A Google search of “delegation of authority” leads to many upon many results. It’s a complicated topic and one that is too broad and too deep for a blog. But if we focus our attention on the delegation of authority for a government contractor, assuming a corporate structure—and ignore the issues associated with a LLC, or with a JV, or with a partnership, and then also ignore all the myriad matters within the government itself—we can hopefully fit our thoughts into one article.

In general, a delegation of authority is a formal assignment of somebody’s authority to a subordinate. Officially, only corporate officers can bind a corporation, and the authority of the corporate officers is itself delegated from the Board of Directors. Typically the BoD delegation is quite specific; it identifies what agreements may be signed by which officer without BoD approval. Often, the BoD delegations come with certain dollar thresholds, in order to protect the corporation (and its shareholders) from an overzealous officer who takes on more risk than the BoD is comfortable with.

In turn, corporate officers can, and almost always do, delegate certain parts of their authority to other individuals. Again, the delegation is almost always tied to certain types of agreements and to dollar thresholds—such that the delegated authority is specific and limited. For example, perhaps a Purchasing Manager can sign a standard Purchase Order for supplies up to (but not exceeding) $25,000 in value. Any purchasing action over that value requires a higher-level signature. Any purchasing action that deviates from standard P.O. terms and conditions requires a higher-level signature, regardless of dollar value. Any purchasing action other than firm, fixed-price may require a higher level signature. Any purchasing action that involves financing payments (e.g., progress payments) may require a higher level signature. Et cetera, et cetera.

The authority continues to be delegated downwards to the organization’s lowest level, where perhaps somebody has authority to use a P-Card or to make a petty cash transaction up to, but not over, a certain dollar value for certain things.

Quite often the delegation of authority is a formalistic document, maintained on a company intranet. That document identifies authority levels for different transactions as well as associated dollar value thresholds. In some cases, authority to approve decisions is also identified. For example, perhaps the approval authority for an employee to attend an external training seminar is retained at the Vice President level; and thus managers and directors lack the authority to send their employees to external seminars without first obtaining an approval from a VP. For another example, perhaps the approval authority to fly at other than lowest available airfare is retained at the CFO level, and thus nobody can fly business or first class (at cost) without first obtaining that approval. At some companies, delegations of authority are reviewed and refreshed every year, even if nothing has changed.

Delegations of authority are common, but very few look alike. If you want to understand a corporation's culture, check out what authority has been delegated and what authority has been retained. If you think you have an entrepreneurial spirit, you may not enjoy working at a company where all authority has been retained at the highest levels. Conversely, if authority is delegated then that implies some level of accountability for how that delegated authority is used. Some people may not be comfortable making decisions, knowing they will be held accountable for negative consequences that spring from those decisions.

In our view, too many of the delegations of authority we've seen have been overly rigid. Too many are based solely on dollar value, without considering other factors. The better ones take into account various corporate risks, and reserve (or delegate) authority based on those risks. We like to call the risk-based delegations of authority "dynamic" delegations of authority, because the delegation analysis is based on the circumstances and risks, and can vary depending on how those circumstances and risks change.

For example, a firm, fixed-price Purchase Order using standard Terms and Conditions may be judged to be low risk, and thus authority is delegated to a low level. However, consider a firm, fixed-price Purchase Order issued under a development contract whose design is not yet complete. Because of anticipated engineering changes, that P.O. may well be subject to considerable post-award modification activity, and potential requests for equitable adjustment that could ripen into disputes/claims. Thus, perhaps that P.O. is not as low-risk as it first appears.

Further, standard corporate Ts & Cs may not be sufficient to address the impact(s) of engineering changes. They may need to be tailored, if only to flow-down prime contract clauses. Who has the authority to tailor standard corporate Terms & Conditions? Where is that delegation of authority documented?

We are reminded of a major development program at one of our clients. (This is a decade ago, though the program is still extant.) The program was in trouble – a significant "watch program" – and every two weeks the executive leadership team reviewed program status in a major program review. (We've all been through those, right? Think 50 or more people in a room, with those program managers in the "hotseats" gathered around a table to present their slides, and the rest of the supporting cast of characters sitting in chairs against the walls, just in case a question might be asked that requires some level of detailed knowledge.) Every two weeks the executive leadership team grilled the PM team, reviewing actual costs by WBS, CPI/SPI, at-completion estimates, etc. It was painful. ("The beatings will continue until morale improves.")

One significant pain point was the lack of subcontractor EV data. The executives were upset that they were getting old data at their reviews. "The values are always the same!" they complained to us, and told us to go figure out why the PM team couldn't deliver good subcontractor data at the executive reviews. It didn't take us long to realize the answer: the subcontracts specified that EV data was to be refreshed monthly, not every two weeks as the executives desired.

What was to be done? If the subcontracts were modified to require EV data refreshes every two weeks, then that was going to be expensive (assuming it could even be done, since many contractors don't refresh actual costs until the books close). An alternate choice – one that we recommended – was to dial back the executive reviews to once per month, and time them to take place after fresh subcontractor EV data had been received and incorporated into the program's tracking system. (Do we have to tell you that our recommendation was not accepted?)

The point of that anecdote is that things change, and the "standard" approach to P.O.'s and subcontracts may not actually be the better approach. A dynamic delegation of authority tries to take into account risks and executive "wants," and bases authority on the situation at hand.

Obviously, no delegation of authority can take into account every situation. But there are common situations that can (and should) be addressed.

On the buy side:

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If direct, nature of prime contract and risks. A development contract is riskier than a stable production contract. A program without sufficient reserves to cover problems is riskier than one that has them. An incrementally funded contract is riskier than a fully funded contract. A contract with negative CPARS is riskier than one with positive CPARS.

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If indirect, P.O. type and purpose. A T&M award to a consultant is riskier than a catalog purchase from a commercial manufacturer. Any award for an unallowable purpose is riskier than one for an allowable purpose. Any award to a foreign concern is riskier than one to a domestic concern.

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Payments to outside entities can be risk-ranked based on such factors as (1) cost object to be charged, (2) purpose of payment, and (3) budget environment. For example, an accountant taking a required CPE class, charged to their home department's cost center, is probably low risk. Whereas an engineer attending a technical seminar in Europe, charged to an IR&D project, is probably a higher risk. Technical seminars charged to customer contracts in Q4 (when indirect budgets are tight) may need to be scrutinized more than in Q1 (when indirect budgets are loose).

On the sell-side:

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Development is riskier than production. But a cost proposal submitted "with sharpened pencils" may lead to a riskier program, regardless of type or purpose. If the customer is tight on funds, there is less margin for error.

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Selling an immature product is riskier than selling a mature one. What's the maturity level?

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What's the story on obsolescence and/or diminishing sources? Can you sell the product at the historic price point, if you have to find new parts or new sources? A program facing obsolescence challenges is riskier than one with a robust supply chain of current parts.

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A $10 million project is not as risky as a $500 million project, in terms of potential impact to the bottom line if things go south. But a $10 million project with a $10 million overrun can be a huge problem.

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A contract with a commercial entity is less risky than a contract with a Federal entity, from a compliance standpoint. But a contract with a commercial entity may have more financial risk than a contract with a Federal entity. Some of the biggest write-offs we've seen have some from state/local programs.

A dynamic delegation of authority attempts to address the true risks of the contractual action, and reserves authority when risks are higher. These are hard things to create, but companies that are trying to manage risk should perhaps consider moving in that direction.