

**IMPROVING NATIONAL DEFENSE ACQUISITION
AND RESOURCE MANAGEMENT THROUGH
ENTERPRISE ORGANIZATION, CAPABILITIES
ASSESSMENT, RADICAL REENGINEERING,
CAPITAL AND LONGER-TERM BUDGETING AND
PRIVATIZATION/MARKETIZATION**

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PRESENTATION OUTLINE

1. Introduction
2. Reform options
 - A. Marginal adjustment approach
 - B. Comprehensive change approach
3. Conclusions
4. Caveats, Comments and Discussion

INTRODUCTION

Parts I, II, III of conference paper not included in presentation due to time constraints.

Part I: How Enterprise Management could assist reform if implemented properly.

Part II: How capabilities thinking, planning and management play a role in reform.

Part III: The role of better business practices and information technology in adding value to DoD acquisition, resource management and improved organization strategy.

This presentation covers only Part IV: Reform options.

Marginal Adjustment Reform

Comprehensive Change Reform

Reform Feasibility

These options are relatively unconstrained by political feasibility. However, feasibility issues are addressed. Our goal is to stimulate thinking about options that many will perceive as “outside the box”

Marginal Adjustment Reform

- Replacement of PPBES with longer term capital and performance oriented budgeting, in combination with
- Radical DoD business process reengineering

Elimination of PPBES

- PPBES is an overly bureaucratic and process-heavy system that interferes with rather than facilitates acquisition.
- PPBES is slow and involves too many participants, each with his/her own agenda.
- PPBES does not facilitate capital budgeting. Also, separate Programming and Budgeting processes are not workable in terms of meeting the needs of the acquisition work cycle.
- PPBES is time constrained while Acquisition operates on a milestone basis. The two systems are incompatible.

The Need for Capital Budgeting

- Longer range operations and capital budgeting would be more compatible with acquisition decision processes.
- Explicit longer range capital budgeting is necessary to improve the fit between resource management and acquisition.
- The method of capital budgeting adopted should be based on private sector methods, modified to fit the government context decision processes.
- DoD needs to convince Congress that capital budgeting is to its advantage and not just better for DOD.

Advantages of Capital Budgeting

- A better planning method for acquisition of long-lived assets, and more consistent with Enterprise Management and performance budgeting.
- Capital budgeting is continuous, not periodic – better suited to DOD needs.
- More realistic in considering total assets needed to meet capability requirements.
- Considers decisions in constant dollars
- Considers total life cycle costs.
- Does not separate program from budget decisions.

Why Radical Acquisition Process Reengineering?

- The Problem: “The process has become the product.”
- Goal: Use only essential processes that add value to the product and acquisition process.
- One approach to how it could be done is as follows:

One option for radical business process reengineering

- New business model employing a single, fully integrated ERP IT system and database rather than the multiple systems and databases that characterize existing DoD systems.
- Task of the USD AT&L and small acquisition staffs of the MILDEPS to determine the capabilities desired for warfighting, informed by direct input from military combatant commands.

Business Process Reengineering: Reducing the number of players

- All staff (and work) not involved in program execution to be done by small units under the USD AT&L, Joint staff and the MILDEP secretariats -- about 12 to 20 people in each staff in total.
- The milestone decision process would suffer the same fate as PPBES, i.e., it would be discarded and replaced with a radically reengineered process.

Reengineered Process Specifics: Step 1

1. Proposal of a desired capability by the military departments and services. This proposal could come from a warfighter command or more centrally from the military chiefs. The proposal would undergo one comprehensive review and analysis by the staff of the MILDEP acquisition secretariat and then be decided upon by the service secretary.

Reengineered Process Specifics: Step 2

2. MILDEP request for capability (not a specific system) analyzed simultaneously by combination of staffs of USD AT&L and Joint Chiefs, with single recommendation issued together to USD AT&L for decision. USD AT&L decides on a "go or no go" basis to approve/disapprove the capabilities request. This decision represents the choice of SECDEF
 - No separate review by SECDEF made except where SECDEF takes the initiative to do so.
 - Notably, no design specifications would be determined at this stage in the process.

Reengineered Process Specifics: Step 3

3. Once a capabilities request is approved by DoD, the private sector is asked to prepare designs and then bid their designs and costs for meeting required capability.

A board representing the combined staffs of USD AT&L, Joint Chiefs and MILDEPS reviews private firms proposals containing design specifications from them with costs estimated to meet requirement –a specific platform, system or equipment asset.

The combined review recommends one or more contractors for production, or more bids solicited if no bids are satisfactory.

USD AT&L assesses recommendation from combined board and staff review of proposals and decides which to accept.

Reengineered Process Specifics: Step 4

4. Private firm designs/produces asset; RDT&E all by the private firm with government oversight of performance and cost similar to the current process but with more emphasis on product performance & schedule in addition to cost to meet required capability.
 - Private firm supplies DoD with tested model ready to “field” that would be jointly and simultaneously tested by the contractor and DoD.
 - Under conditions of contract, DoD has option to accept or reject the asset.
 - Primary responsibility for test and evaluation would be by the MILDEPS, with oversight from representatives of the combined USD AT&L and Joint board, and government contract staffs on site.

Reengineered Process Assumptions

DoD would be constrained to requesting only very minimal changes to asset by private firm.

Changes to be held to strict cost constraint of one percent of the per unit cost of asset

Contracts to extent possible to be fixed price vs. incentive based with strict penalties for failure to perform within cost and time constraints.

More financial risk in design and production assumed by the private sector instead of government (Paper addresses willingness of firms to accept such risks).

Reengineered Process Assumptions

- Because contractor expertise would be required in training and supervision of the use of the asset by warfighters, part of the initial contract would include the cost of fielding and training with the clear requirement that all assets be fully supported.

Evaluating Success of Business Process Reengineering

- Bottom line for evaluating success of BP reengineering is improved customer satisfaction (i.e., results). Cycle time and cost reduction are not ends in themselves. Rather, they are the results of better work processes.
- Metrics are critical to determining whether reengineering is successful – they must be used to assess gains from new processes.

Comprehensive Reform: Marketization/privatization of acquisition

- Fundamental concept: open competition to the international market for meeting US defense asset capability needs to allow acquisition from non-US firms.
- What has worked for multi-national corporations in taking advantage of international markets can work for DOD.
- Protecting US defense firms from foreign competition makes them weaker in the long-run.

Marketization/privatization Implications

- Open bidding for defense business to all firms in the market, given some exceptions, i.e., favoring allied nations.
- Open competition for large as well as smaller systems, platforms and weaponry, to selected allies such as Canada, European and Australasian nations, e.g., Canadian and Japanese firms bidding to supply trucks, S. Korean firms ships and submarines, European firms aircraft for the US military.

Marketization/privatization

- Recognize that the costs of many platforms and systems now under procurement are too high and unaffordable in the future.
- Rely more on competitive markets to match performance with cost preferences and affordability.
- Move towards a “buy” rather than “make” business model for acquisition of defense assets
- Reduce legal and process constraints built into system that discourage competition.

Marketization/privatization Issues

- Supply reliability: given prudent choices among suppliers no worse risk than with US firms presently.
- Availability of spare parts: under longer range and capital budgeting, buy more spares up-front to save long-term costs. Also, given prudent choices, no worse risk than with US firms presently.
- *Substitute the expectation of getting the highest level of technology for that of getting the best technology available at lower costs.*

Marketization/privatization Issues

- Continue present trend towards best available technology – right now – to meet warfighter needs.
- Use off-the-shelf (COTS) products to the greatest extent possible, with minimum of modification.
- Some modification necessary as is case at present, but modifications add to costs.
- Realize the advantages of buying larger quantities of lower cost weapons, systems and platforms.

The Privatization Component of Reform

- Privatize all business processes in defense acquisition that are not essentially governmental in nature, i.e., where the market provides advantages in price, improved quality and cycle time reduction.
- Improved government contracting, monitoring and supervision is part of the price of increased privatization.

What Probably Should Be Included in Privatization

- Eliminate all government R&D labs (except those that do nuclear research). Their work would be done by private sector labs.
- Eliminate all shipyards that do not build ships, except where the work (repairs) they perform can't be done in the private sector (most of it can).
- Reduce the size of the MILDEP Systems Commands. Most of the work they do could be done in the private sector (where many current government employees would find work).

Comprehensive Reform Conclusions:

Taking Advantage of Markets

- This option is not mutually exclusive from proposals for longer-term, capital and performance budgeting, and business process reengineering.
- Not all reform options should be undertaken at the same time – prioritization is required.
- Expected time for implementation should not be less than five years and ten years is probably more realistic.

Political Feasibility

- Bureaucratic resistance to replacing PPBES, the existing milestone system and to radical business process reengineering is predictable. Leadership is required to overcome it.
- The argument for capital budgeting has to be sold to Congress, i.e., DOD must bear the burden of proof that it will result in better decisions, some of which Congress can take credit for supporting.

Marketization Feasibility

- Resistance from US industry to increased foreign competition is inevitable, and powerful defense firms have friends in Congress. Therefore, DOD again must show Congress how through “offsets” and other means (reciprocal trade agreements with other nations for example) all stakeholders will be better off in the long-run.

Caveats and Comments for Discussion

- The purpose of this paper and presentation is more to stimulate discussion than to advocate specific options for reform as the “best and only” options.
- This is still the beginning, not the end, of the defense acquisition and resource management reform dialogue.
- If you are interested in the ideas presented briefly here, please read our paper.

Questions and Comments?