

# **National Manual of Assets and Facilities Management**

## **Volume 9, Chapter 7**

### **Performance Measurement Procedure**

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## Performance Measurement Procedure

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## Performance Measurement Procedure

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# Performance Measurement Procedure

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# Performance Measurement Procedure

## 1.0 PURPOSE

This procedure will benefit Entities by enabling them to measure performance of Operations and Maintenance (O&M) contracts. It promotes the use of performance-based contracts. However, this performance measurement procedure can also be used for other forms of contracting.

Performance measurement involves creating a simple, effective system for determining whether Asset and Facilities Management (A&FM) contract objectives are being achieved and the O&M contractor is meeting its contractual obligations. This document provides the guidance to the Entities on how to measure both the performance of the contract and the performance of the contractor.

## 2.0 SCOPE

This document is developed for standardizing the procedure for performance measurement of the contract and the contractor for O&M within government Entities. It also provides advice on performance based contracting methods and contractor relationship management.

### 2.1 Deliverables

Through implementation of this procedure the Entity should be able to:

- Develop performance criteria
- Establish performance monitoring
- Implement performance measurement
- Conduct performance assessment
- Apply performance adjustment
- Take corrective action to adjust for performance that is outside of the required parameters
- Report accurately and clearly on contract performance
- Avoid disputes and claims from the contractor
- Certify accurate and timely payments for the works
- Proactively manage the performance of contractors
- Achieve best value, quality and consistency
- Use the rights available to the Entity to ensure compliance by the second party
- Improve contract administration

## 3.0 DEFINITIONS

Term	Definitions
Benchmarking	An evaluation that identifies quantified performance levels from precedents and appropriate levels of performance with specific, quantitative insight, and best practices for a project
Best Value (BV)	The most advantageous combination of the whole-life cost, quality, and sustainability available to meet requirements
Company	A contractor, consultant, engineer, service provider, or supplier who expresses interest in prequalifying for a specific package of Works or services and upon Award becomes the Entity contractor to perform such Works or services
Entity	Means Government Entity, Authority or Ministry responsible for the Assets and Facilities Management (A&FM)
KPI	"KPIs are quantifiable measurements, agreed by stakeholders, which reflect the Critical Success Factors of Assets, or the operations or the services to be delivered" (IFMA definition).
O&M	Operations and Maintenance (O&M) of Facilities and Assets. The Entity may be required to enter into single or multiple agreements with 2 <sup>nd</sup> parties to perform O&M works or services.
Success Criteria (SC)	SC is the result of the organization's achievements to be considered successful and satisfying its objectives.



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Service Level Agreement	"An agreement between the provider of a service and its users, which quantifies the minimum quality of service which meets business needs." (CIPS)
Performance Based Contracting	"A results-oriented contracting method that focuses on the outputs, quality, or outcomes that may tie at least a portion of a contractor's payment, contract extensions, or contract renewals to the achievement of specific, measurable performance standards and requirements. These contracts may include both monetary and non-monetary incentives and disincentives." (NIGP)
The Balanced Score Card (BSC)	BSC is a strategic planning and management model, used by organizations to measure and monitor their performance toward strategic targets.
<b>Abbreviations</b>	
A&FM	Assets and Facilities Management
AMS	Asset Management System
CIPS	Chartered Institute of Procurement and Supply Chain
FM	Facilities Management
HSE	Health, Safety and Environment
ISO	International Organization for Standardization
KPI	Key Performance Indicators
KSA	Kingdom of Saudi Arabia
O&M	Operations and Maintenance
CSF	Critical Success Factors
IFMA	International Facility Management Association
SLA	Service Level Agreement

**Table 1: Definitions**

## 4.0 REFERENCES

- ISO 31000 – Risk Management – Guidelines
- Expro Projects White Book
- National Manual of Assets and Facilities Management – Volume 14: Business Continuity
- National Manual of Assets and Facilities Management – Volume 15: Performance Monitoring
- Chartered Institute of Procurement and Supply Chain (CIPS) – Contract Management Guide 2019

## 5.0 RESPONSIBILITIES

The Entity management:

- Develops performance criteria;
- Establishes performance monitoring of life-cycle planning and long-term sustainment of assets;
- Implements performance measurement for controlling, recording and reporting KPIs and success criteria;
- Conducts performance assessment of the results and;
- Applies performance adjustments in order to manage performance of Asset and Facilities Management (A&FM) contract and contractors

Entity's contract specialist and the contractor's Contract Manager are directly responsible for performance measurement. Their role is to ensure compliance to the contract deliverables.

The contractor is responsible for delivering the service performance to the service levels as per the contract.

The Asset Management System or a similar tool is used to monitor and measure the performance based on reporting the KPIs and success criteria.



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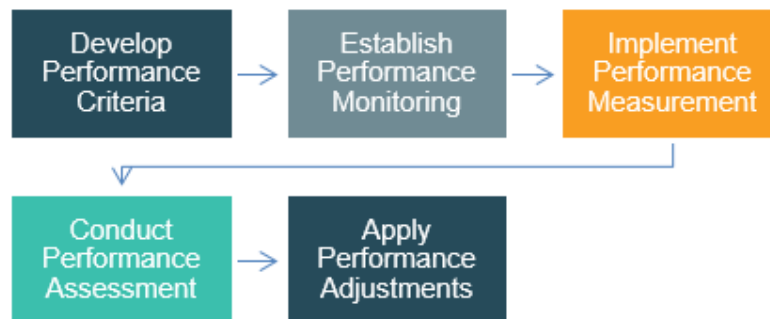
### 6.0 PROCESS

#### 6.1 PERFORMANCE MANAGEMENT

Performance management comprises the actions that the Entity takes to ensure that the contract and goods or services are delivered as per contract requirements. The Entity and the contractor work together, throughout the life of the contract, to achieve satisfactory performance of the contract and the delivery of O&M services.

Performance management comprises of the following actions:

- Developing Performance Criteria: Clear definition of a series of objectives and indicators by which to measure contractor performance
- Establishing Performance Monitoring: Dashboard and Balanced Score Card
- Implementing Performance measurement: Collection of data on the performance indicators
- Conducting Performance assessment: Assess the information collected during the performance measurement implementation and deliverables to identify gaps and improvement areas
- Applying Performance adjustment: Actions taken to set the contract or contractor's performance redirected to achieve the success criteria including rewards, remedies and others



**Figure 1: Process flow for Performance Management**

#### 6.2 PERFORMANCE CRITERIA

Performance management is based on a set of measurement criteria, highlighted as follows.

##### 6.2.1 Contract Management Performance Criteria

The contract specialist will establish performance criteria which will encompass qualitative and quantitative information around contract value, incidents, renewal, efficiency, effectiveness, and risks.

The Entity management shall review and approve the contract management performance criteria and KPIs proposed by the contract specialist to demonstrate how effectively a contract is achieving the set objectives. Contract performance management shall include the following criteria as a minimum:

- Achieve less than the variation percentage deviation from the baseline cost of the contract;
- Terms and conditions compliance with standards set in National Manual of Assets and Facilities Management – Volume 9: Contract Management;
- Obtaining price reductions below the original cost baseline as decided by the Entity;
- Timely identification and mitigation of risks and outstanding issues potentially causing disputes;
- Timely issuance of payment certifications to the contractor;



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- Starting contract activities within achievable timescales, for example contract renewal, extension, etc.

### 6.2.2 Contractor Performance Criteria

The technical team and contract specialist shall establish contractor performance criteria around the required performance of the contractor based on the contract terms and conditions such as planned maintenance completion, continuity of operation, spare parts availability, reporting, asset management system efficiency, customer satisfaction, etc. These criteria should be clearly identified to the contractor at the inception of the contract and achievable. There should also be a review undertaken to ensure that measures remain reflective of current status. For example, are measures constantly being achieved with little difficulty on behalf of the contract? A review or redirection towards problem areas may be necessary as continuous improvement process.

The Entity management will review and approve the contractor performance criteria and KPIs proposed by the technical/contract specialist to demonstrate how effectively a contractor is achieving objectives.

## 6.3 PERFORMANCE MEASUREMENT

Typical performance measures include:

- a) Quality: the quality of the goods or services delivered compared with the specified quality in the contract
- b) Quantity: the number of items or volume of services delivered compared with the contracted number or volume
- c) Cost: the actual costs compared to the allowable cost specified in the contract
- d) Responsiveness: the time taken by the contractor to respond to requests, compared with the contracted timeframes
- e) Customer satisfaction: the degree of satisfaction expressed by people receiving goods or services
- f) Reliability and availability: Applicable to services and provision of spares, consumables and equipment

### 6.3.1 Contract Performance Measurement

Contract performance measurement determines both the Entity's and contractor's compliance with the terms of the contract. The measurement is based on the contract performance criteria. The objective of this function is to demonstrate:

- Accuracy of reporting
- Compliance to contract terms and conditions
- Conformity to standard contract administration
- Correspondence effectiveness
- Responsiveness to contractor issues and disagreements

The Entity shall regularly measure the success of a contract management through Key Performance Indicators (KPIs). The contract performance is measured through:

#### 6.3.1.1 KPIs from the Asset Management System (AMS)

The contract management KPIs should be Specific, Measurable, Attainable, Relevant, and Timely (SMART). A high level KPI report is illustrated in figure 2.





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**Figure 2: Contract performance KPIs Dashboard**

### 6.3.1.2 Regular contract compliance audits

The frequency of audits shall be determined by the Entity management. As best practice, at least one annual audit of contract compliance is recommended. The Entity shall appoint a senior manager from finance or procurement to carry out audits, of the KPIs reported by the Entity's contract specialist in the monthly reports and the contract compliance reported by the contractors. The audits involve site inspections, document review, and data verification. The objectives of this function is to:

- Know when there is non-compliance
- Enforce all contract terms
- Build contract compliance relationship with the contractor
- Avoid disputes
- Continuous improvement

### 6.3.2 Contractor Performance Measurement

It is important to establish clear KPIs, SLAs, success criteria and standards right from the beginning of the contract in order to avoid issues with the contractor later. Technical team shall develop KPIs related to required services and include it as part of the contract service delivery.

The contractor performance measurement may include:

- What aspects of performance will be measured?
- How performance will be measured?
- How frequently performance will be measured?
- Who will do the performance measurement?

The Entity and the contractor shall allocate resources in order to perform the above said tasks for measuring performance.

An illustration is included in figure 3 for showing typical aspects of contractor performance measurement; the measures should be tailored to the Entity for the measures that need to be both monitored and reported to Stakeholders. Also whether there are any statutory compliance requirements associated with the delivery of the contract.



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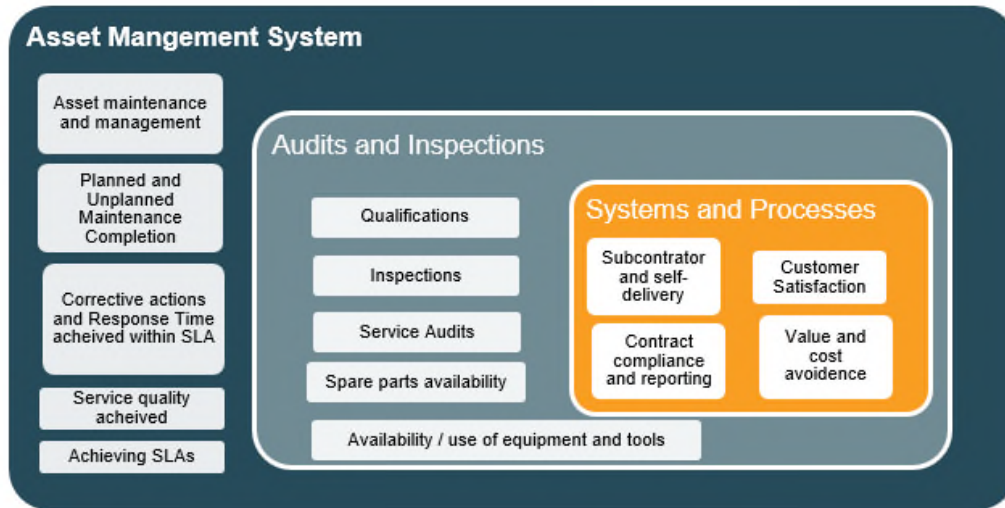


Figure 3: Typical aspects of Contractor performance measurement

### 6.4 PERFORMANCE ASSESSMENT

The Entity will assess performance after collection and receipt of meaningful performance measures in a reliable data form.

#### 6.4.1 Contract Performance Assessment

The contract performance assessment enables the personnel involved in contract management to evaluate the existing processes and identify potential gaps in compliance.

The contract performance measurement data received from the KPIs and Audits will be assessed by the contract specialist. The contract performance assessment shall be shared with the Entity management for contract administration performance improvement planning.

#### 6.4.2 Contractor Performance Assessment

The contractor performance measurement shall be assessed by the Entity's technical specialist and contract specialist in consultation with the contractor's representative. The assessment shall be based on the calculation method stipulated by the contract. Measures should be taken from clearly identifiable parameters wherever possible to avoid subjective scoring.

The illustration in Figure 4 reflects the O&M standard areas for assessing performance of contractor's service delivery.



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**Figure 4: Standard areas of Contractor performance assessment**

### 6.5 PERFORMANCE ADJUSTMENTS

In case the performance assessment results declare that the KPIs are met then no performance adjustments will be required, however, the Entity may require to see if the KPIs need revision and review.

In case the performance assessment results reveal performance failures then the Entity is required to further investigate the failures and take remedial actions.

In order to avoid further reductions in performance levels within the contract, the Entity and the contractor shall take the following actions to address performance issues:

#### 6.5.1 Contract administration Improvement plan

In instances where gaps in the contract administration are identified in the contract performance assessment, the Entity management should develop a contract administration performance improvement plan. The Entity's contract specialist shall take the ownership for implementing improvements in contract administration.

#### 6.5.2 Performance Improvement Plan

The Entity shall develop a formal Performance Improvement Plan to remedy the identified performance concerns. The planning shall involve senior management from the Entity and the contractor.

Subject to the contract, the performance management plan can include:

- Agreeing action plans with the contractors for performance improvement
- Formal issuance of problem resolution reports by the contractor
- Action plan for resolution, with clear agreed actions and set timeframes
- A method to monitor the plan through to successful completion

#### 6.5.3 Contract Actions

All recurring performance issues and a continuing lack of engagement by the contractor or evidence of effort to address the issues will lead to further contract actions.

The Entity will not accept non-performance, underperformance and inadequate performance; and therefore the payment of goods and services delivered by the contractor shall be linked to satisfactory performance as agreed in the contract and in line with contract law in the Kingdom. All contracts include provisions for remedies and contract actions.



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The performance concerns highlighted by the assessments will be discussed with the contractor. The strategies to address these concerns will be developed in consultation between the contract specialist, technical specialist and the contractor.

Subject to the contract, the actions can include:

- Withholding payments
- Payment deductions
- Step-in by the Entity to engage another contractor to improve performance, or undertake activities with reduction in contractor payments to compensate. Following notification.
- Excluding the non-performing services from the scope of works of the contract
- Termination of the contract
- Reporting performance failures of the contractor in contractor performance evaluation
- Refusing recommendations of the contractor for other O&M works

### 7.0 PERFORMANCE BASED CONTRACTING

Performance of a contract is the fulfillment of the contractual obligations by all the parties. Performance-based contracting is a type of contracting with a clear set of performance outputs and indicators that require systematic efforts to measure. It deviates away from Manpower Only type contractors in that the contractor has a clear set of objectives to achieve and the provision and utilization of manpower to achieve this is under their control and part of KPI/SLA agreements.

Performance based contracting method is intended to improve the public Entities performance and accountability toward A&FM sector considering many elements such as work efficiency, savings, responsiveness, and customer satisfaction.

It specifies the overall targets to be achieved by contractor rather than how the work to be accomplished which shall be handled by the contractor. The overall targets shall be measurable with incentives and disincentives stipulated in the contract.

The Entity management intended to use performance based contracting is required to provide output specification & procedures and contractor shall set the most efficient and effective ways to perform the work and achieve the required results.

There are two ways to establish performance based contract:

#### 7.1 Statement of Objectives (SOO)

The SOO provides top level objectives of the requirement which will be part of the RFP. It gives more flexibility for the tenderers to explore the most efficient and innovative solutions to achieve the services. Statement of objectives requires the contractor to develop the performance work statement "PWS" which shall be evaluated prior to contract award.

Examples of what statement of objectives may include:

- Cleaned floors all the time
- Ready meals for number of people on different times
- Sustained recycling rate of waste
- Availability of spare parts

#### 7.2 Performance Work Statement

Performance work statement refers to a detailed document similar to scope of work specifying the results and outcomes required and explaining plans of assuring the quality and measuring the performance.

Examples of what performance work statement may include:

- Contractor shall clean the floors four times a day to maintain the cleanliness all the time.



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- Contractor shall produce 40,000 meals a day for number of people on different times.
- Contractor shall treat 500,000 tons of waste yearly.
- Contractor shall ensure the availability of 50 pieces of spare parts all the time.

Service Level Agreement (SLA) is essential part of performance based contracts and it specifies the Entity's required service levels which shall be linked to the incentives and disincentives stipulated in the contract to enable the Entity of applying the penalties and rewards if applicable and determine payments.

Entity management shall strive toward using the performance based contracting method to improve the quality of final product and services and business continuity.

### 8.0 CONTRACTOR RELATIONSHIP MANAGEMENT

The development of performance criteria by the Entity and the contractor is based on the contract deliverables, realistic SLA's and contractor capabilities. The implementation of performance management function helps the Entity to understand its contractors and their capabilities.

The performance monitoring function helps the Entity to gain better insights into the contractors' performance.

The performance measurement function helps the Entity and contractors in building mutually beneficial relationships and; identify, prevent and mitigate risks of performance failure.

The performance assessment benefits the Entity and contractor in identifying continuous improvement opportunities.

The Entity takes measures of performance adjustments to benefit the contract and contractor in improving contract performance and service delivery.

The contract specialist shall take lead in building an effective working relationship with the contractors. He shall maintain strong communication with the contractor at all times. This shall enable the specialist identify and resolve problems before they escalate, causing increased cost, loss of efficiencies or reputational damage..

The contract specialist shall endeavor to establish shared understanding of the contract with the contractor with regards to processes, performance standards, review processes and corrective actions.

The contract specialist shall avoid adversarial behavior, as this is not constructive and can damage working relationships across all stakeholders involved.