value narrative that animates an OBC at award will inevitably drift toward compliance-driven proxies. Addressing this gap

requires more than generic training; it demands role-based capability mapping that identifies distinct competency needs for contracting officers, program managers, requirements owners, financial oversight staff, and industry partners. CCM Institute's Contract Management Standard 4 (CMS4) offers a structured competency framework that can serve as a starting point for this effort, providing defined capability levels across the commercial functions that OBC governance demands.

A Derived Definition of Outcome-Based Contracts

Based on our research, we propose the following 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."*

This definition demonstrates strong conceptual alignment with the updated FAR Companion Guides in their shared emphasis on results-oriented contracting. However, there are important distinctions in scope, implementation mechanisms, and regulatory context. Both the proposed definition and FAR guidance emphasize shifting from prescriptive instructions to outcome-focused requirements, supplier flexibility and innovation, and performance accountability. Key contrasts include the proposed definition's explicit embrace of contingent payment structures (which the FAR guidance positions within existing federal payment frameworks), more collaborative risk distribution, and adaptive frameworks that must be balanced against government accountability requirements.

Recommendations for Defense Acquisition Leadership

The following five recommendations are directed at Department of War acquisition leadership and are informed by the full body of evidence collected across all five research phases. Each recommendation is designed to be actionable within existing statutory authorities while advancing the institutional conditions necessary for OBC success.

Recommendation 1: Elevate Outcomes to the Requirements Stage

The FAR Part 11 Companion Guide reflects meaningful progress toward performance-oriented acquisition. However, by positioning OBCs as a contracting approach only, rather than as a requirements discipline, the guidance risks reinforcing a critical misunderstanding, namely 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.

Part 11 should be revised to emphasize that defining outcomes is a fundamental requirements responsibility. By establishing outcomes at the requirements stage, defense 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.

Recommendation 2: Reposition OBC Guidance in the FAR

Beyond the need to extend the outcome-based discussion to requirements discussed in recommendation 1, we find the existing placement of OBC guidance within FAR Part 37 (Service Contracting) creates a fundamental misconception about the scope and applicability of outcome-based contracting. This positioning inadvertently restricts practitioners' understanding

of OBCs as exclusively service-oriented mechanisms, when research evidence demonstrates their broader utility across diverse contract categories, including production and manufacturing contracts, construction and infrastructure projects, and major weapons system sustainment.

We recommend a two-part repositioning. First, the fundamental OBC definition should be established within FAR Part 2 (Definitions), which houses core acquisition terminology. This placement would establish OBCs as an enterprise-wide contracting concept with universal applicability across all defense acquisition activities. Second, the detailed description of when and how to structure OBCs should reside in FAR Part 16 (Types of Contracts), which is the natural home for contract structure and design guidance and where practitioners already look for vehicle selection decisions. This repositioning fundamentally reframes OBCs from a specialized services technique to a comprehensive contracting philosophy applicable across the complete spectrum of defense procurement.

Recommendation 3: Develop and Pilot OBC Governance Training

Our 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. 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.

We recommend developing a dedicated OBC governance training curriculum that covers governance plan development, relationship management, joint performance review facilitation, adaptive decision-making, and outcome interpretation. Curriculum design should be grounded in role-based capability mapping, recognizing that contracting officers, program managers, requirements owners, and financial staff each face distinct governance gaps; the CCM Institute's Contract Management Standard (CMS) 4 competency framework provides a useful foundation for structuring these differentiated learning paths. This training should be piloted across defense procurement organizations, beginning with agencies that have expressed interest in or have already attempted OBC approaches. Critically, the training must not be limited to contracting officers; it must reach program managers, contracting officer representatives, requirements owners, financial oversight staff, and industry partners who together form the governance ecosystem. Pilot results should be used to refine the curriculum and build the case for enterprise-wide adoption across the Department of War.

Recommendation 4: 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. While professional services are a logical starting point, the conversation must be elevated to the entire defense acquisition portfolio.

We recommend that defense acquisition leadership, in partnership with GSA and other major procurement agencies, 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. This effort must move beyond the reflexive focus on professional services to evaluate production contracts, IT modernization, facilities and construction, logistics, and major weapons system sustainment for outcomes-based strategy applicability.

Empirical research provides concrete guidance for this schema. Bohm et al. (2016) 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 would give defense leadership an empirically grounded basis for matching OBC type to portfolio segment characteristics.

Recommendation 5: Structure Contracts for Low-Risk OBC Piloting

One of the most significant barriers to OBC adoption in the defense acquisition context is the perceived risk of committing to an untested approach. We recommend implementing two contract structuring methods that leverage option periods to create safe, reversible OBC pilots.

Method A (Mid-Flight Conversion via Negotiated Option) applies to contracts already in performance. Teams add an option period to the end of the existing contract and negotiate a conversion of the nearest-term option to an OBC approach. The buyer and seller teams pilot the OBC model for that option term. If the pilot fails, both parties 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 mechanism that rewards success if the OBC works well and provides a recovery runway if the OBC period proves difficult.

Method B (Parallel Option Tracks at Initial Award) applies to new contract awards. The government builds parallel option period structures into the contract from the outset. Each option period offers two tracks: a traditional or performance-based track and an OBC track. At the end of each performance year, the buyer and seller mutually agree on which track to exercise for the next period. Both methods lower the stakes of OBC experimentation and 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.

Limitations

This study has several important limitations that should be acknowledged. The participant groups were broadly representative of federal acquisition organizations, spanning defense and civilian agencies across multiple functional roles and experience levels. The global expert interviews extended the evidence base to eight countries and multiple commercial sectors; however, the interview sample was limited in size (N = 14) and notably lacked gender balance, with 13 male and 1 female participant. This demographic skew reflects broader representation challenges in senior commercial and procurement leadership but limits the study's ability to capture the full range of practitioner perspectives. Additionally, the research did not capture perspectives from state, local, or tribal procurement environments, where statutory frameworks, resource constraints, and contracting cultures differ meaningfully from the federal context. The findings should therefore be interpreted as well-grounded within the federal acquisition system and enriched by global commercial perspectives, but not necessarily generalizable to non-federal government contracting without further validation.

Federal policies governing OBCs, especially those found in supporting FAR materials, were still evolving while this research was being conducted. Some of the policy interpretations presented may change as guidance continues to develop. 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 our ability to draw firm conclusions about performance trends over extended periods.

Future Research

This report represents the completion of Phase I in our research program, which encompassed five data collection phases integrating U.S. federal and global commercial perspectives. Phase II will pursue two primary objectives. The first is a comprehensive OBC case study analysis, documenting OBC applications across both government and private sector environments, spanning diverse contract categories (service delivery, production, and construction), examining cross-agency implementation, analyzing which of the five critical success factors were present or absent and how that influenced outcomes, and integrating international case studies for comparative benchmarking. The global expert interviews conducted during Phase I provide a foundation of international contacts and cross-cultural insights that will directly inform Phase II case selection and analysis.

The second objective is the development of a practical OBC decision framework: a structured decision-support tool that enables 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, guidance for assessing the five critical success factors within particular procurement scenarios, and clear criteria to help practitioners distinguish between situations calling for outcomes-based requirements fulfilled through traditional vehicles versus situations warranting a specially structured OBC. This Phase II initiative will provide acquisition organizations with both the empirical evidence and practical tools necessary to make informed decisions about OBC implementation.

Conclusion

OBCs represent a major shift in how the Department of War approaches 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 life cycle.

Our research 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. Defense 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 is 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 (Finkenstadt, 2026).

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; they value quality and outcomes over price by substantial margins when given meaningful signals about likely results (Finkenstadt, 2020; Graeber, 2001; Vargo & Lusch, 2004; Zeithaml, 1988). The practical imperative for defense acquisition leadership is a shift from buying tasks and things to buying outcomes and valuing them appropriately: defining requirements in terms of warfighter 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, the Department of War must invest in the governance, skills, and alignment necessary to turn outcome ambitions into sustained operational success.

Disclosures

Previous Reports

Portions of this report are based on a research project in print from the CCM Institute and the IBM Center for the Business of Government.

Use of Artificial Intelligence in Document Preparation

Portions of this document were prepared with the assistance of a large language model. Specifically, AI was used to synthesize the coauthors inputs as well as copyedit the document into the format required by ARP. 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 human authors and research team reviewed, revised, and take full responsibility for all content presented in this report.

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Acquisition Research Program
Department of Acquisition, Finance, and Manpower
Naval Postgraduate School
555 Dyer Road, Ingersoll Hall
Monterey, CA 93943

www.acquisitionresearch.net