

PHOTOGRAPH THIS SHEET

1984 DEFENSE FINANCIAL AND
INVESTMENT REVIEW (DFAIR)

①

LEVEL SURVEY OF DEFENSE PROCUREMENT
PERSONNEL RESULTS AND FINDINGS

INVENTORY

DEC. 1984

DOCUMENT IDENTIFICATION

AD-A173 556

DTIC ACCESSION NUMBER

DISTRIBUTION STATEMENT A

Approved for public release;
Distribution Unlimited

DISTRIBUTION STATEMENT

ACCESSION FOR

NTIS GRA&I ☒

DTIC TAB ☐

UNANNOUNCED ☐

JUSTIFICATION

BY

DISTRIBUTION /

AVAILABILITY CODES

DIST

AVAIL AND/OR SPECIAL

A-1

DISTRIBUTION STAMP



DTIC
ELECTE
NOV 05 1986
S D

DATE ACCESSIONED

DATE RETURNED

86 11 4 003

DATE RECEIVED IN DTIC

REGISTERED OR CERTIFIED NO.

PHOTOGRAPH THIS SHEET AND RETURN TO DTIC-DDAC



DEFENSE

MANPOWER DATA CENTER

AD-A173 556

**1984 DEFENSE FINANCIAL AND
INVESTMENT REVIEW (DFAIR)**

**SURVEY OF DEFENSE
PROCUREMENT PERSONNEL
RESULTS AND FINDINGS**

DECEMBER 1984

**BEST
AVAILABLE COPY**

1600 WILSON BOULEVARD ARLINGTON, VIRGINIA 22209

REPORT DOCUMENTATION PAGE

1a. REPORT SECURITY CLASSIFICATION II Unclassified			1b. RESTRICTIVE MARKINGS		
2a. SECURITY CLASSIFICATION AUTHORITY			3. DISTRIBUTION / AVAILABILITY OF REPORT Approved for public release; distribution is unlimited		
2b. DECLASSIFICATION / DOWNGRADING SCHEDULE					
4. PERFORMING ORGANIZATION REPORT NUMBER(S)			5. MONITORING ORGANIZATION REPORT NUMBER(S) DMDC/MRB/TR-84-5		
6a. NAME OF PERFORMING ORGANIZATION Defense Manpower Data Center		6b. OFFICE SYMBOL (If applicable) DMDC	7a. NAME OF MONITORING ORGANIZATION Defense Manpower Data Center (DMDC)		
6c. ADDRESS (City, State, and ZIP Code) 1600 Wilson Blvd., Suite 400 Arlington, VA 22209			7b. ADDRESS (City, State, and ZIP Code) 1600 Wilson Blvd., Suite 400 Arlington, VA 22209		
8a. NAME OF FUNDING / SPONSORING ORGANIZATION Deputy UnderSec of Defense (Acquisition Mgt)		8b. OFFICE SYMBOL (If applicable)	9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER		
8c. ADDRESS (City, State, and ZIP Code)			10. SOURCE OF FUNDING NUMBERS		
			PROGRAM ELEMENT NO.	PROJECT NO.	TASK NO.
			WORK UNIT ACCESSION NO.		
11. TITLE (Include Security Classification) 1984 Defense Financial and Investment Review (DFAIR). Survey of Defense Procurement Personnel Results and Findings. December 1984.					
12. PERSONAL AUTHOR(S) Dr. Michael T. Laurence					
13a. TYPE OF REPORT Technical Report		13b. TIME COVERED FROM TO	14. DATE OF REPORT (Year, Month, Day) 1984 December		15. PAGE COUNT 230
16. SUPPLEMENTARY NOTATION					
17. COSATI CODES			18. SUBJECT TERMS (Continue on reverse if necessary and identify by block number) Procurement/DoD Pricing/Contract Financing/Contractor/ Defense Finances		
FIELD	GROUP	SUB-GROUP			
05	09				
19. ABSTRACT (Continue on reverse if necessary and identify by block number) Defense Manpower Data Center conducted a survey of DoD procurement personnel at the request of the Defense Financial and Investment Review Study Group. The questionnaire covered the following topics: DoD Pricing; Profit; Contract Financing; Contractor Investment Incentives. The survey was mailed to respondents in the Army, Navy, and Air Force in June, 1984. Overall response rate was 73.9 percent. Respondents agreed that DoD Procurement Policy was effective in the contribution of contract financing policies and practices to maintaining the viability of the industrial base. Procurement personnel do not perceive procurement policy to be well integrated. A majority of respondents disagreed that DoD pricing policies and practices contribute to the policy objective of the lowest possible cost to the government. Personnel believe they are in a good position to negotiate effectively with a contractor.					
20. DISTRIBUTION / AVAILABILITY OF ABSTRACT ☒ UNCLASSIFIED/UNLIMITED ☐ SAME AS RPT. ☐ DTIC USERS			21. ABSTRACT SECURITY CLASSIFICATION Unclassified		
22a. NAME OF RESPONSIBLE INDIVIDUAL Cynthia Ann Pilecki			22b. TELEPHONE (Include Area Code) 202-696-5833		22c. OFFICE SYMBOL DMDC

The respondents generally disagreed with treating capital cost of money as part of the cost base for determining profit.

Other topics explored were:

- policies for determining reasonableness of the contractor's employee compensation costs
- efficient contractor performance and maintaining the viability of the industrial base
- profits realized by the defense contractors

Respondents disagreed that the type of contract used in weapons acquisitions is frequently not the most appropriate

The standard progress payment rate currently in effect is apparently considered by the respondents to be neither too high, nor too low.

They agreed that the flexible progress payment model is too complex to administer,

Very few agreed that the flow down of financing provisions from prime contractors to subcontractors occurs to the maximum extent possible.

A large majority disagreed that advance payments should be used more often.

More respondents disagreed than agreed that the present capital employed factor is too small to provide a tangible incentive for investment.

A majority agreed that increased capital investment by defense contractors would produce cost reductions.

1984 Defense Financial and Investment Review (DFAIR)

Survey of Defense Procurement Personnel

Results and Findings

Michael T. Laurence

Personnel Survey Branch

Survey and Market Analysis Division

**Defense Manpower Data Center
1600 Wilson Boulevard, Arlington, VA 22209**

December 1984

TABLE OF CONTENTS

	<u>Page</u>
Preface.....	i
Executive Summary.....	iii
I. Background and Methodology.....	1
Background.....	1
Questionnaire.....	3
Field Procedures.....	4
Respondents.....	5
II. Overview of Procurement Policies and Practices.....	17
Policy Objectives.....	17
Integration of Policy Areas.....	26
III. Pricing Policies and Practices.....	33
Policy Objectives.....	33
Negotiation Process.....	37
Cost Accounting Standard 414.....	43
Contracting and Costs.....	53
IV. Profit Policies and Practices.....	67
Policy Objectives.....	67
Levels of Profit.....	76
An Alternative Methodology.....	107
Other Questionnaire Items.....	114
V. Contract Financing Policies and Practices.....	131
Policy Objectives.....	131
Standard Progress Payment Rate.....	133
Flexible Progress Payment Model.....	146
Flow Down of Financing Provisions.....	155
Use of Advance Payments.....	159
VI. Contractor Investment Incentives Policies and Practices... 163	
Policy Objectives.....	163
Viability of the Industrial Base.....	169
Capital Employed Factor.....	181
Capital Investment and Costs.....	185
VII. Appendices	
Survey Questionnaire.....	A
Responses to Survey Questionnaire Items.....	B
Letters to Respondents.....	C
Letters to Services.....	D

PREFACE

The 1984 Defense Financial and Investment Review (DFAIR) Survey of Defense Procurement Personnel was conducted by the Survey and Market Analysis Division of the Defense Manpower Data Center (DMDC) at the request of the Defense Financial and Investment Review Study Group headed by Col. Ronald R. Finkbiner. The DFAIR Study Group was established under the auspices of the Deputy Under Secretary of Defense (Acquisition Management) and charged with recommending changes to Department of Defense contract pricing, financing, and profit policies.

Without the support of many people the execution of this survey would not have been possible. At DMDC, Zahava D. Doering, Chief, Survey and Market Analysis Division and David P. Boesel, Chief, Personnel Survey Branch provided overall direction and review. Survey field operations were capably and efficiently managed by David Cathcart with the assistance of Katanna L. Cooper. Mark Howell and Miya Johnson were responsible for the automated data processing aspects of the effort including adaptation of the DMDC Survey Respondent Control System for this survey. Virginia L. Broadus provided invaluable support in typing and revising the manuscript. Her patience, skill, and cheerfulness are all appreciated.

Within the DFAIR Study Group, Carol Frick was responsible for defining the scope of the effort and monitoring its progress. She provided extensive support in contributing to the development of the questionnaire, obtaining current names and addresses of the survey population, and reviewing the final report. Mary Meadows provided extensive support in typing and

revising the questionnaire and the statistical tables that appear in this report.

Finally, and most importantly, the survey would not have been possible without the participation of the procurement personnel who took the time out of busy schedules to complete the questionnaire. Their contribution and cooperation is appreciated.

1984 Defense Financial and Investment Review (DFAIR)

Survey of Defense Procurement Personnel

EXECUTIVE SUMMARY

SECTION I - Background and Methodology

At the request of the Defense Financial and Investment Review (DFAIR) Study Group the Defense Manpower Data Center (DMDC) conducted a survey of Department of Defense procurement personnel in support of a larger, full-scale study of defense contract pricing, financing, and profit policies. The DFAIR was mandated by the Deputy Secretary of Defense and is being conducted under the auspices of the Deputy Under Secretary of Defense (Acquisition Management).

Survey questionnaires covering the areas of Department of Defense (DoD) pricing, profit, contract financing, and contractor investment incentives were mailed to 1,088 procurement personnel from the Army, Navy, and Air Force on 4 June 1984. Of this initial population, 33 individuals were identified as ineligible for inclusion in the survey and 780 returned completed questionnaires, for an overall response rate of 73.9%.

SECTION II - Overview of Procurement Policies and Practices

Policy Objectives

In response to questionnaire statements asserting that DoD pricing, profit, contract financing, and contractor investment policies and

practices each contribute to the policy objectives of maintaining the viability of the industrial base, efficient contractor performance, quality products, the lowest possible cost to the Government, and encouraging capital investment, pluralities of DoD procurement personnel disagreed in twelve of twenty instances.* The only instance in which a plurality of respondents agreed that DoD procurement policy was effective was in the contribution of contract financing policies and practices to maintaining the viability of the industrial base.

Integration of Policy Areas

DoD procurement personnel do not perceive the pricing, profit, contract financing, and contractor investment incentives policies and practices to be well integrated. Each area of procurement policy appears to integrate the others to a greater or lesser extent depending upon whether or not it is the area of immediate consideration.

SECTION III - Pricing Policies and Practices

Policy Objectives

A majority (54%) of all respondents disagreed that DoD pricing policies and practices contribute to the policy objective of the lowest possible cost to the Government.

*As used here, "plurality" refers to the fact that a given response option was selected more often than any other.

Negotiation Process

Generally, DoD procurement personnel believe they are in a good position to negotiate effectively with a contractor. However, pluralities of respondents disagreed with statements asserting that DoD has adequate in-house expertise or sufficient time when negotiating with a contractor. Among those respondents who agreed that DoD has sufficient knowledge of the contractor's cost proposal, most did not consider lack of in-house expertise or time to be a problem.

Cost Accounting Standard (CAS) 414

The respondents generally disagree (52%) with treating capital cost of money as part of the cost base for determining profit. Whether or not the respondents believe that capital cost of money ought to be treated as profit depends on their perception of whether CAS 414 has motivated contractors to invest in capital assets.

Contracting and Costs

A plurality (46%) of all respondents disagreed with a statement asserting that the type of contract used in weapons acquisition is frequently not the most appropriate one for the particular type of procurement. However, a substantial minority agreed (36%) with this statement, and there is sentiment that when an inappropriate type of contract is used in weapons acquisition the Government is not getting the lowest price possible. A majority (59%) of respondents agreed that DoD should establish

a more explicit policy for determining the reasonableness of the contractor's employee compensation costs charged to Defense contractors. A plurality (45%) agreed that defense contractors are adequately compensated for interest expenses.

SECTION IV - Profit Policies and Practices

Policy Objectives

The data indicate that the DFAIR respondents do not agree that DoD profit policies contribute to the principal policy objectives of efficient contractor performance and maintaining the viability of the industrial base. Half (50%) of all respondents disagreed that current DoD profit policies and practices contribute to the policy objective of efficient contractor performance. A larger percentage (34%) disagreed than agreed (28%) that profit policies and practices contribute to maintaining the viability of the industrial base. A large majority (61%) agreed that DoD should substantially modify its profit policies.

Levels of Profit

Generally, the DFAIR respondents disagreed that profits realized by defense contractors are too low whether measured as a percentage of the selling price (49%) or by return-on-investment (50%). The responses of the procurement personnel suggest that there is discontinuity between the actual profits realized by defense contractors and weighted guideline objectives. This discontinuity may result from pressure by "management" or "the system" to keep profits down.

An Alternative Methodology

A majority (52%) of all respondents agreed that a two-tiered methodology would be an effective procurement approach to explicitly recognize the timed-phased contractor investment in very large contracts, and a much simpler approach for all other contracts. As to whether this would be an administratively practical approach a plurality (42%) of the respondents were neutral, while 37% agreed.

SECTION V - Contract Financing Policies and Practices

Policy Objectives

In the opinion of the respondents, the only one of five policy objectives that DoD contract financing policies and practices made a contribution to was maintaining the viability of the industrial base. In respect to each of the other four objectives considered, less than 20% of the respondents agreed that a contribution was made.

Standard Progress Payment Rate

The standard progress payment rate currently in effect is apparently considered by the DFAIR respondents to be neither too high nor too low. More respondents (37%) agreed that the rate should be tied to current interest rates than agreed that it should be tied to contractors borrowing rate (27%). More respondents agreed (41%) than disagreed (36%) that a lowering of the standard progress payment rate would result in a proportional increase in contract prices paid by DoD.

Flexible Progress Payment Model

A plurality (45%) of all respondents agreed that the flexible progress payment model is too complex to administer. Most respondents neither agreed nor disagreed that the model is too beneficial to contractors in general, while 55% agreed that it is more advantageous to the large contractor rather than the small contractor.

Flow Down of Financing Provisions

Very few (15%) respondents agreed that the flow down of financing provisions from prime contractors to subcontractors occurs to the maximum extent possible. As to whether the flow down of financing provisions, when it does occur, results in lower prices to the Government, more respondents disagreed (34%) than agreed (26%), with a plurality (40%) expressing no opinion.

Use of Advance Payments

A large majority (64%) of all respondents disagreed that advance payments should be used more often, while a smaller majority (57%) agreed that they should be used at the discretion of the contracting officer. Opinion as to whether advance payments would encourage competition was mixed, with 37% agreeing and 32% disagreeing.

SECTION VI - Contractor Investment Incentives Policies and Practices

Policy Objectives

In no case did a plurality of respondents agree that contractor investment incentive policies and practices contributed to any of the five policy objectives examined. Pluralities of respondents disagreed that these policies contributed to efficient contractor performance (44%) and encouraging capital investment (38%), while a majority (52%) disagreed that a contribution was made to the lowest price to the Government.

Viability of the Industrial Base

A majority (51%) of all respondents agreed that there is a sufficiently large industrial base at the prime contractor level. A smaller percentage (37%) agreed with a similar statement regarding the first tier subcontractor level. A plurality (38%) neither agreed nor disagreed that there is presently a sufficiently large industrial base at the lower tier subcontractor level. Pluralities of respondents neither agreed nor disagreed that there has been a substantial decrease, within the last five years, in the size of the industrial base at the various contractor levels.

Capital Employed Factor

More respondents disagreed (36%) than agreed (25%) that the present capital employed factor is too small to provide a tangible incentive for investment.

Capital Investment and Costs

A majority (58%) of all respondents agreed that increased capital investment by defense contractors would produce cost reductions. More respondents agreed (35%) that the flow down of capital investment provisions would result in lower prices than disagreed (24%). As to whether significant cost savings could be realized on defense contracts through methods other than capital investment, 59% of all respondents agreed and only 5% disagreed.

SECTION I

Background and Methodology

Background

On December 2, 1983 the Deputy Secretary of Defense directed that a formal, full-scale study be performed with a goal of recommending improvements to Department of Defense (DoD) contract pricing, financing, and profit policies. The impetus for this directive was Executive Order 12352, "Federal Procurement Reforms," signed by President Ronald W. Reagan on March 17, 1982, that required the reform of federal procurement practices to insure effective and efficient spending of public funds.

The Deputy Secretary of Defense directed that the study be conducted by the Deputy Under Secretary of Defense (Acquisition Management). A steering group and a study group were formed to execute the study. The steering group was composed of a flag rank officer from each of the Military Services and the Defense Logistics Agency and a member of the Senior Executive Service from the Office of the Assistant Secretary of Defense (Comptroller) and the Defense Contract Audit Agency. This group had overall responsibility for the scope of the study and the formulation of policy recommendations. The study group was composed of individuals from each Military Department, the Defense Logistics Agency, and the Defense Contract Audit Agency. The Director of the study group was from the Office of the Under Secretary of Defense (Acquisition Management). This group was responsible for performing research and collecting data to facilitate the development of recommendations for policy improvements to the steering group.

As part of its research, the study group, entitled the Defense Financial and Investment Review (DFAIR) Study Group, requested that the Defense Manpower Data Center (DMDC) conduct a survey of DoD procurement personnel to ascertain their opinions on DoD pricing, profit, contract financing, and investment incentives policies and practices. DMDC has conducted the survey, and this report presents its results.

The last major DoD study that reviewed defense profit policies was Profit '76. As part of the Profit '76 effort, a procurement personnel opinion survey was also conducted. This survey consisted of 58 questions covering four major issues. The issues that were the principle topics of Profit '76 were: (1) Defense Procurement Circular (DPC) No. 107 and the return-on-investment concept; (2) changes in the competitive base; (3) application and effectiveness of the Weighted Guidelines; and (4) interest as an allowable cost.

In 1982, the Air Force conducted an acquisition personnel opinion survey as part of their Air Force Systems Command Profit Study '82 (AFSC '82). The survey was divided into two parts. The first part consisted of 16 questions taken verbatim from the Profit '76 survey; the second part consisted of 24 additional questions which were directed towards the assessment of policy changes and revisions resulting from Profit '76 and from additional policy changes made in 1980.

The present survey took as its starting point the Profit '76 survey. A review of the questionnaire used in that survey, the results obtained from that questionnaire, and a review of current issues in DoD procurement

policy led to the identification of four major policy areas to be covered in the present survey. These four policy areas were: (1) Pricing; (2) Profit; (3) Contract Financing; and (4) Contractor Investment Incentives.

Questionnaire

The questionnaire consisted of 56 items, some of which included sub-items. Thus, the actual count of survey items was 124. The questionnaire was broken down into five main sections. Section I included items regarding respondent characteristics. Each of the succeeding sections dealt with the four major policy areas under review. Section II covered pricing policies and practices; Section III covered profit policies and practices; Section IV covered contract financing policies and practices; and Section V covered contractor investment incentive policies and practices. Appended to the end of the questionnaire was a page that permitted and encouraged comments of a general nature from respondents or comments that amplified responses to specific items and a page that included a supplemental survey question. This supplemental question addressed the treatment of risk reduction provisions. Responses to this item were to be in the form of written comments. The questionnaire is included in this report as Appendix A.

Except for the items included in the Background section of the survey instrument and the last two items of Section V, all the items took the form of a statement for which respondents were asked the extent of their agreement or disagreement expressed as a value ranging from "1" (Strongly Disagree) through "3" (Neither Agree nor Disagree) to "5" (Strongly Agree).

Construction of the questionnaire was performed by DMDC after review of previous reports and began with the selection of items from the Profit '76 and AFSC '82 surveys that were of continuing interest, given DFAIR's objectives. Additional items were generated by the DFAIR Study Group and faculty of the Defense Systems Management College with expertise in procurement policy and practice.

The draft of the questionnaire was administered to nine individuals whose background and knowledge of DoD procurement approximated those of the survey population. This "pre-test" included a debriefing of the participants in which each item was examined. Following the pre-test, the questionnaire was further revised, refined, reviewed, and approved by the DFAIR Study Group. Finally, the questionnaire was submitted to the Director for Information Control (OASD(C)), Reports and Forms Control Division, for review, approval, and assignment of RCS No. DD-DR&E(OT)1647.

Field Procedures

The questionnaire, accompanied by a letter of explanation signed by the Deputy Under Secretary of Defense (Acquisition Management), was mailed to the eligible population on 4 June 1984. On 3 July 1984 a follow-up letter, signed by the Director of DMDC, and another copy of the questionnaire were sent to those eligible respondents who had not yet responded to the first request. Copies of these letters are included in Appendix C. Finally, during the period of 30 July through 10 August 1984, attempts were made to contact each and every individual who had not yet responded personally by telephone. On 24 August 1984 the field period was closed.

Completed questionnaires were returned directly to DMDC by the respondents. DMDC employed control procedures to ensure that the identity of the respondents as well as their responses were not disclosed outside the DMDC Survey Operations staff.

Respondents

The survey was a census of those Army, Navy, and Air Force personnel within major weapons systems buying activities who met the following criteria:

- Grade/Rank of GS-12/O-3 or above,
- Eight or more years of experience in defense contracting,
- Currently involved in negotiated major weapons systems contracts valued at \$2 million or more,
- Holding the job title of:
 - Contracting Officer
 - Contracting Specialist
 - Contract Price Analyst
 - Contract Negotiator
 - Supervisors of those holding these titles.

The major buying activities to be censused were selected by the DFAIR Study Group and are listed in Table I-1. Letters (Appendix D) were sent to the Director of Procurement and Production, DARCOM, the Deputy Chief of Naval Material for Contracts and Business Management, and the Air Force Directorate of Contracting and Manufacturing Policy

Table I-1

Major Weapons Systems Buying Locations
Included in the DFAIR Survey Population

Army

- Armament, Munitions and Chemical Command
- Aviation Systems Command
- Communications - Electronics Command
- Missile Command
- Tank-Automotive Command
- Troop Support Command
- HQ, DARCOM (DRCPP-SC only)

Navy

- Naval Sea Systems Command
- Naval Electronic Systems Command
- Naval Air Systems Command
- HQ, Naval Material Command (Contracts and Business Review Division only)

Air Force

- Aeronautical Systems Division
- Armament Division
- Ballistic Missile Office
- Electronic Systems Division
- Space Division
- Ogden Air Logistics Center
- Oklahoma City Air Logistics Center
- San Antonio Air Logistics Center
- Sacramento Air Logistics Center
- Warner Robbins Air Logistics Center
- HQ, Air Force Systems Command (PMMP and PMP only)
- HQ, Air Force Logistics Command (PMPF and PMC only)

by the Director, DFAIR, asking their assistance in identifying those personnel who should participate in the survey. In response to these requests, 1,088 individuals were identified for inclusion in the survey and were mailed a copy of the survey instrument. Of this total population 33 individuals were, in the course of the field period, identified as ineligible for inclusion in the survey due to transfers out of the procurement area, retirement, or temporary assignment to special activities. Accordingly, the population was reduced to 1,055 individuals, of whom 780 (73.9%) completed and returned the survey to the Defense Manpower Data Center.

Table I-2 summarizes the numbers and percentages of individuals by Agency and Grade/Rank who were included in the eligible population and who completed and returned the survey questionnaire. The categorization of individuals in the eligible population (upper portion of the table) was based on the information provided by the Services in response to the DFAIR request for identification of procurement personnel. The categorization of respondents (lower portion of table) was based on the actual responses to survey items in the questionnaire by the respondents.

A statistical comparison of the distribution of the eligible population with the respondents revealed that Air Force GS-12/0-3's were slightly underrepresented among the respondents while Navy GS-13/0-4's were slightly overrepresented. While these disproportions were of statistical significance, they were not of practical significance, and a statistical adjustment (weighting) was not performed. Overall, the survey respondents were representative of the eligible population to whom surveys were mailed.

Table I-2

**DFAIR Eligible Population and Respondents
Classified by Grade/Rank and Agency**

Eligible Population										
Grade/Rank	Agency									
	Army		Navy		Air Force		Other		Total	
	N	%	N	%	N	%	N	%	N	%
GS-15/0-6	9	(1)	35	(3)	42	(4)	0	(-)	86	(8)
GS-14/0-5	36	(3)	66	(6)	95	(9)	0	(-)	197	(19)
GS-13/0-4	71	(7)	41	(4)	203	(19)	0	(-)	315	(30)
GS-12/0-3	196	(19)	19	(2)	239	(23)	1	(-)	455	(43)
Other	1	(-)	1	(-)	0	(-)	0	(-)	2	(-)
Total	313	(30)	162	(15)	579	(55)	1	(-)	1055	(100)

Survey Respondents										
Grade/Rank	Agency									
	Army		Navy		Air Force		Other		Total	
	N	%	N	%	N	%	N	%	N	%
GS-15/0-6	6	(1)	24	(3)	34	(4)	1	(-)	65	(8)
GS-14/0-5	30	(4)	48	(6)	66	(8)	1	(-)	145	(19)
GS-13/0-4	53	(7)	37	(5)	124	(16)	5	(-)	219	(28)
GS-12/0-3	144	(18)	10	(1)	139	(18)	4	(1)	297	(38)
Other	18	(2)	7	(1)	28	(4)	1	(-)	54	(7)
Total	251	(32)	126	(16)	391	(50)	12	(2)	780	(100)

Tables I-3 through I-7 present data describing self-reported characteristics of the survey respondents. Table I-3 presents the distribution of respondents' current position (Item 2 of the questionnaire) by Agency. Overall, a plurality (43%) of all the respondents described their current position as journeyman level and 33% described their position level as supervisor or branch head of unit or activity. Smaller proportions of respondents were those in major headquarters positions (5%), those who were a director or deputy head of a unit or activity (7%) and those who were working level staff (7%).

A comparison of the distribution of positions between the Agencies reveals that those respondents who were supervisors were represented in approximately equal proportions (33% for the Army and Navy, 35% for the Air Force). Similar proportions of higher level individuals, those who described themselves as holding major headquarters positions or who were directors or deputy heads of a unit or activity, from the Navy (16%) and Air Force (15%) were represented, compared to only 3% from the Army. Similar proportions of Navy (44%) and Air Force (45%) respondents held positions at the journeyman level or working level staff, compared to 60% of the Army respondents.

The distributions of individuals by job title (Item 3 of the questionnaire) between the Agencies varied widely. As shown in Table I-4, contract specialists comprised majorities of the Army (61%) and Navy (69%) respondents, but only 13% of the Air Force respondents. A plurality (41%) of the Air Force respondents said the title Contract Negotiator best described their current duties, compared to 3% of the Army respondents and

Table I-3
DFAIR Respondents Classified
by Position and Agency

Position	Agency									
	Army		Navy		Air Force		Other		Total	
	N	%	N	%	N	%	N	%	N	%
Major head- quarters position	6	(2)	13	(10)	19	(5)	-	(-)	38	(5)
Director or deputy head of unit or activity	3	(1)	8	(6)	40	(10)	-	(-)	51	(7)
Supervisor or branch head of unit or activity	82	(33)	42	(33)	137	(35)	-	(-)	261	(33)
Journeyman level	132	(53)	50	(40)	149	(38)	2	(17)	333	(43)
Working level staff	17	(7)	5	(4)	29	(7)	-	(-)	51	(7)
Other	11	(4)	8	(6)	17	(4)	10	(83)	46	(6)
Total	251	(100)	126	(99)	391	(99)	12	(100)	780	(100)

Table I-4
DFAIR Respondents Classified
by Job Title and Agency

Job Title	Agency									
	Army		Navy		Air Force		Other		Total	
	N	%	N	%	N	%	N	%	N	%
Price Analyst	45	(18)	0	(-)	68	(17)	0	(-)	113	(14)
Contract Specialist	153	(61)	87	(69)	49	(13)	0	(-)	289	(37)
Principle ACO	2	(1)	0	(-)	4	(1)	0	(-)	6	(1)
Contract Negotiator	7	(3)	8	(6)	161	(41)	1	(8)	177	(23)
Procurement Analyst	6	(2)	4	(3)	25	(6)	0	(-)	35	(4)
Other	32	(13)	26	(21)	76	(19)	1	(8)	135	(17)
Unidentified	6	(2)	1	(1)	8	(2)	10	(83)	25	(3)
Total	251	(99)	126	(100)	391	(99)	12	(99)	780	(99)

6% of the Navy respondents. For the Navy and Air Force respondents, the second most frequent job title or category used to describe their current duties was "other", 21% and 19% respectively. Among Army respondents 13% described their job title as "other."

Table I-5 presents the distribution of respondents by Grade/Rank (Item 4 of the questionnaire) and Agency. Overall, 38% of all the respondents were GS-12/0-3s, 28% were GS-13/0-4s, 19% were GS-14-0-5s, and 8% were GS-15/0-6s. The distribution of respondents from the Navy was skewed towards the higher grades, while those for the Army, and to a lesser extent the Air Force, were skewed towards the lower grades. Among Navy respondents 19% were GS-15/0-6s, compared to 9% of the Air Force respondents and 2% of the Army respondents. A majority (57%) of the Army respondents were GS-12/0-3s, compared to 36% of the Air Force respondents and 8% of the Navy respondents.

In terms of the number of years working in any defense contracting capacity (Item 5 of the questionnaire) the DFAIR respondents were a very experienced group. As shown in Table I-6, nearly three-quarters (74%) of all respondents had eleven or more years of service and nearly one-third (32%) had more than twenty years. Respondents from the Air Force and the Army had the most contracting experience, while those from the Navy had the least. Thirty-six percent (36%) of the Air Force respondents had served in defense contracting capacities for more than twenty years, compared to 31% of the Army respondents and 22% of the Navy respondents.

Table I-5
DFAIR Respondents Classified
by Grade/Rank and Agency

Grade/Rank	Agency									
	Army		Navy		Air Force		Other		Total	
	N	%	N	%	N	%	N	%	N	%
GS-15/0-6	6	(2)	24	(19)	34	(9)	1	(8)	65	(8)
GS-14/0-5	30	(12)	48	(38)	66	(17)	1	(8)	145	(19)
GS-13/0-4	53	(21)	37	(29)	124	(32)	5	(42)	219	(28)
GS-12/0-3	144	(57)	10	(8)	139	(36)	4	(33)	297	(38)
Other	18	(7)	7	(6)	28	(7)	1	(8)	54	(7)
Total	251	(99)	126	(100)	391	(101)	12	(99)	780	(100)

Table I-6
DFAIR Respondents Classified
by Years of Service and Agency

Years of Service	Agency									
	Army		Navy		Air Force		Other		Total	
	N	%	N	%	N	%	N	%	N	%
5 years or less	22	(9)	8	(6)	15	(4)	1	(8)	46	(6)
5-10 years	54	(22)	40	(32)	62	(16)	0	(-)	156	(20)
11-15 years	42	(17)	21	(17)	80	(20)	1	(8)	144	(18)
16-20 years	56	(22)	29	(23)	91	(23)	0	(-)	176	(23)
21-25 years	43	(17)	19	(15)	80	(20)	0	(-)	142	(18)
More than 25 years	34	(14)	9	(7)	63	(16)	0	(-)	106	(14)
Other	-	(-)	-	(-)	-	(-)	10	(83)	10	(1)
Total	251	(101)	126	(100)	391	(99)	12	(99)	780	(100)

Table I-7 presents the distributions of respondents by the value of the contracts they usually handled and Agency. The distributions for Army and Air Force respondents were exactly the same, with a majority (59%) from each Agency usually handling contracts valued at \$1-100 million. In contrast a larger percentage (63%) of Navy respondents handled contracts in this range. A larger percentage (35%) of Navy respondents than of Army and Air Force respondents (28%) reported that they usually handled contracts valued in excess of \$100 million.

In sum, there was some variation in the distributions of respondent characteristics between the Services. While it is possible to examine each of the items in the body of the questionnaire in terms of the respondent characteristics by the agency analysis presented here, such an approach would yield too few respondents in each analytic category to be meaningful. Accordingly, the analyses that are presented in the remainder of this report are restricted to those that examine questionnaire items along a single respondent characteristic at a time.

Table I-7
DFAIR Respondents Classified
by Value of Contracts Handled and Agency

Value of Contracts	Agency									
	Army		Navy		Air Force		Other		Total	
	N	%	N	%	N	%	N	%	N	%
Less than \$1 million	31	(12)	2	(2)	46	(12)	-	(-)	79	(10)
Between \$1 million and \$100 million	149	(59)	79	(63)	231	(59)	2	(17)	461	(59)
Over \$100 million	70	(28)	44	(35)	109	(28)	-	(-)	223	(29)
Other	1	(-)	1	(1)	5	(1)	10	(83)	17	(2)
Total	251	(99)	126	(101)	391	(100)	12	(100)	780	(100)

SECTION II

Overview of Procurement Policies and Practices

Policy Objectives

One of the objectives of the DFAIR survey was to assess the opinions of DoD procurement personnel as to the contribution DoD policies and practices make towards achieving a number of policy objectives relating to procurement. Towards this objective, each of the four substantive sections of the questionnaire began with a similar item, which asked respondents the extent of their agreement or disagreement with the statement:

Current DoD _____ policies and practices contribute to:

- a. Maintaining the viability of the industrial base.
- b. Efficient contractor performance.
- c. Quality products.
- d. The lowest possible cost to the Government.
- e. Encouraging capital investment.

Inserted in the blank space, as appropriate, were the main areas of DoD policies and practices that were examined in this survey:

- Pricing (Item 8)
- Profit (Item 17)
- Contract Financing (Item 38)
- Contractor Investment Incentive (Item 46)

Table II-1 summarizes the twenty items (four areas of policies and practices times five policy objectives), identified by item number, in matrix form.

Table II-2 summarizes the responses of all respondents to each of the twenty statements described above and in Table II-1. Respondents were asked to assign a numerical value between "1" and "5" to each statement as an expression of their agreement or disagreement. Response categories were defined as "Strongly Disagree" (1), "Disagree" (2), "Neither Agree Nor Disagree" (3), "Agree" (4), and "Strongly Agree" (5). For the purpose of the present analysis the "Strongly Disagree" and "Disagree" responses were combined as were the "Agree" and "Strongly Agree" responses.

In general, Table II-2 shows that the DoD procurement personnel answering the survey tended to disagree that DoD policies and practices contribute to the achievement of the major objectives listed. In only one instance did a plurality of the respondents (the largest group where no group accounted for 50%) express agreement with the statement; in seven instances a plurality of respondents provided a neutral response; and in twelve instances a plurality disagreed with the statement. In only six of the twenty instances did a majority (50% or more) of the respondents express the same opinion in response to a statement. However, in all six cases these majorities expressed disagreement with the statement presented.

When asked to state their agreement or disagreement with statements regarding the contribution of DoD policies and practices to maintaining the viability of the industrial base, a plurality of the respondents (43%)

Table II-I

DFAIR Survey Question Numbers for
Statements on the Contribution of DoD Policies
and Practices to Policy Objectives

	Current DoD _____ policies and practices contribute to:			
	<u>Pricing</u>	<u>Profit</u>	<u>Contract Financing</u>	<u>Contractor Investment Incentive</u>
Maintaining the viability of the industrial base.	8a	17a	38a	46a
Efficient contractor performance.	8b	17b	38b	46b
Quality products.	8c	17c	38c	46c
The lowest possible cost to the Government.	8d	17d	38d	46d
Encouraging capital investment.	8e	17e	38e	46e

Table II-2

Percentage Distributions of Responses to Statements
on the Contribution of DoD Policies and Practices
to Policy Objectives

	Current DoD _____ policies and practices contribute to:			
	<u>Pricing</u>	<u>Profit</u>	<u>Contract Financing</u>	<u>Contractor Investment Incentive</u>
Maintaining the viability of the industrial base.				
Agree	36	28	43	27
Neutral	37	38	36	41
Disagree	27	34	20	33
Efficient contractor performance.				
Agree	25	22	18	15
Neutral	28	28	36	41
Disagree	48	50	46	44
Quality products.				
Agree	28	18	15	13
Neutral	41	42	45	47
Disagree	32	40	40	40
The lowest possible cost to the Government.				
Agree	29	19	17	10
Neutral	18	25	33	38
Disagree	54	55	49	52
Encouraging capital investment.				
Agree	23	16	17	26
Neutral	30	34	32	37
Disagree	47	50	51	38

agreed that contract financing made a contribution. Pluralities were neutral in their assessment of the contribution of pricing (37%), profit (38%), and contractor investment incentive (41%) policies and practices.

A plurality of respondents disagreed with the statements that pricing (48%), contract financing (46%), and contractor investment incentive (44%) policies and practices contributed to efficient contractor performance. A majority (50%) disagreed that profit policies and practices made a contribution to efficient contractor performance. Among the remainder of respondents larger percentages were neutral in their assessment of the contribution of policies and practices to efficient contractor performance than were in agreement with each of the statements.

When asked to state their agreement or disagreement with the contribution of each of the various DoD policies and practices to quality products, pluralities of respondents were neutral in each respect. Among those respondents who expressed either agreement or disagreement, larger percentages disagreed that each of the various policies and practices made a contribution to quality products.

A majority of respondents disagreed with statements that pricing (54%), profit (55%), and contractor investment incentive (52%) policies and practices contribute to the lowest possible cost to the Government, while a plurality (49%) disagreed that contract financing made a contribution. Among the remaining respondents, a larger percentage were neutral than agreed that pricing, contract financing, and contractor investment incentives contribute to the lowest possible cost to the Government. However,

a larger percentage agreed that pricing policies and practices contributed to the lowest possible cost to the Government than were neutral.

When asked to state their agreement or disagreement with the contribution of the various policies and practices to encouraging capital investment, majorities disagreed that profit (50%) and contract financing (51%) made a contribution, while pluralities disagreed that pricing (47%) and contractor investment incentive (38%) made a contribution. Of the remaining respondents, larger percentages were neutral in response to each statement than were in agreement.

In order to explicate the data presented in Table II-2, the analysis was repeated with the respondents broken down by a number of defining characteristics that included:

- Agency (Item 1)
- Grade/Rank (Item 4)
- Contracts Value (Item 7)
- Position (Item 2)

Table II-3 presents a summary of the results of these analyses. Presented are distributions of the modal (most frequent) response for each of the twenty statements identified in Table II-1, classified by respondent characteristics. (The modal response to a question is the category which contains a plurality of responses to that statement.) In the construction of this table the actual percentage distribution of responses to each statement was examined separately and the modal response identified; then the

Table II-3

Distribution of the Modal Responses to
the Twenty Statements Identified in Table 2
(Number of Majority Responses in Parentheses)

Classified by Respondent Characteristics

	Number of Instances of:		
	<u>Agreement</u>	<u>Neutrality</u>	<u>Disagreement</u>
All Respondents	1	7	12 (6)
Agency:			
Army	0	10 (1)	10
Navy	1	5	14 (7)
Air Force	2	5	13 (7)
Grade/Rank:			
GS-12/0-3	2	11 (2)	8 (1)
GS-13/0-4	1	5	15 (8)
GS-14/0-5	1	3	16 (10)
GS-15/0-6	1	3	16 (9)
Contracts Value:			
Less than \$1 million	2	12 (4)	6
\$1 to \$100 million	1	7	12 (5)
Over \$100 million	1	5	15 (8)
Position:			
Major headquarters or Director or Deputy	1	2	18 (11)
Supervisor or Branch Head	1	7	12 (8)
Journeyman and Working Level	2	8	10 (3)

statement was assigned to either the agreement, neutrality, or disagreement category in Table II-3 on the basis of the modal response. Thus, each row of this table sums to 20, representing the modal responses to the twenty statements identified in Table II-1. (In some cases, the row may sum to 21 because of ties (equal percentages of different responses) within a statement.)

The first row of Table II-3 describes the responses of all respondents. Overall, plurality of respondents agreed, rather than expressing neutrality or disagreement, with only 1 statement about the contribution of DoD policies and practices, while a plurality was neutral with respect to 7 statements. Finally, a plurality expressed disagreement, rather than either agreement or neutrality, to 12 of the twenty statements. The numbers in parentheses indicates the number of statements to which the majority (50% or more) of respondents expressed agreement, neutrality, or disagreement with a statement. Thus, among all respondents there were 6 instances where 50% or more of the respondents disagreed with the statement presented.

The analysis by Agency presented in Table II-3 shows that Army respondents were more neutral in their responses than were those from the Navy and Air Force (10 statements falling in the neutral category versus 5 each for Navy and Air Force respondents). The Navy and Air Force respondents were much more negative than those from the Army, with 14 and 13 modal responses, respectively, falling in the disagreement category, versus 10 for the Army. Further, no majority of Army respondents disagreed with any statement, while the Navy and Air Force respondents expressed majority disagreement in 7 instances.

The analysis by Grade/Rank shows that the lowest ranking respondents, the GS-12/0-3s, were less negative than all the other respondents and tended to be neutral about most (11) of the statements. At the highest Grade/Rank levels, GS-14/0-5 and GS-15/0-6, there was substantial disagreement with most of the statements that were presented.

The analysis of respondents by the Value of the Contracts handled shows an inverse relationship between value of contracts and the level of disagreement. As the size of the contract value increased the level of neutrality decreased. Among those respondents who dealt with contracts in excess of \$100 million 15 statements elicited disagreement while among those who worked with contracts of less than \$1 million only 6 statements elicited disagreement.

Analysis by Position indicates that the higher the position, the greater the level of disagreement with the statements. Respondents who held major headquarters positions or were Directors or deputy heads of activities responded negatively to 18 of the twenty statements with majorities expressing disagreement in 11 instances. In contrast, supervisors and branch heads were less negative and journeymen and working level staff, the least negative.

In sum, the data in Table II-3 show that while there were differences among sub-groups of the respondents, no sub-group was by any measure positive in their assessment of the contribution of DoD policies and practices to policy objectives. The most striking feature of these data is that higher level respondents, defined by their Grade/Rank, Position, and

Contracts Value dealt with, are most negative. From these data it appears that those individuals in positions of authority are most likely to perceive shortcomings in the procurement system.

Integration of Policy Areas

In order to ascertain how well, in the opinion of the DFAIR respondents, DoD procurement policies and practices are integrated, the questionnaire included items (Items 9, 18, 39, and 47) that assessed the extent to which they agreed or disagreed that each area of DoD policy and practice (pricing, profit, contract financing, and contractor investment incentives) sufficiently took the others into consideration. Thus, Item 9 asked whether pricing policies and practices sufficiently considered profit, contract financing, and contractor investment incentive issues, while Item 18 asked whether profit policies and practices sufficiently considered issues of pricing, contract financing, and contractor investment, and so forth. Table II-4 summarizes the text and construction of these items.

Table II-5 presents a summary of the response distributions to Items 9, 18, 39, and 47 for all the DFAIR respondents. In response to Item 9, 61% of all respondents agreed with the statement that DoD pricing policies sufficiently take into consideration issues of profit, while 30% disagreed. A plurality (48%) of all respondents agreed that pricing policies and practices sufficiently considered contract financing issues, while 28% disagreed. In response to the statement that pricing policies and practices sufficiently take into consideration issues of capital investment, approximately equal percentages of respondents agreed (37%) and disagreed (40%).

Table II-4

DFAIR Survey Question Numbers for
Statements on the Integration of
Procurement Policies and Practices

DoD _____ policies and practices
sufficiently take into consideration issues
of:

	<u>Pricing</u>	<u>Profit</u>	<u>Contract Financing</u>	<u>Contractor Investment Incentive</u>
Pricing	-	18a	39a	47a
Profit	9a	-	39b	47b
Contractor Financing	9b	18b	-	47c
Capital Investment	9c	18c	39c	-

Table II-5
Percentage Distributions of Responses to
Statements on the Integration of
Procurement Policies and Practices

DoD _____ policies and practices
sufficiently take into consideration issues of:

	Pricing (Item 9)	Profit (Item 18)	Contract Financing (Item 39)	Contractor Investment Incentive (Item 47)
Pricing				
Agree	-	50	30	26
Neutral	-	25	34	39
Disagree	-	25	36	35
Profit				
Agree	61	-	27	23
Neutral	10	-	32	44
Disagree	30	-	41	33
Contract Financing				
Agree	48	32	-	22
Neutral	23	25	-	45
Disagree	28	43	-	33
Capital Investment				
Agree	37	32	22	-
Neutral	23	24	35	-
Disagree	40	43	43	-

In response to Item 18 half (50%) of the respondents agreed that DoD profit policies and practices sufficiently take into consideration issues of pricing, while 25% were neutral and 25% disagreed. Regarding the consideration of contract financing and capital investment issues in profit policies and practices, pluralities (43% each) of the respondents disagreed with the statement while 32% each agreed.

In response to Item 39, pluralities of all respondents disagreed that DoD contract financing policies and practices sufficiently take into consideration issues of pricing (36%), profit (41%) and capital investment (43%). A larger percentage (30%) of respondents agreed that pricing issues were taken into consideration than agreed (27%) that profit issues were taken into consideration. Only 22% of the respondents agreed that contract financing policies took sufficient consideration of capital investment issues.

Pluralities of respondents neither agreed nor disagreed with Item 47 that DoD contractor investment incentive policies and practices sufficiently take into consideration issues of pricing (39%), profit (44%), and contract financing (45%). The percentage that disagreed with each issue was larger than the percentage that agreed. Thirty-five percent (35%) of all respondents disagreed that pricing was sufficiently considered, while 26% agreed. One-third (33%) each of all respondents disagreed that profit and contract financing were sufficiently considered, while 23% and 22% respectively agreed.

The construction of these four questionnaire items included built-in redundancy so that each substantive area could be considered from two approaches - as a policy and practice and as an issue. For example, Item 9 dealt with pricing as a policy and practice, but profit as an issue, while Item 18 dealt with profit as a policy and practice, but pricing as an issue. Thus while 61% of all respondents agreed that the pricing policies and practices sufficiently take into consideration issues of profit, only 50% agreed with the reverse, that DoD profit policies and practices sufficiently take into consideration issues of pricing (see Table II-5).

An analysis of the paired responses of each respondent revealed that 39% of all respondents responded differently to Item 18a, compared to Item 9a (see Table II-6). Only 41% agreed that pricing and profit policies each took the issue of the other sufficiently into consideration, while 5% were neutral in response to both statements and 15% disagreed with both statements.

Examination of the remainder of Table II-6 reveals that none of the sets of paired responses for all respondents resulted in consistency above the 60% level. More importantly, the percentages of respondents who agreed that the paired policies took the issue of the other into sufficient consideration were all less than 20%.

Taken as a whole, the data presented in Tables II-5 and II-6 suggest that the DFAIR respondents do not perceive the four areas of procurement policy examined in this survey to be handled in an integrated fashion. The data further suggest that each area of procurement policy is considered differently depending upon whether or not it is under immediate consideration.

Table II-6

Percentages of DFAIR Respondents
Providing the Same Response to the
Paired Policy and Practices Areas

DoD _____ policies and practices
sufficiently take into consideration issues of:

	<u>Pricing</u> (Item 9)	<u>Profit</u> (Item 18)	<u>Contract Financing</u> (Item 39)	<u>Contractor Investment Incentive</u> (Item 47)
Pricing				
Agree	-	41	19	16
Neutral	-	5	10	12
Disagree	-	15	16	22
Profit				
Agree	-	-	15	13
Neutral	-	-	14	17
Disagree	-	-	26	23
Contract Financing				
Agree	-	-	-	11
Neutral	-	-	-	24
Disagree	-	-	-	25

SECTION III

Pricing Policies and Practices

Policy Objectives

It is generally recognized that it is Department of Defense policy to procure supplies and services from responsible sources at fair and reasonable prices, calculated to result in the lowest overall cost to the Government.

The Pricing Section of the DFAIR questionnaire that addressed DoD pricing policies and practices began with a set of statements (Item 17) which asked respondents the extent of their agreement or disagreement with statements regarding the contribution of current DoD pricing policies and practices to policy objectives. Presented in Table III-1 is the text of this item and the distribution of responses.

In no instance did a plurality of respondents agree that current DoD pricing policies and practices contribute to the five policy objectives listed. A majority (54%) of the respondents disagreed with Item 8d regarding the contribution of profit policies and practices to lowest possible cost to the Government. In response to the statements regarding efficient contractor performance (Item 8b) and encouraging capital investment (Item 8e) large pluralities, 48% and 47% respectively, disagreed. Slight pluralities of respondents were neutral regarding the contributions of pricing policies to maintaining the viability of the industrial base (Item 8a) and quality products (Item 8c), 37% and 41% respectively. Of

TABLE III-1

Analysis of Responses to Item 8
of the DFAIR Survey

<u>Current DoD PRICING policies and practices contribute to:</u>	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
a. Maintaining the viability of the industrial base.	(766)	36	37	27
b. Efficient contractor performance.	(769)	25	28	48
c. Quality products.	(770)	28	41	32
d. The lowest possible cost to the Government.	(771)	29	18	54
e. Encouraging capital investment.	(764)	23	30	47

those respondents who provided a response other than "neither agree nor disagree" to Items 8a and 8c, more agreed (36%) than disagreed (27%) with Item 8a, while more disagreed (32%) with Item 8c than agreed (28%).

In light of stated policy and the large percentage of respondents disagreeing that pricing policies contribute to the lowest possible cost to the Government, further analysis of the responses to Item 8d by respondent characteristics was performed. Table III-2 presents the results of this analysis and shows some substantial differences among respondents.

A substantially higher percentage of Navy and Air Force respondents (59% for each Agency) disagreed with this statement than did Army respondent (43%). Larger percentages of high level respondents, as measured by Position and Grade/Rank, disagreed that pricing policies contributed to the lowest possible cost than did lower level respondents. Of those respondents who worked in major headquarters positions or who were Directors or Deputy heads of activities, 59% disagreed compared to 51% of the supervisors and 54% of the working level and journeymen personnel. Sixty percent (60%) of GS-15/0-6 respondents disagreed with the statement, compared to 53% of the GS-12/0-3 respondents.

As measured by value of contracts handled, 57% of the respondents handling contracts of more than \$100 million disagreed that DoD pricing policies contributed to the lowest possible cost to the government, compared to 55% of those handling contracts valued at \$1-100 million and 33% of those handling contracts valued at less than \$1 million. Among those respondents handling contracts valued at less than \$1 million, a plurality (46%) agreed with the statement.

TABLE III-2

Analysis of Responses to Item 8d
of the DFAIR Survey
By Respondent Characteristics

Current DoD PRICING policies and
practices contribute to:

The lowest possible cost to the
Government.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(771)	29	18	54
Agency				
Army	(250)	38	20	43
Navy	(124)	21	20	59
Air Force	(385)	26	15	59
Position				
Major Headquarters and Directors or Deputies	(88)	22	19	59
Supervisors	(258)	28	21	51
Working Level Staff and Journeymen	(379)	31	15	54
Grade/Rank				
GS-12/O-3	(293)	33	14	53
GS-13/O-4	(217)	24	18	58
GS-14/O-5	(143)	30	20	50
GS-15/O-6	(65)	22	18	60
Value of Contracts				
Less than \$1 million	(78)	46	21	33
\$1 - \$100 million	(464)	29	16	55
More than \$100 million	(223)	24	19	57
Job Title				
Price Analyst	(113)	19	9	73
Contract Specialist	(284)	33	22	45
Contract Negotiator	(176)	28	14	57

When responses were analyzed by job title it was found that 73% of those respondents who described themselves as price analysts disagreed that DoD policies contributed to the lowest possible cost to the Government. Among those respondents describing themselves as contract negotiators, 57% disagreed that DoD pricing policies contributed to the lowest possible cost to the Government, as did 45% of those who described themselves as contract specialists.

Negotiation Process

A number of items were included in the questionnaire that asked the opinions of DoD procurement personnel about elements of the negotiation process that lead to the establishment of contract price. Items 16a - 16d posed the statement:

16. When DoD negotiates price with a contractor, it usually:
- a. Has sufficient knowledge of the contractor's cost proposal.
 - b. Has time to negotiate an equitable price.
 - c. Has adequate in-house expertise.
 - d. Assumes that the proposed price is inflated.

In response to Item 16a, (see Table III-3) 66% of all respondents agreed that DoD usually has sufficient knowledge of the contractors cost proposal. In response to Item 16d, 64% of all respondents also agreed that DoD usually assumes that the proposed price is inflated. These majorities suggest that DoD procurement personnel feel they are in a good position to effectively negotiate with a contractor. However, some doubt about the

TABLE III-3

Analysis of Responses to Items 16a, 16b, 16c, and 16d
of the DPAIR Survey
By Respondent Characteristics

When DoD negotiates price with a contractor, it usually:																
	a. Has sufficient knowledge of the contractor's cost proposal.				b. Has time to negotiate an equitable price.				c. Has adequate in-house expertise.				d. Assumes that the price is inflated.			
	N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree
All Respondents	(767)	66	11	23	(762)	36	14	50	(762)	38	17	46	(764)	64	21	15
Agency																
Army	(245)	62	11	27	(242)	31	16	53	(243)	46	19	35	(245)	71	20	10
Navy	(125)	71	10	18	(125)	42	14	44	(125)	34	18	49	(124)	56	23	20
Air Force	(385)	66	12	22	(383)	37	13	50	(382)	34	15	51	(383)	63	20	16
Position																
Major Headquarters and Directors or Deputies	(88)	66	10	24	(88)	39	14	48	(88)	40	14	47	(88)	66	15	19
Supervisors	(256)	63	11	26	(254)	33	14	54	(253)	36	17	47	(254)	63	24	13
Working Level Staff and Journeyman	(378)	67	12	21	(376)	36	15	49	(377)	38	17	44	(378)	65	20	15
Grade/Rank																
GS-12/0-3	(291)	65	11	24	(289)	35	14	51	(290)	41	17	42	(291)	67	19	15
GS-13/0-4	(214)	65	12	23	(213)	31	15	54	(213)	34	18	47	(213)	68	23	10
GS-14/0-5	(143)	66	11	22	(143)	38	12	50	(142)	32	13	54	(143)	60	23	17
GS-15/0-6	(65)	77	8	15	(65)	45	17	38	(65)	48	17	35	(65)	60	23	17
Value of Contracts																
Less than \$1 million	(77)	60	12	29	(77)	39	16	45	(76)	37	21	42	(78)	68	22	10
\$1 - \$100 million	(465)	66	12	22	(461)	36	15	49	(461)	40	15	45	(461)	64	19	18
More than \$100 million	(219)	67	11	23	(218)	34	12	54	(219)	33	20	47	(219)	64	25	11
Job Title																
Contract Analyst	(110)	73	12	15	(110)	35	14	52	(110)	36	17	46	(110)	63	20	17
Contract Negotiator	(284)	65	8	26	(281)	37	15	48	(281)	42	17	41	(282)	64	22	14
Contract Negotiator	(175)	66	13	21	(174)	34	14	52	(173)	40	14	46	(174)	62	21	17

DoD's ability to negotiate effectively is raised by the finding that a plurality (46%) of all respondents disagreed that DoD has adequate in-house expertise when it negotiates with a contractor (Item 16c). Further doubt about the ability of DoD to negotiate effectively is raised by the finding that 50% of all respondents disagreed that DoD has time to negotiate an equitable price with a contractor (Item 16b).

Table III-3 includes an analysis of the responses to Items 16a-16d broken down by respondent characteristics. Respondents from the Navy were most likely (71%) to agree that DoD has sufficient knowledge of the contractor's cost proposal (Item 16a) and least likely (56%) to agree that DoD assumes that the proposed price is inflated (Item 16d). A smaller percentage (60%) of respondents handling contracts valued at less than \$1 million agreed that DoD has sufficient knowledge of the contractor's cost proposal (Item 16a) than did those respondents handling larger value contracts. Those respondents whose job title was price analyst were most likely to agree (73%) that DoD has sufficient knowledge of the contractors cost proposal (Item 16a). The lower ranking respondents, GS-12/O-3 and GS-13/O-4 were more likely to agree with Item 16d (67% and 68%, respectively) that DoD assumes the proposed price to be inflated than were the higher ranking, GS-14/O-5 and GS-15/O-6, respondents (60% each).

As noted earlier, the distributions of responses to Items 16b and 16c cast doubt on the ability of DoD to negotiate effectively. In order to partially explicate the basis, for this doubt the responses to Items 16b and 16c were examined in terms of the responses to Item 16a (See Table III-4). The responses to Items 16b and 16c were highly correlated with those to

TABLE III-4

Analysis of Responses to Items 16b and 16c
of the DPAIR Survey
By Response to Item 16a

When DoD negotiates price with a contractor, it usually:

		Item 16b		Item 16c	
		Has time to negotiate an equitable price.		Has adequate in-house expertise.	
		Percentage		Percentage	
		Agree	Neutral	Disagree	Disagree
		N		N	Disagree
Item 16a	Has sufficient knowledge of the contractor's cost proposal.				
	Agree	(502)	49	15	36
	Neutral	(86)	10	26	64
	Disagree	(174)	9	7	84
				(501)	51
				(86)	19
				(175)	8
					17
					28
					53
					81

Item 16a. That is, among those respondents who agreed that DoD has sufficient knowledge of the contractors cost proposal (Item 16a), 49% also agreed that DoD has time to negotiate an equitable price (Item 16b), and 51% also agreed that DoD has adequate in-house expertise (Item 16c). Among those respondents who disagreed with Item 16a, 84% also disagreed that DoD has time to negotiate an equitable price (Item 16b), and 81% also disagreed that DoD has adequate in-house expertise (Item 16b). Thus, it appears that insufficient time to negotiate and lack of in-house expertise are problems only when DoD does not have sufficient knowledge of the contractor's cost proposal.

An additional statement relating to the negotiation process was posed in Item 12, which read:

12. When negotiating firm fixed-price contracts, agreement is usually separately reached on the cost and profit portions of the contract price.

One-third (33%) of all respondents agreed with this statement, while 61% disagreed. An analysis of these data by respondent characteristics (see Table III-5) revealed that a majority (53%) of Army respondents agreed with this statement, while majorities of Navy and Air Force respondents, 66% and 73% respectively, disagreed with the statement. Nearly three-quarters (73%) of those respondents in major headquarters positions or who were Directors or Deputy heads of activities disagreed that cost and profit portions of the contract price are usually separately agreed upon, compared to 64% of the supervisors and 56% of the working level and journeymen

TABLE III-5

Analysis of Responses to Item 12
of the DFAIR Survey
By Respondent Characteristics

When negotiating firm fixed-price contracts, agreement is usually separately reached on the cost and profit portions of the contract price.

	N	Percentage		
		Agree	Neutral	Disagree
All Respondents	(775)	33	6	61
Agency				
Army	(249)	53	7	40
Navy	(126)	25	10	66
Air Force	(388)	22	4	73
Position				
Major Headquarters and Directors or Deputies	(89)	25	2	73
Supervisors	(260)	28	8	64
Working Level Staff and Journeymen	(380)	39	5	56
Grade/Rank				
GS-12/0-3	(294)	40	5	54
GS-13/0-4	(218)	27	6	67
GS-14/0-5	(145)	28	8	64
GS-15/0-6	(65)	23	3	74
Value of Contracts				
Less than \$1 million	(78)	38	8	54
\$1 - \$100 million	(466)	34	6	61
More than \$100 million	(224)	29	6	65

personnel. As measured by Grade/Rank, the percentage disagreeing with Item 12 increased as a function of level. The lower ranking respondents were less likely to disagree, 54% of the GS-12/0-3s, compared to 74% of the GS-15/0-6 respondents.

As measured by the value of contracts handled, 38% of the respondents handling contracts of less than \$1 million agreed that cost and profit portions of the contract price are separately agreed upon, while 54% disagreed. At the higher values of contracts handled, successively smaller percentages agreed, and larger percentages disagreed with Item 12.

Cost Accounting Standard 414

How facilities capital cost of money is handled in terms of determining the price the Government will pay for procurement of goods has recently been the subject of discussion and controversy. To assess the opinions of DoD procurement personnel regarding this issue the questionnaire included as Item 15 the statement:

15. Cost Accounting Standard 414, "Facilities Capital Cost of Money":
 - a. Is very confusing.
 - b. Has motivated contractors to invest in capital assets.
 - c. Should be included in the cost base for determining profit.
 - d. Should be considered as part of profit rather than as a cost.

As shown in Table III-6, the majority (53%) of all respondents agreed with Item 15a that Cost Accounting Standard (CAS) 414 is very confusing, while 21% disagreed. When these results were broken down by respondent characteristics, there were notable differences among the sub-groups. Respondents from the Air Force were most likely to agree with Item 15a (56%) and those from the Navy least likely to agree (46%). As measured by the value of contracts handled, there was an inverse relationship between the size of contracts handled and the percentage of agreement. Among those respondents who handled contracts valued at less than \$1 million, 61% agreed that CAS 414 is very confusing, compared to 55% handling contracts valued at \$1 - \$100 million, and 47% handling contracts valued at more than \$100 million. Among those respondents who said the job title price analyst best described their duties, only 37% agreed with Item 15a, compared to 53% of the contract specialist and 61% of the contract negotiators.

In response to Item 15b, a majority (53%) of all respondents disagreed with the statement that CAS 414 has motivated contractors to invest in capital assets (see Table III-6). Respondents from the Navy were most likely to disagree with this statement (67%), while those from the Army least likely to disagree (46%). The percentage of respondents who disagreed with Item 15b increased as a function of the value of contracts usually handled. Among those respondents who handled contracts valued at less than \$1 million, 32% disagreed that CAS 414 motivated contractors to invest in capital assets, compared to 54% among those handling contracts valued at \$1-100 million and 59% among those handling contracts of more than \$100 million. Two-thirds (67%) of those respondents whose job title was price analyst disagreed that CAS 414 has motivated contractors to

Table III-6

Analysis of Responses to Items 15a and 15b
of the DFAIR Survey

By Respondent Characteristics

Cost Accounting Standard 414, "Facilities Capital Cost of Money":									
	a. Is Very Confusing.				N	b. Has motivated contractors to invest in capital assets.			
	Percentage					Percentage			
	Agree	Neutral	Disagree			Agree	Neutral	Disagree	
All Respondents	(741)	53	26	21	(734)	14	32	53	
Agency									
Army	(233)	51	29	20	(228)	16	38	46	
Navy	(125)	46	30	24	(123)	12	20	67	
Air Force	(371)	56	23	21	(371)	14	34	53	
Position									
Major Headquarters and Directors or Deputies	(87)	55	20	25	(87)	14	23	63	
Supervisors	(245)	52	29	18	(244)	10	32	58	
Working Level Staff and Journeyman	(365)	54	25	21	(360)	16	36	47	
Grade/Rank									
GS-12/0-3	(279)	55	24	21	(277)	20	38	42	
GS-13/0-4	(206)	53	29	18	(205)	12	29	59	
GS-14/0-5	(139)	50	28	22	(137)	5	29	66	
GS-15/0-6	(65)	46	26	28	(65)	15	18	66	
Value of Contracts									
Less than \$1 million	(74)	61	26	14	(74)	14	54	32	
\$1 - \$100 million	(451)	55	26	20	(445)	14	32	54	
More than \$100 million	(212)	47	27	26	(210)	15	26	59	
Job Title									
Price Analyst	(110)	37	26	36	(109)	15	18	67	
Contract Specialist	(274)	53	27	20	(270)	14	35	50	
Contract Negotiator	(167)	61	22	17	(167)	15	40	45	

invest in capital assets. Finally, the percentage of respondents disagreeing with the Item 15b was lower among the lower ranking and working level respondents than it was for successive higher ranks and positions.

The analysis presented in Table III-7, which shows the responses to Item 15b in terms of the responses to Item 15a, indicates that the level of agreement that CAS 414 motivates investment in capital assets is related to the perceived clarity of CAS 414. Among those respondents who agreed that CAS 414 is confusing (Item 15a), only 11% agreed that CAS 414 has motivated investment in capital assets (Item 15b) while 57% disagreed. In contrast, among those respondents who disagreed with the statement that CAS 414 is very confusing (Item 15a), a much larger percentage (26%) agreed that CAS 414 has motivated contractors to invest in capital assets (Item 15b) while a smaller percentage (49%) disagreed.

Items 15c and 15d sought to determine the opinions of the respondents as to whether facilities cost of money should be treated as a cost or as profit. Overall, (see Table III-8) 52% of the respondents disagreed with the statement that facilities cost of money should be included in the cost base for determining profit (Item 15c), while 46% agreed with the statement that facilities cost of money should be considered as part of profit (Item 15d).

Among price analysts, the percentages disagreeing with Item 15c and agreeing with Item 15d both were particularly large. Sixty-four percent (64%) disagreed that facilities cost of money should be included in the cost base (Item 15c) while 60% agreed that it should be considered part of profit (Item 15d).

TABLE III-7

Analysis of Responses to Item 15b
of the DFAIR Survey
By Response to Item 15a

		Item 15b			
		Cost Accounting Standard 414, "Facilities Capital Cost of Money":			
		Has motivated contractors to invest in capital assets.			
		Percentage			
Item 15a	N	Agree	Neutral	Disagree	
Cost Accounting Standard 414, "Facilities Capital Cost of Money":					
Is very confusing.					
Agree	(380)	11	32	57	
Neutral	(194)	11	39	50	
Disagree	(154)	26	25	49	

TABLE III-8

Analysis of Responses to Items 15c and 15d
of the DPAIR Survey
By Respondent Characteristics

		Cost Accounting Standard 414, "Facilities Capital Cost of Money":									
		c. Should be included in the cost base for determining profit.		d. Should be considered as part of profit rather than as a cost.							
		Percentage		Percentage							
		Agree	Disagree	Agree	Disagree						
		N	N	N	N						
		(733)	(733)	(735)	(735)						
All Respondents		28	20	52	35						
Agency											
Army		31	19	50	20						
Navy		19	22	60	18						
Air Force		30	20	50	19						
Position											
Major Headquarters and Directors or Deputies		41	16	43	20						
Supervisors		29	27	44	21						
Working Level Staff and Journeyman		25	17	58	18						
Grade/Rank											
GS-12/0-3		25	18	57	20						
GS-13/0-4		27	22	50	19						
GS-14/0-5		28	20	51	17						
GS-15/0-6		39	17	44	20						
Value of Contracts											
Less than \$1 million		36	20	43	20						
\$1 - \$100 million		28	19	54	18						
More than \$100 million		28	21	51	21						
Job Title											
Price Analyst		21	15	64	14						
Contract Specialist		23	22	55	20						
Contract Negotiator		34	17	49	22						

Among those respondents who responded to both statements (data not shown), 18% agreed with Item 15c and disagreed with Item 15d, clearly indicating their belief that cost of money should be treated as a cost, rather than a part of profit. In contrast, 33% disagreed with Item 15b and agreed with Item 15c, indicating their belief that facilities cost of money should be treated as part of profit, rather than be included in the cost base.

Further reinforcing the general finding, in the opinion of the respondents, that facilities capital cost of money should be treated as part of profit rather than included in the cost base, are the results of an analysis of the responses to Items 15c and 15d in terms of the responses to Item 15b which stated that CAS 414 has motivated contractors to invest in capital assets (see Table III-9). Majorities of respondents disagreed that the capital cost of money should be included in the cost base (Item 15c) regardless of whether they agreed (51%) or disagreed (55%) that CAS 414 has motivated contractors to invest in capital assets.

Among those respondents who disagreed that CAS 414 has motivated investment in capital assets (Item 15b), 50% agreed with Item 15d that capital cost of money should be considered as part of profit. Among those respondents who agreed that CAS 414 has motivated investment in capital assets, 39% also agreed that facilities capital cost of money should be treated as part of profit (Item 15d). However, among those who agreed with Item 15b a larger percentage disagreed (43%) with Item 15d than agreed (39%).

TABLE III-9

Analysis of Responses to Items 15c and 15d
of the DPAIR Survey
By Response to Item 15b

Cost Accounting Standard 414, "Facilities Capital Cost of Money":					
N	Agree	Percentage		N	Agree
		Neutral	Disagree		
(102)	32	17	51	(102)	39
(236)	28	26	46	(237)	41
(388)	28	17	55	(387)	50
					15
					36

Item 15b
Cost Accounting Standard 414,
"Facilities Capital Cost of
Money":

Has motivated contractors to
invest in capital assets.

Agree

Neutral

Disagree

Taken as a whole, the data in Table III-9 indicate that the respondents generally disagree with treating capital cost of money as part of the cost base for determining profit (Item 15c). Whether or not the same respondents believe that capital cost of money ought to be treated as part of profit depends on their perception of whether CAS 414 has motivated contractors to invest in capital assets. Where there was disagreement or no opinion that CAS 414 has motivated contractors to invest, then the respondents believe that capital cost of money should be treated as part of profit. Otherwise, the sentiment of the respondents was that the capital cost of money should not be treated as part of profit.

An item similar to Item 15c, that facilities cost of money should be included in the cost base for determining profit, was also included in the AFSC '82 survey. Table III-10 presents a comparison of the DFAIR Air Force respondents responses to Item 15c and the results obtained in AFSC '82. These data show that there has been a large shift in opinion. While a plurality (43%) of the AFSC respondents agreed with including capital cost of money in the cost base, only a minority (30%) of the DFAIR Air Force respondents did so. A majority (50%) of the DFAIR Air Force subsample disagreed with this statement compared to 38% of the AFSC '82 respondents.

TABLE III-10

Comparison of Responses to Item 15c
of the DFAIR Survey
With Those Obtained in AFSC '82^a

Cost Accounting Standard 414, "Facilities Capital Cost of Money": Should be included in the cost base for determining profit. ^a				
		Percentage		
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (Air Force Respondents)	(367)	30	20	50
AFSC '82 ^a	(*)	43	19	38

* Not available

^a In AFSC '82, the item posed read as: Facilities capital cost of money should be included in the cost base for determining profit.

Contracting and Costs

Extremely large percentages of respondents expressed agreement with Item 10 of the DFAIR survey which stated:

10. The DoD approach to pricing should consider the:
 - a. Type of contract
 - b. Size of the contract
 - c. Type of materials, commodity or service.

The distribution of responses are presented in Table III-11. Nearly all respondents (97%) agreed that the type of contract should be considered (Item 10a), while 83% agreed that the size of the contract should be considered (Item 10b), and 91% agreed that the type of materials, commodity, or service should be considered.

Item 11 of the DFAIR questionnaire sought to assess whether or not the type of contract used for procurements is usually appropriate by posing the statement:

11. The type of contract used in weapons acquisition is frequently not the most appropriate one for the particular type of procurement.

As shown in Table III-12, a plurality (46%) of the respondents disagreed with this statement, indicating that most of the time the type of contract used is the appropriate one. However, over one-third (36%) agreed with the statement.

TABLE III-11

Analysis of Responses to Items 10a, 10b, and 10c
of the DFAIR Survey

<u>The DoD approach to pricing should consider the:</u>	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
a. Type of Contract.	(771)	97	2	1
b. Size of Contract.	(770)	83	9	9
c. Type of materials, commodity, or service.	(770)	91	6	3

Table III-12

**Analysis of Responses to Item 11
of the DFAIR Survey
By Respondent Characteristics**

The type of contract used in weapons acquisition is frequently not the most appropriate one for the particular type of procurement.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(765)	36	18	46
Agency				
Army	(248)	28	17	54
Navy	(124)	28	17	55
Air Force	(381)	45	18	37
Position				
Major Headquarters and Directors or Deputies	(87)	38	10	52
Supervisors	(259)	36	19	44
Working Level Staff and Journeyman	(374)	36	18	46
Grade/Rank				
GS-12/0-3	(286)	36	20	45
GS-13/0-4	(217)	37	21	42
GS-14/0-5	(143)	35	13	52
GS-15/0-6	(65)	37	5	58
Value of Contracts				
Less than \$1 million	(76)	21	29	50
\$1 - \$100 million	(459)	37	18	46
More than \$100 million	(224)	41	14	45

When the responses to this item were broken down by respondent characteristics (see Table III-12), a larger percentage of Air Force respondents agreed (45%) that the type of contract used is frequently not the most appropriate one, than disagreed (37%). In contrast, majorities of respondents from the Army (54%) and Navy (55%) disagreed. As measured by the value of contracts usually handled, only 21% of those respondents handling contracts valued at less than \$1 million agreed with the statement, compared to 37% of those respondents handling contracts valued at \$1-100 million, and 41% of those usually handling contracts valued at more than \$100 million.

Item 11 was also included in the PROFIT '76 survey and a comparison of the responses with those obtained in the present survey is presented in Table III-13. The percentage agreeing that the type of contract used in weapons acquisition is frequently not the most appropriate one was only two percentage points higher in DFAIR than in PROFIT '76 (36% versus 34%). However, the percentage disagreeing with the statement was substantially higher in DFAIR (46%) than it was in PROFIT '76 (37%), suggesting an improvement in this area of procurement.

Table III-14 presents an analysis of the responses to Item 11, that the type of contract used in weapons acquisition is frequently not the most appropriate one, in terms of the responses to Item 8d, which asked respondents their agreement or disagreement with the statement that DoD pricing policies contribute to the lowest possible cost to the Government. Among those respondents who agreed with Item 8d, 63% disagreed that the type of contract used is frequently not the most appropriate (Item 11) compared to

TABLE III-13

Comparison of Responses to Item 11
of the DFAIR Survey
With Those Obtained in Profit '76

The type of contract used in
weapons acquisition is frequently
not the most appropriate one for
the particular type of procurement.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(765)	36	18	46
PROFIT '76	(*)	34	28	37

* Not available

TABLE III-14

Comparison of Responses to Item 11
of the DFAIR Survey
By Response to Item 8d

		Item 11			
		<u>The type of contract used in weapons acquisition is frequently not the most appropriate one for the particular type of procurement.</u>			
		Percentage			
Item 8d		N	Agree	Neutral	Disagree
<u>Current DoD PRICING policies and practices contribute to:</u>					
<u>The lowest possible cost to the Government.</u>					
Agree	(221)	23	14	63	
Neutral	(131)	25	27	48	
Disagree	(406)	47	17	36	

23% agreeing. Among those disagreeing with Item 8d, 47% agreed and 36% disagreed with Item 11. These data indicate that there is some sentiment that when an inappropriate type of contract is used in weapons acquisition the Government is not getting the lowest price possible.

Item 13 of the questionnaire was concerned with the area of contractor's employee compensation costs charged to defense contracts and posed the following statement:

13. DoD should establish a more explicit policy for determining the reasonableness of the contractor's employee compensation costs charged to defense contracts.

As shown in Table III-15, 59% of all respondents agreed with this statement while only 12% disagreed. When these data were broken down by respondent characteristics the sentiment for such a policy was found to be very broad. Particularly large majorities agreeing that a more explicit policy for contractors employee compensation costs were found among Navy respondents (73%), among major headquarters personnel and directors or deputy heads of activities (69%), and among GS-15/0-6 personnel (70%).

Further reinforcing this broad agreement that DoD should establish a more explicit policy for contractor's employee compensation costs is the analysis presented in Table III-16 which presents the responses to Item 13, in terms of the responses to Item 8d, that current DoD pricing policies contribute to the lowest possible cost to the Government. Regardless of the response to Item 8d, a majority of respondents agreed that DoD should

TABLE III-15

Analysis of Responses to Item 13
of the DFAIR Survey
By Respondent Characteristics

DoD should establish a more
explicit policy for determining the
reasonableness of the contractor's
employee compensation costs charged
to defense contracts.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(757)	59	29	12
Agency				
Army	(243)	57	33	10
Navy	(121)	73	21	6
Air Force	(381)	56	29	15
Position				
Major Headquarters and Directors or Deputies	(86)	69	17	14
Supervisors	(252)	57	30	13
Working Level Staff and Journeymen	(375)	60	31	9
Grade/Rank				
GS-12/0-3	(287)	56	35	9
GS-13/0-4	(215)	59	26	15
GS-14/0-5	(139)	58	29	14
GS-15/0-6	(63)	70	17	13
Value of Contracts				
Less than \$1 million	(72)	56	36	8
\$1 - \$100 million	(459)	59	30	11
- More than \$100 million	(219)	59	26	15

TABLE III-16

Comparison of Responses to Item 13
of the DFAIR Survey
By Response to Item 8d

		Item 13			
		DoD should establish a more explicit policy for determining the reasonableness of the contractor's employee compensation costs charged to defense contracts.			
		Percentage			
		<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
Item 8d					
Current DoD PRICING policies and practices contribute to:					
The lowest possible cost to the Government.					
Agree	(216)	53	35	13	
Neutral	(132)	51	39	9	
Disagree	(402)	64	24	13	

establish a more explicit policy regarding the contractor's employee compensation costs (Item 11). The level of agreement with Item 11 was highest (64%) among those who disagreed with Item 8d, that DoD pricing policies contribute to the lowest possible cost to the Government.

Item 14 of the questionnaire dealt with interest expenses of contractors and posed the statement:

14. Defense contractors are adequately compensated for interest expenses.

A plurality (45%) of all respondents agreed with this statement, while 33% disagreed (See Table III-17). An analysis of responses broken down by respondent characteristics revealed substantial variation in responses along every characteristic. Lower level respondents, as measured by Position and Grade/Rank, were more likely to agree that defense contractors are adequately compensated for interest expenses than were higher level respondents. Army respondents were most likely to agree (51%), while Air Force respondents were evenly divided between agreement (40%) and disagreement (41%).

An analysis of the responses to Item 14 in terms of the response to the item stating that DoD pricing policies contribute to the lowest possible cost to the Government (Item 8d) is presented in Table III-18. Of those respondents who agreed with Item 8d, a majority (52%) also agreed that defense contractors are adequately compensated for interest expense (Item 14). Among those respondents who disagreed that DoD pricing policies

TABLE III-17

Analysis of Responses to Item 14
of the DFAIR Survey
By Respondent Characteristics

Defense contractors are adequately
compensated for interest expenses.

	N	Percentage		
		Agree	Neutral	Disagree
All Respondents	(767)	45	22	33
Agency				
Army	(245)	51	27	22
Navy	(124)	48	18	34
Air Force	(386)	40	19	41
Position				
Major Headquarters and Directors or Deputies	(89)	36	15	49
Supervisors	(256)	39	22	39
Working Level Staff and Journeyman	(378)	52	23	25
Grade/Rank				
GS-12/0-3	(291)	52	25	23
GS-13/0-4	(213)	40	20	40
GS-14/0-5	(144)	34	24	42
GS-15/0-6	(65)	43	12	45
Value of Contracts				
Less than \$1 million	(74)	55	20	24
\$1 - \$100 million	(465)	45	22	34
More than \$100 million	(221)	43	23	34

TABLE III-18

Comparison of Responses to Item 14
of the DFAIR Survey
By Response to Item 8d

Item 8d	Item 14			
	<u>Defense contractors are adequately compensated for interest expenses.</u>			
	Percentage			
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
Current DoD PRICING policies and practices contribute to:				
The lowest possible cost to the Government.				
Agree	(220)	52	23	25
Neutral	(132)	39	30	31
Disagree	(408)	43	19	38

contribute to the lowest possible cost to the Government, 43% agreed with Item 14 and 38% disagreed. Thus, it does not appear that there is clear sentiment that interest expenses account for the perceived ineffectiveness of DoD policy in contributing to the lowest possible cost to the Government.

SECTION IV

Profit Policies and Practices

Policy Objectives

Paragraph 15.901(b) of the Federal Acquisition Regulation states:

"It is in the Governments interest to offer contractors opportunities for financial rewards sufficient to (1) stimulate efficient contract performance, (2) attract the best capabilities of qualified large and small business concerns to Government contracts, and (3) maintain a viable industrial base."

Elaboration of this basic policy is expressed in Paragraph 15.901(c) of the DoD Federal Acquisition Regulation Supplement which states:

"For each contract in which profit is negotiated as a separate element of the contract price, the aim of negotiation should be to employ the profit motive so as to impel effective contract performance by which overall costs are economically controlled."

Presented in Table IV-1 is a summary of the responses to a set of statements that constituted the first item (Item 17) of the section of the questionnaire dealing with profit issues, which asked the respondents the extent of their agreement or disagreement with statements regarding the

TABLE IV-1

Analysis of Responses to Item 17
of the DFAIR Survey

Current DoD PROFIT policies and practices contribute to:	N	Percentage		
		Agree	Neutral	Disagree
a. Maintaining the viability of of the industrial base.	(752)	28	38	34
b. Efficient contractor performance.	(754)	22	28	50
c. Quality products.	(752)	18	42	40
d. The lowest possible cost to the Government.	(757)	19	25	55
e. Encouraging capital investment.	(752)	16	34	50

contribution of current DoD profit policies and practices to policy objectives. In no case did a plurality of respondents agree that current DoD profit policies and practices contribute to the policy objectives included in this item.

Halt (50%) of the respondents disagreed that current profit policies and practices contribute to efficient contractor performance, while 22% expressed agreement and 28% neither agreed nor disagreed. Majorities of respondents also disagreed with the statements that profit policies and practices contribute to the lowest possible cost to the Government (55%) and encouraging capital investment (50%). Pluralities expressed neither agreement or disagreement with the statements that profit policies contribute to maintaining the viability of the industrial base (38%) and quality products (42%).

These data clearly suggest that the DFAIR respondents do not agree that current DoD profit policies and practices contribute to the principle objectives stated in Paragraph 15.901(b) of the Federal Acquisition Regulation and Paragraph 15.901(c) of the DoD Federal Acquisition Regulation Supplement and those additional objectives included in Item 17 of the DFAIR questionnaire.

This conclusion is supported by survey responses to Item 19, which stated:

DoD should substantially revise its profit policies.

A large majority (61%) of all respondents agreed with this statement while 16% disagreed and 24% expressed neutrality (see Table IV-2). The highest ranking respondents, GS-15/0-6, were more likely to agree with this statement (73%) than lower ranking GS-12/0-3 and GS-13/0-4 respondents (58%). As measured by position, major headquarters personnel and directors or deputy heads of activities were more likely to agree (70%) than were journeymen and working level staff (57%). Similarly, those respondents who usually handled contracts valued at more than \$100 million were more likely to agree (66%) than those who usually handled contracts of less than \$1 million (52%).

To assess the relation between respondent opinions of DoD profit policies (Item 19) and their assessment of the contribution those policies make to policy objectives (Items 17a through 17e) a cross-tabulation of responses to both questions was performed and is presented in Table IV-3. This table presents the responses to Item 19 in terms of the respondents response to each of the five items composing Item 17. As is readily apparent, large majorities of those respondents who disagreed with each of the five statements regarding the contribution of policies to objectives (Items 17a-17d) also agreed that DoD should substantially revise its profit policies (Item 19). Significantly, majorities of the respondents who expressed neutrality with the contribution statements (Items 17a-17d) also agreed with that profit policies should be revised (Item 19). Obviously there is strong support among the respondents for revision of DoD profit policies. Even those respondents who felt that the present profit policies contribute to stated objectives tended to believe that they should be substantially revised.

TABLE IV-2

**Analysis of Responses to Item 19
of the DFAIR Survey**

By Respondent Characteristics

**DoD should substantially revise its
profit policies.**

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(755)	61	24	16
Agency				
Army	(242)	60	27	13
Navy	(123)	56	22	22
Air Force	(379)	63	22	15
Position				
Major Headquarters and Directors or Deputies	(87)	70	14	16
Supervisors	(251)	62	24	15
Working Level Staff and Journeymen	(374)	57	27	16
Grade/Rank				
GS-12/O-3	(286)	58	27	14
GS-13/O-4	(210)	58	25	17
GS-14/O-5	(141)	63	19	18
GS-15/O-6	(64)	73	13	14
Value of Contracts				
Less than \$1 million	(73)	52	32	16
\$1 - \$100 million	(460)	60	24	17
More than \$100 million	(216)	66	21	13

TABLE IV-3

Analysis of Responses to Item 19
of the DFAIR Survey
By Response to Items 17a, 17b, 17c, 17d, and 17e

		Item 19 DoD should substantially revise its profit policies.			
		Percentage			
Item 17	N	Agree	Neutral	Disagree	
<u>Current DoD PROFIT policies and practices contribute to:</u>					
a. Maintaining the viability of the industrial base.					
Agree	(210)	46	26	28	
Neutral	(279)	54	32	14	
Disagree	(254)	80	13	6	
b. Efficient contractor performance.					
Agree	(165)	38	32	31	
Neutral	(208)	52	32	16	
Disagree	(372)	76	16	9	
c. Quality products.					
Agree	(133)	44	24	32	
Neutral	(309)	55	28	17	
Disagree	(301)	74	20	6	
d. The lowest possible cost to the Government.					
Agree	(144)	49	27	24	
Neutral	(186)	50	32	18	
Disagree	(418)	70	19	11	
e. Encouraging capital investment.					
Agree	(120)	38	33	30	
Neutral	(251)	50	32	18	
Disagree	(372)	76	16	9	

Item 19 was included in the PROFIT '76 and AFSC '82 surveys, and comparisons of the obtained data are presented in Table IV-4. Since the AFSC '82 surveyed only Air Force personnel, the only appropriate comparison with the DFAIR data is the sub-group of Air Force respondents. The percentage that agreed that DoD profit policies should be revised was substantially higher in the present survey (61%) than in the PROFIT '76 survey (53%). In the PROFIT '76 survey 26% disagreed with the statement compared to 16% in the present survey. Clearly there has been a major shift in opinion. The comparison of the DFAIR Air Force subgroup with the AFSC '82 sample shows only a small increase in the percentage agreeing with the statement and a four percentage point decrease, 19% to 15%, in the percentage disagreeing.

The opinion of the DFAIR respondents that DoD profit policies should be revised is further reflected in their responses to other statements in the DFAIR questionnaire that addressed the goals of the profit policies and their perceived outcomes.

Fully 64% of the DFAIR respondents agreed with Item 21, which stated:

21. There is little direct relationship between quality or performance of product and levels of profit.

This percentage constitutes a large increase over the 50% who agreed to the same statement in the PROFIT '76 survey (see Table IV-5). In the AFSC '82 survey this statement produced 54% agreement compared to 67% among the Air Force subgroup in DFAIR.

TABLE IV-4

Comparison of Responses to Item 19
of the DFAIR Survey
With Those Obtained in Profit '76 and AFSC '82^a

DoD should substantially revise
its profit policies^a.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(755)	61	24	16
PROFIT '76 ^a	(*)	53	20	26
DFAIR (Air Force Respondents)	(379)	63	22	15
AFSC '82 ^a	(*)	62	19	19

* Not available

^a In PROFIT '76 and AFSC '82, the question posed read: The DoD should substantially revise its profit policies.

TABLE IV-5

Comparison of Responses to Item 21
of the DFAIR Survey
With Those Obtained in Profit '76 and AFSC '82

There is little direct relationship between quality or performance of product and levels of profit.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(772)	64	12	24
PROFIT '76	(*)	50	11	37
DFAIR (Air Force Respondents)	(387)	67	10	24
AFSC '82	(*)	54	12	34

* Not available

When the responses to Item 21 were examined in relation to Item 17c, regarding the contribution of profit policies and practices to quality products, substantial consistency was found. As shown in Table IV-6, 71% of those respondents who disagreed with Item 17c also agreed with Item 21. Among those expressing neutrality regarding Item 17c, 64% also agreed with Item 21.

Levels of Profit

The DFAIR questionnaire did not directly ask respondents if they believed that the profit levels earned by contractors were too high or unreasonable. Therefore great care must be exercised in evaluating the items in the questionnaire addressing levels of profit. However, the data obtained in the present survey do tell us that the respondents do not believe that profits are too low. Item 20 posed the statements:

20. Profits realized by defense contractors are too low:

- a. As measured as a percentage of selling price.
- b. As measured by return on investment.

As shown in Table IV-7, 49% of all respondents disagreed with the statement that profits as measured as a percentage of selling price are too low (Item 20a), while 26% expressed agreement. In response to the statement that profits as measured by return on investment were too low (Item 20b), similar percentages of all respondents disagreed (50%) and agreed (26%) with the statement.

TABLE IV-6

Analysis of Responses to Item 21
of the DFAIR Survey
By Response to Item 17

		<u>Item 21</u>			
		<u>There is little direct relationship between quality or performance of product and levels of profit.</u>			
		<u>Percentage</u>			
<u>Item 17c</u>	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	
<u>Current DoD PROFIT policies and practices contribute to:</u>					
<u>Quality products.</u>					
Agree	(132)	44	11	45	
Neutral	(313)	64	14	21	
Disagree	(300)	71	10	19	

TABLE IV-7

Analysis of Responses to Items 20a and 20b
of the DFAIR Survey

By Respondent Characteristics

Profits realized by defense contractors are too low:

a. As measured as a percentage of the selling price.	b. As measured by return-on investment.
--	---

	<u>Percentage</u>			<u>Percentage</u>				
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(762)	26	25	49	(755)	26	24	50

Value of Contracts

Less than \$1 million	(76)	22	25	53	24	29	47
\$1 - \$100 million	(461)	25	25	50	28	23	49
More than \$100 million	(219)	29	25	47	23	25	53

A comparison of the responses to these statements, broken down by the value of contracts handled, resulted in the finding that among those respondents who principally handled contracts valued under \$1 million, a larger percentage (53%) disagreed that profits as a percentage of selling price (Item 20a) were too low than did those who principally handled contracts in excess of \$100 million (47%). In response to the statement that profits were too low, as measured by return-on-investment (Item 20b), the percentage that disagreed was higher among those respondents handling very large contracts than it was among those who handled smaller contracts. Among those handling contracts exceeding \$100 million, 53% disagreed with Item 20b, while 47% of those principally handling contracts under \$1 million disagreed.

In Profit '76 and AFSC '82 an item was included in the questionnaire that asked whether the respondents agreed with the statement:

Profits of defense contractors are too low.

In the DFAIR questionnaire this question was expanded to provide a referent for "too low." Therefore, the DFAIR item and that appearing in the earlier surveys are not directly comparable, and the data presented in Table IV-8 should be interpreted with care. As can be seen in this table, the percentage of PROFIT '76 respondents agreeing that profits are too low (26%) is the same as that obtained for Items 20a and 20b in the present study. There was a substantial increase in the percentage disagreeing that profits are too low. In PROFIT '76, 40% of the respondents disagreed, compared to 49% for Item 20a, and 50% for Item 20b in the present study. In general

TABLE IV-8

Comparison of Responses to Items 20a and 20b
of the DFAIR Survey
With Those Obtained in Profit '76 and AFSC'82a

Profits realized by defense contractors are too low:									
	a. As measured as a percentage of the selling price. ^a				b. As measured by return-on investment. ^a				
	Percentage				Percentage				
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	
DFAIR (All Respondents)	(762)	26	25	49	(755)	26	24	50	
PROFIT '76 ^a	(*)	26	32	40	(*)	26	32	40	
DFAIR (Air Force Respondents)	(384)	28	25	48	(380)	30	23	47	
AFSC '82 ^a	(*)	41	25	34	(*)	41	25	34	

* Not available

^a In PROFIT '76 and AFSC '82, the question posed read: Profits of defense contractors are too low.

terms, the data suggest that since 1976 procurement personnel have become less likely to believe that contractors are not making sufficient profits.

Also presented in Table IV-8 is a comparison of the AFSC '82 survey findings and those of the DFAIR Air Force respondents. As a group, the DFAIR Air Force respondents to Items 20a and 20b were somewhat more in agreement that profits were too low (28% and 30% respectively), than were all the DFAIR respondents (26% and 26% respectively). They were also marginally less in disagreement than all the DFAIR respondents. However, compared to the 41% of AFSC '82 survey respondents agreeing that profits were too low, substantially smaller percentages of the DFAIR Air Force respondents agreed with the statements that profits were too low as a percentage of selling price (28%) and as measured by return-on-investment (30%). Further, larger percentages of DFAIR Air Force respondents disagreed that profits were too low (Items 20a and 20b), 48% and 47% respectively, than disagreed that profits were too low in the AFSC '82 survey (34%). As with the Profit '76 comparisons above, these data indicate that there is less sentiment among Air Force personnel that defense contractors are at present not making sufficient profits than there was two years ago.

There are suggestions in the DFAIR data that those DoD procurement personnel who responded to the survey may believe that profits realized by DoD contractors are too high. Item 36 of the questionnaire asked the extent of agreement or disagreement with the statements:

36. Negotiated profit rates are:

- a. Usually lower than those actually realized by contractors.
- b. More closely related to profit rates negotiated with a particular contractor on previous contracts than they are to the WGL objectives.

As shown in Table IV-9, a plurality of respondents (42%) agreed with Item 36a, indicating that contractors may be realizing profits that are higher than negotiated. When the responses to this item were analyzed by respondent characteristics, respondents from the Air Force were most likely to agree (46%) with the statement, as were individuals who handled contracts valued at less than \$1 million (56%). There is an inverse relation between the level of agreement with this statement and the rank or position of the respondents. A plurality of lower ranking respondents, e.g., GS-12/O-3, agreed (48%) with Item 36a, while most higher ranking respondents, GS-15/O-6, disagreed (48%) with the statement. Similarly, those respondents who described themselves as working level staff or journeymen were generally in agreement (45%), while those who worked in major headquarters positions or who were directors or deputy heads of activities were more likely to disagree (42%).

In response to Item 36b, a large majority (71%) of all respondents agreed that negotiated profit rates are more closely related to profit rates negotiated with a particular contractor on previous contracts than to the Weighted Guidelines (WGL) objectives (see Table IV-10). When responses were analyzed by respondent characteristics large percentages of all

TABLE IV-9

Analysis of Responses to Item 36a
of the DFAIR Survey

By Respondent Characteristics

Negotiated profit rates are:

Usually lower than those actually
realized by contractors.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(757)	42	26	31
Agency				
Army	(240)	40	25	34
Navy	(124)	38	29	33
Air Force	(381)	46	25	29
Grade/Rank				
GS-12/0-3	(285)	48	25	27
GS-13/0-4	(215)	42	26	32
GS-14/0-5	(142)	39	34	27
GS-15/0-6	(63)	37	16	48
Position				
Major Headquarters and Directors or Deputies	(85)	34	24	42
Supervisors	(256)	43	27	30
Working Level Staff and Journeymen	(371)	45	26	29
Value of Contracts				
Less than \$1 million	(77)	56	26	18
\$1 - \$100 million	(457)	42	25	33
More than \$100 million	(217)	39	29	31

TABLE IV-10

**Analysis of Responses to Item 36b
of the DFAIR Survey**

By Respondent Characteristics

Negotiated profit rates are:

More closely related to profit
rates negotiated with a particular
contractor on previous contracts
than they are to the WGL
objectives.

	N	Percentage		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(752)	71	17	12
Agency				
Army	(241)	79	13	8
Navy	(123)	68	17	15
Air Force	(376)	67	19	14
Grade/Rank				
GS-12/0-3	(287)	76	15	9
GS-13/0-4	(211)	73	17	9
GS-14/0-5	(140)	69	19	12
GS-15/0-6	(64)	64	13	23
Position				
Major Headquarters and Directors or Deputies	(86)	65	19	16
Supervisors	(250)	73	16	11
Working Level Staff and Journeymen	(373)	73	16	11
Value of Contracts				
Less than \$1 million	(76)	62	26	12
\$1 - \$100 million	(456)	75	14	11
More than \$100 million	(215)	67	20	13

sub-groups agreed with the statement. The relationship between Grade/Rank and Position and level of agreement observed in response to Item 36a was also evident in response to this item. Those respondents at the lower Grade/Rank, e.g., GS-12/0-3, were more likely to agree (76%) that negotiated profit rates were more closely related to previous contracts than to the WGL objectives than were those at the higher grades, e.g., GS-15/0-6, (64%). Similarly, a larger percentage of working level staff and journeymen as well as supervisors (73% each) agreed with Item 36a than did respondents in major headquarters positions or who were directors or deputy heads of activities (65%). In contrast to the pluralities of higher level respondents who disagreed with Item 36a, that negotiated profit rates are usually lower than those actually realized by contractors, large majorities of the higher level respondents agreed with Item 36b.

The responses to Item 36b are problematic in that there is an apparent discontinuity between actual negotiated profit rates and the weighted guideline objectives. This apparent discontinuity is reinforced by the responses to Item 30a which stated:

30. The weighted guidelines (WGL):

- a. Are used more as a crutch to justify the final negotiated price than as a tool to develop an appropriate profit objective.

Overall, 50% of all respondents agreed with this statement while 39% disagreed. When these results were broken down by respondent characteristics, as shown in Table IV-11, larger percentages of respondents

TABLE IV-11

**Analysis of Responses to Item 30a
of the DPAIR Survey**

By Respondent Characteristics

The weighted guidelines (WGL):

**Are used more as a crutch to justify
the final negotiated price than as a
tool to develop an appropriate
profit objective.**

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(763)	50	12	39
Agency				
Army	(244)	52	14	34
Navy	(124)	44	18	38
Air Force	(383)	50	8	42
Grade/Rank				
GS-12/0-3	(286)	51	11	38
GS-13/0-4	(215)	53	11	36
GS-14/0-5	(144)	43	13	44
GS-15/0-6	(65)	52	11	37
Position				
Major Headquarters and Directors or Deputies	(88)	47	9	44
Supervisors	(259)	53	12	36
Working Level Staff and Journeymen	(371)	50	11	39
Value of Contracts				
Less than \$1 million	(77)	57	8	35
\$1 - \$100 million	(457)	49	11	40
More than \$100 million	(223)	48	15	38

agreed than disagreed with Item 30a, except the GS-14/0-5 respondents.

As shown in Table IV-12, the level of agreement with Item 30a in the present survey is higher than that observed in earlier surveys of DoD procurement personnel. In PROFIT '76 a very similar statement was posed and resulted in a near equal split among those agreeing and disagreeing, 45% and 46% respectively. Among the DFAIR Air Force respondents 50% agreed and 42% disagreed that the weighted guidelines are used as a crutch, compared to the 46% of AFSC '82 respondents who agreed and the 44% who disagreed.

An analysis of the distribution of responses to Item 36b, that negotiated profits are more closely related to rates on previous contracts than they are to the WGL objectives, among those respondents agreeing with Item 30a, that the weighted guidelines are used more as a crutch (see Table IV-13) reveals substantial consistency between the responses to these two items. Overall, 80% of the respondents who agreed with Item 30a also agreed with Item 36b, while only 5% of those who agreed with Item 30a, later disagreed with Item 36b. Air Force, GS-15/0-6, and major headquarters personnel and Directors and Deputy heads of activities respondents were less consistent in their responses, 77%, 70%, and 68% of each subgroup agreeing with both items, respectively, than the aggregate of all respondents.

Further evidence of the discontinuity between negotiated profit rates and WGL objectives is provided by the responses to Item 34 which stated:

TABLE IV-12

Comparison of Responses to Item 30^a
 of the DFAIR Survey
 With Those Obtained in PROFIT '76 and AFSC '82^a

The weighted guidelines (WGL):

Are used more as a crutch to
 justify the final negotiated
 price than as a tool to develop
an appropriate profit objective.^a

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(763)	50	12	39
PROFIT '76 ^a	(*)	45	8	46
DFAIR (Air Force Respondents)	(383)	50	8	42
AFSC '82 ^a	(*)	46	10	44

* Not available

- ^a In PROFIT '76 and AFSC '82, the question posed read: The Weighted Guidelines (WGL) are used more as a crutch to justify the final negotiated price, rather than as a tool to develop an appropriate profit.

TABLE IV-13

Analysis of Responses to Item 36b
of the DFAIR Survey
Among those Respondents Agreeing with Item 30a

		Item 36b		
		Negotiated profit rates are:		
		More closely related to profit rates negotiated with a particular contractor on previous contracts than they are to the WGL objectives.		
		Percentage		
Item 30a	N	Agree	Neutral	Disagree
The weighted guidelines (WGL):				
Are used more as a crutch to justify the final negotiated price than as a tool to develop an appropriate profit objective.				
All Respondents	(370)	80	15	5
Agency				
Army	(123)	82	13	5
Navy	(53)	83	15	2
Air Force	(188)	77	16	6
Position				
Major Headquarters and Directors or Deputies	(40)	68	23	10
Supervisors	(131)	82	15	4
Working Level Staff and Journeymen	(183)	80	14	5
Grade/Rank				
GS-12/0-3	(143)	78	15	6
GS-13/0-4	(111)	86	13	2
GS-14/0-5	(60)	78	18	3
GS-15/0-6	(33)	70	15	15
Value of Contracts				
Less than \$1 million	(44)	73	23	5
\$1 - \$100 million	(220)	81	14	5
More than \$100 million	(103)	80	15	6

34. The Government profit/fee objective is often dictated by management, regardless of the WGL compilation.

As shown in Table IV-14, a majority (55%) of all respondents agreed with this statement while 33% disagreed. Analysis of the responses by respondent characteristics revealed that those respondents from the Air Force were more in agreement with this statement (58%) than those from the Army and Navy (51% each). There was a direct relationship between the level of agreement with this item and the value of contracts handled by the respondent. Among those respondents handling contracts valued at less than \$1 million, 43% agreed that the profit fee objective is often dictated by management, compared to 56% agreement among those handling contracts valued at \$1-\$100 million and 57% agreement among those handling contracts of greater than \$100 million.

As measured by Grade/Rank and Position, those at the highest levels were less likely to agree that the profit/fee objective is dictated by management than those at the lower levels. Among GS-15/0-6 respondents, 45% agreed with this item, while 42% disagreed. Among those respondents working at Major Headquarters or who were Directors or Deputy heads of activities, 52% agreed with this item. Breaking this group down still further revealed that 45% of those who described their position as a Director or Deputy head of an activity agreed that the profit/fee objective was dictated by management, while 37% disagreed (data not shown in Table IV-14).

TABLE IV-14

Analysis of Responses to Item 34
of the DFAIR Survey

By Respondent Characteristics

The Government profit/fee objective is often dictated by management, regardless of the WGL computation.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(769)	55	12	33
Agency				
Army	(246)	51	13	36
Navy	(124)	51	16	33
Air Force	(387)	58	10	32
Grade/Rank				
GS-12/0-3	(292)	54	11	35
GS-13/0-4	(216)	59	15	26
GS-14/0-5	(143)	59	10	31
GS-15/0-6	(65)	45	14	42
Position				
Major Headquarters and Directors or Deputies	(88)	52	13	35
Supervisors	(259)	56	14	30
Working Level Staff and Journeymen	(377)	55	10	34
Value of Contracts				
Less than \$1 million	(79)	43	19	38
\$1 - \$100 million	(462)	56	10	34
More than \$100 million	(222)	57	14	29

These later results are problematic in that they cannot be fully interpreted based on the data obtained in the present survey. One would reasonably assume that those respondents who are GS-15/0-6s or who are Directors or Deputy heads of activities are, in fact, management. Thus, their responses would seem to indicate one of two things: either they are stating that they are doing the dictating to lower level procurement personnel, or they, like the lower ranking respondents, are receiving direction from some still higher level.

The same statement posed as Item 34 in the DFAIR survey was also included in the AFSC '82 survey. As shown in Table IV-15 a comparison of the AFSC '82 responses with those obtained from the Air Force respondents in the present survey reveals a decrease in the level of agreement with this statement. In AFSC '82, 61% of the respondents agreed that the profit/fee objective is often dictated by management while in the present survey 58% of the Air Force respondents did so. Conversely, the percentage disagreeing with the statement increased from 27% in AFSC '82 to 32% among the sub-group of Air Force respondents in the present survey.

Item 34 did not address the question of whether the profit/fee objectives that were dictated by management resulted in higher or lower profit rates for contractors. However, an item presented earlier in the questionnaire, Item 22, provides some interpretive insight. Item 22 posed the statement:

22. The system puts a lot of pressure on contracting officers to keep profits down.

TABLE IV-15

Comparison of Responses to Item 34
of the DFAIR Survey
With Those Obtained in AFSC '82

The Government profit/fee objective is often dictated by management, regardless of the WGL computation.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(769)	55	12	33
DFAIR (Air Force Respondents)	(387)	58	10	32
AFSC '82	(*)	61	12	27

* Not available

As shown in Table IV-16, a large majority (75%) of all respondents agreed with this statement while 14% disagreed. Analysis by respondent characteristic revealed that Air Force respondents were most in agreement (79%) with the statement, while Navy respondents were the least in agreement (65%). As measured by the value of contracts handled by the respondents the percentage of agreement was highest for those respondents handling smaller value contracts of less than \$1 million (81%) and lowest among those handling large value contracts of more than \$100 million (69%).

As was the case of responses to the statement that the profit/fee objective is often dictated by management (Item 34), higher ranking respondents, as measured by Grade/Rank and Position, were less likely to agree that there was a lot of pressure to keep profits down than were the lower ranking respondents. Among GS-15/0-6 respondents, 68% agreed that the system puts a lot of pressure on contracting officers to keep profits down while 22% disagreed. Among those respondents who held holding positions at major headquarters or who were Directors or Deputy heads of activities, 70% agreed with this item. Breaking this later group down further revealed that 63% of those who described themselves as a Director or deputy head of an activity agreed with this item, while 20% disagreed (data not shown in Table IV-16).

As was the case with the similar result obtained in the analysis of the statement that the profit/fee objective is often dictated by management (Item 34), the responses of these higher ranking respondents with regard to pressure to keep profits down (Item 22) are not readily explained. As before, these respondents are either the source of the pressure to keep

TABLE IV-16

**Analysis of Responses to Item 22
of the DFAIR Survey**

By Respondent Characteristics

The system puts a lot of pressure
on contracting officers to keep
profits down.

	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(775)	75	11	14
Agency				
Army	(248)	75	12	13
Navy	(126)	65	16	19
Air Force	(389)	79	8	13
Grade/Rank				
GS-12/0-3	(293)	77	9	13
GS-13/0-4	(219)	74	13	13
GS-14/0-5	(144)	79	10	10
GS-15/0-6	(65)	68	11	22
Position				
Major Headquarters and Directors or Deputies	(88)	70	13	17
Supervisors	(261)	79	10	11
Working Level Staff and Journeymen	(380)	74	11	15
Value of Contracts				
Less than \$1 million	(78)	81	12	8
\$1 - \$100 million	(468)	78	9	13
More than \$100 million	(223)	69	14	17

profits down or, they are subject to pressure from higher levels, as are the lower ranking respondents.

A statement similar to Item 22 was included in the PROFIT '76 and AFSC '82 surveys. Comparisons of the response distributions from the present survey with those obtained earlier are presented in Table IV-17. There has been a substantial increase in the percentage of respondents who agreed with Item 22 in the present survey (75%) compared to the percentage (59%) in PROFIT '76 that agreed that "The system puts much pressure on contracting officers to keep profits down." The percentage disagreeing with the statement in PROFIT '76 (26%) decreased substantially to 14% in the DFAIR survey. A comparison of the DFAIR Air Force respondents with the AFSC '82 survey reveals a similar large increase in the percentage agreeing (79% versus 58%, respectively) and a large decrease in those disagreeing (13% versus 27%, respectively).

An analysis of the distribution of responses to Item 22 among those respondents who agreed with Item 34 (Table IV-18) reveals substantial consistency between the responses to these two statements. Overall, 82% of those respondents who agreed that the profit/fee objective is often dictated by management, regardless of the WGL computation (Item 34) also agreed that the system puts a lot of pressure on contracting officers to keep profits down (Item 22). Further, analysis by respondent characteristics also revealed substantial consistency between the responses to these two items among all the sub-groups.

TABLE IV-17

Comparison of Responses to Item 22
of the DFAIR Survey
With Those Obtained in PROFIT '76 and AFSC '82^a

The system puts a lot of pressure
on contracting officers to keep
profits down.^a

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(775)	75	11	14
PROFIT '76 ^a	(*)	59	13	26
DFAIR (Air Force Respondents)	(389)	79	8	13
AFSC '82 ^a	(*)	58	15	27

* Not available

^a In PROFIT '76 and AFSC '82, the question posed read: The system puts much pressure on contracting officers to keep profits down.

TABLE IV-18

Analysis of Responses to Item 22
of the DFAIR Survey
Among Those Respondents Agreeing With Item 34

		Item 22			
		The Government profit/fee objective is often dictated by management, regardless of the WGL computation.			
		Percentage			
Item 34	N	Agree	Neutral	Disagree	
The system puts a lot of pressure on contracting officers to keep profits down.					
All Respondents	(421)	82	7	9	
Agency					
Army	(126)	79	10	11	
Navy	(63)	79	6	14	
Air Force	(225)	86	6	8	
Grade/Rank					
GS-12/0-3	(158)	84	8	9	
GS-13/0-4	(127)	83	6	11	
GS-14/0-5	(84)	87	8	5	
GS-15/0-6	(29)	72	7	21	
Position					
Major Headquarters and Directors or Deputies	(46)	80	9	11	
Supervisors	(146)	85	7	8	
Working Level Staff and Journeymen	(209)	81	7	11	
Value of Contracts					
Less than \$1 million	(34)	82	12	6	
\$1 - \$100 million	(258)	87	5	8	
More than \$100 million	(126)	75	10	14	

Taken as a whole, the analysis of Items 30a, 36b, 34, and 22 indicate that there is a discontinuity between actual negotiated profit rates and the weighted guideline objectives, and this discontinuity may result from pressure by "management" or "the system" to keep profits down. However, this conclusion must remain tentative, since the questionnaire did not include additional items that would provide a complete explanation.

At the same time that DoD procurement personnel perceive the system as attempting to hold profits down, regardless of the weighted guidelines, they perceive contractors as attempting to meet their own profit objectives, regardless of the weighted guidelines. Item 32 of the questionnaire posed the statement:

32. Regardless of WGL, contractors are out for a specific profit return on each contract.

A very large majority (91%) of all respondents agreed with this statement while only 4% disagreed. A similar statement was included in both the PROFIT '76 and AFSC '82 surveys and comparisons with the present survey are presented in Table IV-19. In contrast to the present level of agreement, 75% of the PROFIT '76 respondents agreed with the statement and 15% disagreed. The comparison of the AFSC '82 responses and those of the DFAIR Air Force respondents reveals a similar increase in agreement with this statement. In AFSC '82, 80% of the respondents agreed that contractors were out for a specific profit return on each contract compared to 90% among the DFAIR Air Force respondents.

TABLE IV-19

Comparison of Responses to Item 32
of the DFAIR Survey
With Those Obtained in PROFIT '76 and AFSC '82a

Regardless of WGL, contractors
are out for a specific profit
return on each contract.^a

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(769)	91	5	4
PROFIT '76 ^a	(*)	75	9	15
DFAIR (Air Force Respondents)	(387)	90	5	5
AFSC '82 ^a	(*)	80	10	10

* Not available

^a In PROFIT '76 and AFSC '82, the question posed read: Regardless of WGL, contractors are out for a specific profit return on each item.

Despite the findings of the present survey that DoD should substantially revise its profit policies (Item 19), that both DoD and contractors attempt to set profit objectives by methods other than the application of the weighted guidelines (Items 32 and 36b), and that most respondents agreed that the weighted guidelines are used more as a crutch than tool (Item 30a), most respondents (48%) still agreed with the statement that:

30. The weighted guidelines (WGL):

- c. Approach is sufficiently flexible to provide adequate profits to the majority of contractors.

An analysis of the responses to this statement broken down by respondent characteristics (Table IV-20) reveals that a majority (61%) of respondents from the Navy agreed with the statement compared to 42% of the Army respondents and 47% of the Air Force respondents. Major headquarters personnel and Directors and Deputy heads of activities were more likely to agree that the weighted guidelines are sufficiently flexible (56%) than were any other personnel. As measured by the value of contracts handled, a majority (52%) of those handling contracts valued at \$1-100 million agreed that the weighted guidelines were sufficiently flexible compared to 42% of those respondents handling contracts valued at less than \$1 million or more than \$100 million.

An item similar to Item 30c was included in both the PROFIT '76 and AFSC '82 surveys. As can be seen in Table IV-21, the percentage of DFAIR respondents agreeing with this statement (48%) was substantially lower than

TABLE IV-20

Analysis of Responses to Item 30c
of the DFAIR Survey

By Respondent Characteristics

The weighted guidelines (WGL):

Approach is sufficiently flexible
to provide adequate profits to
the majority of contractors.

	N	Percentage		
		Agree	Neutral	Disagree
All Respondents	(759)	48	19	33
Agency				
Army	(241)	42	21	37
Navy	(124)	61	18	21
Air Force	(382)	47	20	33
Grade/Rank				
GS-12/0-3	(286)	47	19	34
GS-13/0-4	(214)	46	19	35
GS-14/0-5	(144)	50	20	30
GS-15/0-6	(65)	49	20	31
Position				
Major Headquarters and Directors or Deputies	(88)	56	15	30
Supervisors	(258)	46	23	31
Working Level Staff and Journeyman	(370)	48	18	34
Value of Contracts				
Less than \$1 million	(76)	42	26	32
\$1 - \$100 million	(454)	52	17	32
More than \$100 million	(224)	42	22	36

the percentage agreeing in the PROFIT '76 survey (67%). The percentage disagreeing with the statement increased from 23% in PROFIT '76 to 33% in the present survey.

The comparison of the percentage of DFAIR Air Force respondents agreeing with Item 30c (47%) is the same as that obtained in the AFSC '82 survey, while the percentage disagreeing decreased from 40% in AFSC '82 to 33% in the DFAIR survey. Since the AFSC '82 and PROFIT '76 survey data cannot be directly compared, due to methodological and sampling differences, it is inappropriate to make any suggestion that might explain the differences in the two sets of data presented in Table IV-21.

The responses to the statement that the WGL approach is sufficiently flexible to provide adequate profits (Item 30c), in light of the earlier presentation and discussion of Items 19, 30a, 32, and 36b, become explicable when they are analyzed in terms of the responses to the later four items. Table IV-22 presents such an analysis. Those respondents who tended to be critical of present policy, as characterized by their responses, were also less likely to agree that the WGL approach is sufficiently flexible. In contrast, those respondents who were more positive about present policy were more likely to agree that the WGL is sufficiently flexible.

Among those respondents who agreed that DoD profit policies should be revised (Item 19), 37% also agreed that the WGL approach is sufficiently flexible (Item 30c) while 42% disagreed. Among those respondents who disagreed with Item 19, 82% agreed with Item 30c. The finding that 37% of

TABLE IV-21

Comparison of Responses to Item 30c
of the DFAIR Survey
With Those Obtained in PROFIT '76 and AFSC '82^a

The weighted guidelines (WGL):

Approach is sufficiently flexible to provide adequate profits to the majority of contractors.^a

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(759)	48	19	33
PROFIT '76 ^a	(*)	67	7	23
DFAIR (Air Force Respondents)	(382)	47	20	33
AFSC '82 ^a	(*)	47	13	40

* Not available

^a In PROFIT '76 and AFSC '82, the question posed read: The current Weighted Guidelines approach is sufficiently flexible to provide adequate profits to the majority of contractors.

TABLE IV-22

Analysis of Responses to Item 30c
of the DFAIR Survey

By Response to Items 19, 30a, 32, and 36b

The weighted guidelines (WGL):

Approach is sufficiently flexible
to provide adequate profits to
the majority of contractors.

		Percentage		
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
19. DoD should substantially revise its profit policies.				
Agree	(446)	37	21	42
Neutral	(177)	53	24	23
Disagree	(115)	82	8	10
30a. The weighted guidelines: Are used more as a crutch to justify the final negotiated price than as a tool to develop an appropriate profit objective.				
Agree	(373)	37	22	40
Neutral	(88)	36	33	31
Disagree	(293)	64	12	24
32. Regardless of WGL, contractors are out for a specific profit return on each contract.				
Agree	(689)	48	18	34
Neutral	(40)	45	40	15
Disagree	(29)	55	24	21
36b. Negotiated profit rates are: More closely related to profit rates negotiated with a particular contractor on previous contracts than they are to the WGL objectives.				
Agree	(527)	47	17	37
Neutral	(125)	43	32	25
Disagree	(88)	59	17	24

the respondents who agreed with Item 19 and also agreed with Item 30c suggests that there are aspects of profit policy that should be revised other than the flexibility of the weighted guidelines to provide adequate profits.

Among respondents who agreed that the weighted guidelines are used as a crutch rather than as a tool (Item 30a) the analysis in Table IV-22 suggests that 40% of this group believe that the weighted guidelines are, in fact, insufficiently flexible and used only as a crutch. In contrast, 37% believe the weighted guidelines to be sufficiently flexible but improperly used as a crutch rather than as a tool. Of those respondents who disagreed with the statement that the weighted guidelines are used more as a crutch than as a tool (Item 30a), 64% agreed that the guidelines are also sufficiently flexible. These respondents represent 25% of all those respondents who responded to both questions. Thus, a meaningful minority of respondents agree about the efficacy of WGL policy and that it is being properly employed.

The analysis in Table IV-22 shows that near majorities of respondents who agreed that contractors are out for a specific return on each contract (Item 32), and that negotiated profit rates are more closely related to those negotiated on previous contracts than they are to WGL objectives (Item 36b), also agreed that the weighted guidelines approach is sufficiently flexible to provide adequate profits (Item 30c), 48% and 47%, respectively. These findings suggest that even though the weighted guidelines may not be properly and effectively employed, they are workable. Still, 34% of the respondents who agreed with Item 32 and 37% of those who

agreed with Item 36b also disagreed that the weighted guidelines are sufficiently flexible.

Among those respondents who disagreed with Items 32 and 36b, 55% and 59% respectively, agreed with Item 30c that the weighted guidelines approach is sufficiently flexible. However, the total number of respondents falling in these categories is very small. The respondents who agreed with Item 30c and disagreed with Item 32 represent only 2% of all respondents responding to both items. Those respondents who agreed with Item 30c but disagreed with Item 36b represent only 7% of all respondents responding to both items.

An Alternative Methodology

The DFAIR survey included an item that asked the respondents their opinion about a two-tiered methodology for determining profit. Item 29 posed the statement:

29. DoD could develop a two-tiered profit methodology to explicitly recognize the time-phased contractor investment in a contract (i.e., costs less government provided financing) on very large contracts, and a much more simplified approach for all other contracts.
 - a. This would be an effective approach.
 - b. This would be administratively practical.

As shown in Table IV-23, a majority (52%) of all respondents agreed that this two-tiered methodology would be an effective approach (Item 29a), compared to the 14% who disagreed. Approximately one-third (35%) of the respondents neither agreed nor disagreed. In response to the follow-up statement (Item 29b) a plurality (42%) of the respondents neither agreed nor disagreed that this methodology would be administratively practical. Of those respondents who did provide an opinion, 37% agreed with the statement while 21% disagreed.

An analysis of these items by respondent characteristics revealed that a smaller percentage of respondents (46%) from the Navy agreed that a two-tiered methodology would be an effective approach (Item 29a) than did respondents from the Army (54%) and Air Force (52%). GS-15/0-6 respondents were less likely to agree (47%) that this would be an effective approach than were the lower ranking respondents. As measured by the value of contracts handled, 56% of those respondents handling contracts valued at less than \$1 million agreed that a two-tiered methodology would be an effective approach, compared to 52% handling contracts valued at \$1-100 million and 49% handling contracts in excess of \$100 million.

The analysis of Item 29b by respondent characteristics produced results that were similar to those found for Item 29a. Respondents from the Navy were less likely to agree (34%) that a two-tiered methodology would be administratively practical compared to those from the Army (39%) and Air Force (37%). A larger percentage of respondents handling contracts valued at less than \$1 million agreed (47%) with Item 29b than did respon-

TABLE IV-23

Analysis of Responses to Items 29a and 29b
of the DFAIR Survey

By Respondent Characteristics

DoD could develop a two-tiered profit methodology to explicitly recognize the time-phased contractor investment in a contract (i.e., costs less government provided financing) on very large contracts, and a much more simplified approach for all other contracts.

	a. This would be an effective approach.				b. This approach would be administratively practical.			
	Percentage		Percentage		Percentage		Percentage	
	N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree
All Respondents	(740)	52	35	14	(736)	37	42	21
Agency								
Army	(236)	54	31	15	(232)	39	40	21
Navy	(120)	46	42	13	(120)	34	41	25
Air Force	(372)	52	35	13	(372)	37	42	20
Grade/Rank								
GS-12/0-3	(279)	53	32	15	(277)	39	41	20
GS-13/0-4	(205)	55	32	13	(205)	36	43	21
GS-14/0-5	(141)	50	36	13	(141)	38	40	22
GS-15/0-6	(64)	47	44	9	(64)	39	38	23
Position								
Major Headquarters and Directors or Deputies	(86)	50	37	13	(86)	35	43	22
Supervisors	(247)	52	35	13	(248)	39	40	21
Working Level Staff and Journeyman	(363)	51	34	15	(360)	37	42	21
Value of Contracts								
Less than \$1 million	(73)	56	33	11	(72)	47	40	13
\$1 - 100 million	(442)	52	33	15	(439)	38	40	22
More than \$100 million	(220)	49	39	12	(220)	34	45	22

dents handling larger value contracts. This sub-group of respondents was the only one in which a larger percentage agreed with Item 29b rather than neither agreeing nor disagreeing.

The responses of the respondents to Item 29b, that a two-tiered methodology would be administratively practical, closely followed the responses to Item 29a, that such a methodology would be an effective approach. As shown in Table IV-24, 64% of those respondents who agreed that this methodology would be an effective approach (Item 29a) also agreed that it would be administratively practical (Item 29b). Among those respondents who disagreed that the approach would be effective, 80% also disagreed that the approach would be administratively practical.

Presented in the lower portion of Table IV-24 is a more detailed analysis of the responses to the item that stated that a two-tiered approach would be administratively practical (Item 29b) among those respondents who agreed that such an approach would be an effective one (Item 29a). This analysis presents the distribution of responses broken down by the value of contracts usually handled by the respondents. Comparable analyses for those respondents who were neutral or disagreed with Item 29a are not presented because the numbers of respondents falling into each sub-category are too small to be meaningful. Those respondents who handled contracts valued at less than \$1 million were most likely (80%) to agree that the two-tiered approach would be administratively practical. While the percentages of respondents who usually handled contracts of \$1-100 million and more than \$100 million and who agreed that the two-tiered approach would be

TABLE IV-24

Analysis of Responses to Item 29b
of the DFAIR Survey
By Response to Item 29a

DoD could develop a two-tiered profit methodology to explicitly recognize the time-phased contractor investment in a contract (i.e., costs less government provided financing) on very large contracts, and a much more simplified approach for all other contracts.

Item 29b

This approach would be administratively practical.

		<u>Percentage</u>		
<u>Item 29a</u>	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
<u>This would be an effective approach:</u>				
Agree	(378)	64	25	10
Neutral	(256)	8	79	13
Disagree	(100)	13	7	80
 <u>Agree responses by value of contracts.</u>				
Less than \$1 million	(40)	80	18	3
\$1-100 million	(228)	63	25	11
More than \$100 million	(108)	60	28	12

practical were successively smaller, 63% and 60% respectively, they were still substantial.

Overall these data indicate there is sentiment for a two-tiered methodology. This finding is further reinforced by an analysis of Items 29a and 29b in relation to the responses to the statement that DoD should substantially revise its profit policies (Item 19). Table IV-25 shows that 57% of those respondents who agreed that profit policies should be revised also agreed that the two-tiered methodology would be an effective approach. Among those who were either neutral or disagreed with Item 19, smaller, but still substantial percentages, 43% and 45% respectively, also agreed that the two-tiered approach would be effective.

Among those respondents who agreed that DoD should substantially revise its profit policies (Item 19), equal percentages (41%) either agreed or were neutral that a two-tiered methodology would be administratively practical (Item 29b). Among those who disagreed that DoD should revise its profit policies, responses were evenly divided between agreement, neutrality, and disagreement in response to Item 29b.

In the lower portion of Table IV-25 is a more detailed analysis of those respondents who agreed that DoD should substantially revise its profit policies (Item 19), broken down by the value of the contracts handled by the respondents. Comparable analyses for those respondents who were neutral or disagreed with Item 19 are not presented because the numbers of respondents falling into each sub-category are too small to be meaningful. Regardless of the value of contracts handled, a majority of respondents

TABLE IV-25

Analysis of Responses to Items 29a and 29b
of the DFAIR Survey
By Response to Item 19

DoD could develop a two-tiered profit methodology to explicitly recognize the time-phased contractor investment in a contract (i.e., costs less government provided financing) on very large contracts, and a much more simplified approach for all other contracts.

a. This would be an effective approach. b. This approach would be administratively practical.

	N	Percentage			N	Percentage		
		Agree	Neutral	Disagree		Agree	Neutral	Disagree
<u>Item 19</u>								
<u>DoD should substantially revise its profit policies.</u>								
Agree	(436)	57	32	11	(434)	41	41	18
Neutral	(173)	43	43	14	(172)	30	50	20
Disagree	(113)	45	34	21	(113)	33	34	34
<u>Agree responses by value of contracts.</u>								
Less than \$1 million	(37)	65	24	11	(36)	56	33	11
\$1-100 million	(256)	58	30	12	(255)	44	38	17
More than \$100 million	(141)	52	36	11	(141)	33	45	22

agreeing that profit policies should be revised (Item 19) also agreed that a two-tiered methodology would be an effective approach (Item 29a). Nearly two-thirds (65%) of those respondents handling contracts of less than \$1 million agreed with both items while successively smaller percentages of those respondents handling contracts valued at \$1-100 million and more than \$100 million, 58% and 52% respectively, agreed with both items. A majority (56%) of those respondents who handled contracts of less than \$1 million agreed that both profit policies should be revised (Item 19) and that the two-tiered approach would be administratively practical (Item 29b) compared to 44% among those handling contracts valued at \$1-100 million, and 33% among those handling contracts in excess of \$100 million.

Other Questionnaire Items

The remaining items included in the Profit section of the DFAIR questionnaire represent a miscellany of issues addressing specific topics. Tables (IV-26 through IV-40) summarizing the responses to these items are presented without accompanying commentary.

The reader is reminded that comparisons of DFAIR data to that obtained in the AFSC '82 survey are only appropriate using the Air Force sub-group of DFAIR respondents.

TABLE IV-26

Comparison of Responses to Item 23
of the DFAIR Survey
With Those Obtained in PROFIT '76 and AFSC '82

Profit should be allowed on
escalation under economic price
adjustment clauses.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(765)	24	17	59
PROFIT '76	(*)	32	9	57
DFAIR (Air Force Respondents)	(385)	24	17	58
AFSC '82	(*)	29	13	58

* Not available

TABLE IV-27

Comparison of Responses to Item 24
of the DFAIR Survey
With Those Obtained in AFSC '82^a

The method for offsetting facilities capital cost of money should be simplified.^a

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(753)	69	24	7
DFAIR (Air Force Respondents)	(382)	71	21	9
AFSC '82 ^a	(*)	67	24	9

* Not available

^a In AFSC '82, the question posed read: The method for offsetting facilities capital cost of money needs to be simplified.

TABLE IV-28

Comparison of Responses to Item 25a
of the DFAIR Survey
With Those Obtained in AFSC '82a

The cost-based method of determining profit:

Yields a realistic reward for contractor effort.^a

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(753)	32	29	39
DFAIR (Air Force Respondents)	(380)	31	28	41
AFSC '82a	(*)	36	20	44

* Not available

^a In AFSC '82, the question posed read: Using cost as a measurement base, yields a realistic reward for contractor effort.

TABLE IV-29

Analysis of Responses to Items 25a and 25b
of the DFAIR Survey

<u>The cost based method of determining profit:</u>	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
b. Discourages the development of new efficiencies.	(749)	54	21	24
c. Tends to increase defense contract costs.	(750)	52	29	20

TABLE IV-30

Analysis of Responses to Items 26 and 27
of the DFAIR Survey

		<u>Percentage</u>		
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
<u>Item 26</u>				
For manufacturing contracts, profit objectives should be based entirely on capital investment and risk.	(763)	32	20	49
<u>Item 27</u>				
Profit should be based primarily on the return on investment concept.	(762)	30	28	41

TABLE IV-31

Comparison of Responses to Item 27
of the DFAIR Survey
With Those Obtained in AFSC '82^a

Profit should be based primarily on the return-on-investment concept. ^a				
		Percentage		
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(762)	30	28	41
DFAIR (Air Force Respondents)	(385)	40	28	32
AFSC '82 ^a	(*)	29	18	53

* Not available

^a In AFSC '82, the question posed read: Return-on-investment (ROI) should be
the major determinant of profit.

TABLE IV-32

Comparison of Responses to Item 28
of the DFAIR Survey
With Those Obtained in PROFIT '76^a

The weight ranges in the contractor-input-to-performance (CITP) section of the WGL do not properly reflect the contribution of the various cost elements to contract performance.^a

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(747)	42	40	18
PROFIT '76 ^a	(*)	40	21	36

* Not available

^a In PROFIT '76, the question posed read: The weight ranges in the Input to Performance section of the WGL do not properly reflect the contribution to contract performance of the various cost elements.

TABLE IV-33

Comparison of Responses to Item 30b
of the DFAIR Survey
With Those Obtained in PROFIT '76 and AFSC '82

The weighted guidelines (WGL):

Tend to depress negotiated contractor profits.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(758)	43	20	37
PROFIT '76	(*)	25	17	56
DFAIR (Air Force Respondents)	(381)	44	19	37
AFSC '82	(*)	41	19	40

* Not available

TABLE IV-34

Comparison of Responses to Item 30d
of the DFAIR Survey
With Those Obtained in AFSC '82^a

The weighted guidelines (WGL):

Format should be simplified. ^a

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(760)	38	39	23
DFAIR (Air Force Respondents)	(381)	43	33	24
AFSC '82 ^a	(*)	51	31	18

* Not available

^a In AFSC '82, the question posed read: The weighted guidelines format should be simplified.

TABLE IV-35

Analysis of Responses to Items 25e and 25f
of the DPAIR Survey

<u>The weighted guidelines (WGL):</u>	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
e. Should be eliminated.	(759)	23	30	47
f. Should be used at the discretion of the contracting officer.	(760)	35	17	49

TABLE IV-36

Comparison of Responses to Item 31
of the DFAIR Survey
With Those Obtained in AFSC '82^a

Proper use of manufacturing, R&D, and services columns in WGL is confusing. ^a				
		Percentage		
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(751)	37	20	43
DFAIR (Air Force Respondents)	(378)	40	18	43
AFSC '82 ^a	(*)	52	16	32

* Not available

^a In AFSC '82, the question posed read: Proper use of the Mfg., R&D, and Services columns in WGL is confusing.

TABLE IV-37

Comparison of Responses to Item 33a
of the DFAIR Survey
With Those Obtained in AFSC '82a

The special productivity factor
(line 19 in WGL) is:

A viable tool for encouraging and
rewarding improvements in pro-
ductivity.^a

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(735)	21	30	48
DFAIR (Air Force Respondents)	(373)	23	28	50
AFSC '82 ^a	(*)	27	31	42

* Not available

^a In AFSC '82, the question posed read: The special productivity factor (line 19 in WGL) is a viable tool for encouraging and rewarding productivity improvements.

TABLE IV-38

Comparison of Responses to Item 33b
of the DFAIR Survey
With Those Obtained in AFSC '82^a

The special productivity factor
(line 19 in WGL) is:

Administratively too difficult to
apply.^a

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(736)	50	31	18
DFAIR (Air Force Respondents)	(374)	51	29	20
AFSC '82 ^a	(*)	43	34	23

* Not available

^a In AFSC '82, the question posed read: The special productivity factor is administratively too difficult to apply.

TABLE IV-39

Analysis of Responses to Item 33b
of the DFAIR Survey
By Response to Item 33a

		<u>Item 33b</u>		
		<u>The special productivity factor (line 19 in WGL) is:</u>		
		<u>Administratively too difficult to apply.</u>		
		<u>Percentage</u>		
<u>Item 33a</u>	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
<u>A viable tool for encouraging and rewarding improvements in pro- ductivity.</u>				
Agree	(152)	48	19	46
Neutral	(221)	32	62	6
Disagree	(355)	68	18	14

TABLE IV-40

Analysis of Responses to Items 35 and 37
of the DFAIR Survey

	N	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
<u>Item 35</u>				
The weight ranges currently allowed in the WGL for contractor risk are too high.	(761)	6	29	65
<u>Item 37</u>				
Foreign Military Sales (FMS) contracts should include higher profit rates to reimburse a contractor for increased risks.	(745)	27	22	52

SECTION V

Contract Financing Policies and Practices

Policy Objectives

As did the pricing and profit sections of the DFAIR questionnaire, the contract financing section began with a set of items (Items 38a-38e) that asked respondents the extent of their agreement or disagreement regarding the contribution of current DoD contract financing policies and practices to policy objectives. Table V-1 presents the text of these items and the distributions of the respondents responses.

A plurality (43%) of all respondents agreed with Item 38a that current DoD contract financing policies contribute to maintaining the viability of the industrial base, while 36% neither agreed nor disagreed, and 20% disagreed. In response to Item 38c, that current contract financing policies contribute to quality products, a plurality (45%) of the respondents neither agreed nor disagreed while only 15% agreed and 40% disagreed. Less than 20% of the respondents agreed that current contract financing policies contribute to efficient contractor performance (18%), the lowest possible cost to the Government (17%), and encouraging capital investment (17%). A plurality (46%) of all respondents disagreed with Item 38b regarding the contribution of contract financing policy to efficient contractor performance, while 36% neither agreed nor disagreed. Regarding the contribution of contract financing policies to the lowest possible cost to the Government (Item 38d), a plurality (49%) disagreed, while 33% expressed neutrality. In response to Item 39c, that current contract financing

TABLE V-1

Analysis of Responses to Item 38
of the DFAIR Survey

Current DoD CONTRACT FINANCING policies and practices contribute to:	N	Percentage		
		Agree	Neutral	Disagree
a. Maintaining the viability of the industrial base.	(731)	43	36	20
b. Efficient contractor performance.	(735)	18	36	46
c. Quality products.	(731)	15	45	40
d. The lowest possible cost to the Government.	(733)	17	33	49
e. Encouraging capital investment.	(726)	17	32	51

policy contributes to encouraging capital investment, a majority (51%) disagreed and 32% neither agreed nor disagreed.

The remaining portion of the contract financing section of the questionnaire assessed the opinions of the DFAIR respondents regarding the standard progress payment rate, the flexible progress payment rate, and the occurrence and effect of flow down of Government authorized financing provisions. Each of these areas will be addressed in turn in the remainder of this section.

Standard Progress Payment Rate

The standard progress payment rate currently in effect is apparently considered by the DFAIR respondents to be neither too high nor too low. Table V-2 presents the distribution of responses to the first portion of Item 41 of the questionnaire which posed the statements:

41. The standard progress payment rate:
 - a. Is too high.
 - b. Is too low.

In response to Item 41a, a plurality (43%) of all respondents neither agreed nor disagreed that the rate was too high. In response to Item 41b, equal percentages (46%) were neutral or disagreed that the rate was too low. More respondents agreed (24%) with Item 41a than agreed with Item 41b (8%).

TABLE V-2

Analysis of Responses to Item 41
of the DPAIR Survey
By Respondent Characteristics

The standard progress payment rate:									
		a. Is too high.				b. Is too low.			
		Percentage				Percentage			
		<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents		(728)	24	43	32	(724)	8	46	46
Agency									
Army		(227)	29	40	31	(224)	8	46	47
Navy		(120)	24	43	33	(120)	4	46	50
Air Force		(369)	22	45	33	(368)	9	47	44
Position									
Major Headquarters and Directors or Deputies		(86)	28	37	35	(86)	6	37	57
Supervisors		(248)	26	44	30	(246)	8	47	45
Working Level Staff and Journeyman		(353)	23	43	34	(351)	8	47	45
Grade/Rank									
GS-12/0-3		(271)	23	44	32	(268)	7	48	45
GS-13/0-4		(207)	23	43	35	(206)	11	47	42
GS-14/0-5		(139)	27	45	28	(139)	5	41	54
GS-15/0-6		(64)	23	36	41	(64)	8	44	48
Value of Contracts									
Less than \$1 million		(75)	27	48	25	(74)	7	53	41
\$1 - \$100 million		(432)	25	41	34	(429)	8	44	48
More than \$100 million		(217)	23	46	32	(217)	8	48	44

When the responses to Item 41a and 41b were broken down by respondent characteristics, the GS-15/0-6 respondents were found to be more likely to disagree that the standard progress payment rate was too high (41%) than the lower ranking respondents. This sub-group, as well as the GS-14/0-5 respondents, were also more likely to disagree, 48% and 54% respectively, that the standard progress rate is too low than the lower ranking respondents. Those respondents who held major headquarters positions or who were Directors or deputy heads of activities were also more likely than other respondents to disagree (57%) that the rate is too low.

An analysis (see Table V-3) which paired each respondents responses to Items 41a and 41b in matrix form revealed that 24% of all respondents agreed that the payment rate is too high and disagreed that the payment rate is too low. This compares to the 8% of all respondents who responded in opposite fashion by agreeing that the payment rate is too low and disagreeing that it is too high. A plurality (41%) of all respondents neither agreed nor disagreed with both statements and 20% disagreed with both. Ideally, the questionnaire might have included a statement that the present standard progress payment rate is appropriate and thus completely answered the question at hand. However, in the absense of such data, the fact that 61% of all respondents did not agree that the payment rate is either too high or too low may indicate that this majority of respondents believe them to be appropriate.

An alternative to a fixed progress payment rate is one that is tied to the actual cost of money, as measured by either current interest rates or the particular contractor's borrowing rate. Items 41c and 41e were

TABLE V-3

Analysis of Responses to Item 41a
of the DFAIR Survey
By Response to Item 41b

		Item 41a			
		The standard progress payment rate is too high.			
		Percentage			
Item 41b	N	Agree	Neutral	Disagree	
The standard progress payment rate is too low.					
Agree	(56)	0	0	8	
Neutral	(333)	0	41	4	
Disagree	(335)	24	2	20	

included in the questionnaire to assess sentiment for such an approach and read:

41. The standard progress payment rate:

- c. Should be tied to current interest rates.
- e. Should be tied to the contractors borrowing rate.

As shown in Table V-4, a marginally larger percentage of respondents agreed (37%) with Item 41c, that the standard progress payment rate should be tied to current interest rates, than disagreed (34%). In contrast, 27% of all respondents agreed that the rate should be tied to the contractor's borrowing rate, while a plurality (43%) disagreed.

When these results were broken by respondent characteristics, pluralities of higher-level respondents were found to disagree, both with tying the standard progress payment rate to current interest rates (Item 41c) and the contractors borrowing rate (Item 41e). Of those respondents in major headquarters positions or who are directors or deputy heads of activities, a plurality (44%) disagreed with Item 41c and a majority (53%) disagreed with Item 41e, percentages substantially higher than those of lower-level respondents. Similarly, the GS-15/0-6 respondents were more likely to disagree with Items 41c and 41e, 42% and 55% respectively, than the lower ranking respondents. Those respondents handling contracts valued at more than \$100 million were more likely to agree (43%) that the standard progress payment rate should be tied to current interest rates. Overall, these results indicate that there is marginal and mixed sentiment that the standard progress payment rate should be tied to current interest rates and

TABLE V-4

Analysis of Responses to Items 41c and 41e
of the DPAIR Survey
By Respondent Characteristics

		The standard progress payment rate:							
		c. Should be tied to current interest rates.			e. Should be tied to the contractor's borrowing rate.				
		Percentage			Percentage				
		N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree
All Respondents		(723)	37	29	34	(715)	27	30	43
Agency									
	Army	(221)	30	34	35	(219)	27	33	40
	Navy	(120)	34	30	36	(118)	23	28	49
	Air Force	(370)	41	26	32	(366)	27	30	43
Position									
	Major Headquarters and Directors or Deputies	(86)	36	20	44	(86)	26	21	53
	Supervisors	(243)	43	28	29	(243)	28	32	41
	Working Level Staff and Journeyman	(352)	34	32	34	(346)	27	32	42
Grade/Rank									
	GS-12/0-3	(269)	33	35	32	(264)	27	33	40
	GS-13/0-4	(206)	40	26	34	(205)	30	28	41
	GS-14/0-5	(136)	44	24	32	(136)	24	30	46
	GS-15/0-6	(64)	31	27	42	(64)	19	27	55
Value of Contracts									
	Less than \$1 million	(72)	33	36	31	(71)	21	38	41
	\$1 - \$100 million	(430)	35	31	34	(424)	27	29	44
	More than \$100 million	(216)	43	23	35	(216)	28	31	42

general disagreement with the notion that they should be tied to the contractors borrowing rate.

Two items were included in Item 41 to assess the opinions of the respondents as to whether the standard progress payment rate should be set at 100%. These two items were:

41. The standard progress payment rate:

- d. Should be 100% of costs incurred under fixed-price FMS contracts.
- g. Should be 100% for all contracts.

As shown in Table V-5, majorities of all respondents and all sub-groups expressed disagreement with these two items. Overall, 63% of the respondents disagreed that the payment rate should be 100% for FMS (Foreign Military Sales) contracts and 83% disagreed that the payment rate should be 100% for all contracts.

A final item included in Item 41 sought the opinions of the respondents on the statement:

41. The standard progress payment rate:

- f. Should be considered in establishing a profit objective.

TABLE V-5

Analysis of Responses to Items 41d and 41g
of the DFAIR Survey
By Respondent Characteristics

The standard progress payment rate:									
d. Should be 100% of costs incurred under fixed-price FMS contracts.					g. Should be 100% for all contracts.				
Percentage					Percentage				
	N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree	
All Respondents	(713)	14	23	63	(724)	4	13	83	
Agency									
Army	(224)	13	24	63	(223)	5	13	82	
Navy	(120)	7	25	68	(120)	3	15	83	
Air Force	(358)	18	22	60	(369)	4	13	83	
Position									
Major Headquarters and Directors or Deputies Supervisors	(86)	19	20	62	(86)	0	13	87	
Working Level Staff and Journeyman	(242)	14	24	63	(246)	4	14	82	
	(344)	14	24	63	(351)	4	14	82	
Grade/Rank									
GS-12/0-3	(261)	15	25	60	(267)	4	15	81	
GS-13/0-4	(204)	14	22	64	(207)	5	12	84	
GS-14/0-5	(137)	15	23	62	(138)	4	15	80	
GS-15/0-6	(64)	19	13	69	(64)	0	8	92	
Value of Contracts									
Less than \$1 million	(73)	12	30	58	(72)	1	17	82	
\$1 - \$100 million	(422)	12	23	66	(431)	4	13	83	
More than \$100 million	(214)	20	21	59	(217)	4	13	83	

Overall, as shown in Table V-6, 66% of all respondents agreed with this statement, while 20% disagreed. When these results were broken down by respondent characteristics, it was found that respondents from the Army were less likely to agree (58%) than were respondents from the Navy (70%) and Air Force (71%). Respondents at the working level staff and journeyman level (59%) were less likely to agree that the progress payment rate should be considered in establishing a profit objective than were those respondents who served in major headquarters positions or who were directors or deputy heads of activities (74%), or who were supervisors (76%). As measured by grade/rank, the higher the level of rank, the higher was the percentage agreeing with this statement. Finally, those respondents who usually handled contracts of more than \$100 million were more likely to agree (71%) than those usually handling contracts valued at less than \$1 million or \$1-100 million (65% each).

Related to Item 41 was an additional item, presented separately, that sought to assess the likely effect of a change in policy that lowered the standard progress payment rate. Item 42 posed the statement:

42. If DoD lowers the standard progress payment rate, contract prices paid by DoD would increase proportionately.

As shown in Table V-7, 41% of all respondents agreed with the statement, while 36% disagreed. When these results were broken down by respondent characteristics, substantial variation was found among the sub-groups. A plurality (41%) of respondents from the Navy disagreed with this statement, compared to pluralities from the Army (40%) and Air Force (44%) that agreed. A near majority (49%) of supervisors agreed that a lowered

TABLE V-6

Analysis of Responses to Item 41f
of the DFAIR Survey
By Respondent Characteristics

The standard progress payment
rate:

Should be considered in establish-
ing a profit objective.

	N	Percentage		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(727)	66	13	20
Agency				
Army	(226)	58	16	26
Navy	(120)	70	14	16
Air Force	(369)	71	11	18
Position				
Major Headquarters and Directors or Deputies	(86)	74	10	15
Supervisors	(247)	76	9	15
Working Level Staff and Journeymen	(353)	59	16	25
Grade/Rank				
GS-12/0-3	(268)	58	18	24
GS-13/0-4	(208)	69	11	21
GS-14/0-5	(138)	78	9	13
GS-15/0-6	(64)	80	8	13
Value of Contracts				
Less than \$1 million	(72)	65	19	15
\$1 - \$100 million	(434)	65	13	22
More than \$100 million	(217)	71	11	18

TABLE V-7

Analysis of Responses to Item 42
of the DFAIR Survey
By Respondent Characteristics

If DoD lowers the standard pro-
gress payment rate, contract
prices paid by DoD would increase
proportionally.

	N	Percentage		
		Agree	Neutral	Disagree
All Respondents	(732)	41	23	36
Agency				
Army	(228)	40	25	35
Navy	(121)	35	24	41
Air Force	(371)	44	22	34
Position				
Major Headquarters and Directors or Deputies	(86)	42	19	40
Supervisors	(253)	49	19	32
Working Level Staff and Journeymen	(351)	35	27	38
Grade/Rank				
GS-12/0-3	(270)	35	29	36
GS-13/0-4	(211)	47	19	34
GS-14/0-5	(139)	50	14	35
GS-15/0-6	(64)	44	22	34
Value of Contracts				
Less than \$1 million	(74)	34	28	38
\$1 - \$100 million	(438)	42	22	36
More than \$100 million	(215)	43	23	34

progress payment rate would result in increased contract prices, while only a slight plurality (42%) of respondents in major headquarters positions or who are directors or deputy heads of activities agreed, and a plurality (38%) of working level staff and journeymen disagreed. Only a slight plurality (36%) of GS-12/0-3 respondents disagreed with the statement, while substantially larger percentages of respondents in the higher grades agreed. A plurality (38%) of the respondents handling contracts of less than \$1 million disagreed with this item compared to pluralities who agreed with the statement among those respondents handling contracts valued at \$1-100 million (42%) and more than \$100 million (43%).

In an effort to explicate the responses to Item 42, that a lowered standard progress payment rate would result in higher prices to DoD, the responses to this item were analyzed in terms of the responses to Items 41a and 41b, that the standard progress payment rate is too high or too low, respectively. This analysis is presented in Table V-8.

A large majority (67%) of respondents who agreed with Item 41a that the payment rate is too high disagreed that a lowered payment rate would result in increased prices to DoD. In contrast, among those who disagreed that the payment rate is too high (Item 41a), 57% agreed that increased prices would result from lowering it. Analogous, but opposite results, were found among the respondents who agreed and disagreed with Item 41b that the payment rate is too low. Among those who agreed with Item 41b, 70% agreed that lowering the payment rate would result in increased prices while among those who disagreed with Item 41b, 50% disagreed that higher prices would result from lowering the progress rate.

TABLE V-8

Analysis of Responses to Item 42
of the DFAIR Survey
By Response to Items 41a and 41b

		Item 42			
		If DoD lowers the standard progress payment rate, contract prices paid by DoD would increase proportionally.			
		Percentage			
		<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
<u>Item 41a</u>					
The standard progress payment rate:					
<u>Is too high.</u>					
Agree	(178)	15	19	67	
Neutral	(307)	45	31	25	
Disagree	(234)	57	17	26	
<u>Item 41b</u>					
The standard progress payment rate:					
<u>Is too low.</u>					
Agree	(56)	70	21	9	
Neutral	(326)	45	30	25	
Disagree	(333)	32	17	50	

The reader will recall from the discussion of Table V-3 that 41% of all respondents were neutral with respect to both Items 41a and 41b. These respondents, along with the 20% who disagreed with both statements, may represent those who believe the current standard progress payment rate to be appropriate. Accordingly, the responses of these respondents to Item 42 were analyzed. Table V-9 presents the results of this analysis.

Overall, 47% of those respondents who either expressed no opinion or disagreed with both Items 41a and 41b, that the standard progress payment rate is too high and too low, respectively, agreed with Item 42 that prices paid by DoD would increase proportionately if the standard progress payment rate was lowered. Among those respondents who neither agreed nor disagreed with both Items 41a and 41b, 45% agreed with Item 42 while 24% disagreed. Among those respondents who disagreed with both Items 41a and 41b, 52% agreed with Item 42 while 33% disagreed. These results indicate that, among those respondents who may believe the standard progress payment rate to be appropriate, and who represent a majority of all the DFAIR respondents, lowering the rate would result in higher prices to DoD.

Flexible Progress Payment Model

In addition to the standard progress payment approach to contract financing, DoD also employs a flexible progress payment model. Item 40 of the DFAIR questionnaire sought to assess the opinions of the respondents regarding this model and posed the statements:

TABLE V-9

Analysis of Responses to Item 42
of the DFAIR Survey
By Response to Items 41a and 41b

	Item 42			
	If DoD lowers the standard progress payment rate, contract prices paid by DoD would increase proportionately.			
	Percentage			
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
<u>Items 41a and 41b</u>				
Both Neutral	(298)	45	31	24
Both Disagree	(147)	52	15	33
Combined	(445)	47	26	27

40. The flexible progress payment model is:
- a. Too complex to administer.
 - b. Too beneficial to the contractor.
 - c. More advantageous to the large contractor than the small contractor.
 - d. An effective method of insuring that an appropriate progress payment rate is established on a particular contract.

The present analysis will first deal with Items 40a and 40d, as a pair, and then with Items 40b and 40c, as a pair.

As shown in Table V-10, a plurality (45%) of all respondents agreed that the flexible progress payment model is too complex to administer, while 24% disagreed. An analysis of the responses by respondent characteristics revealed that the highest ranking respondents, as measured by grade/rank, generally disagreed with Item 41a, with 38% disagreeing and 34% agreeing. The only other substantial variation from the overall response distribution was among the Army respondents, of whom 37% agreed that the flexible progress payment model is too complex to administer, compared to 48% each among respondents from the Navy and Air Force.

In response to the statement that the flexible progress payment model is effective method of insuring that an appropriate progress payment rate is established (Item 40d) a plurality (44%) of all respondents neither agreed nor disagreed, compared to the 26% who agreed and the 30% that disagreed (see Table V-10). An analysis of responses by respondent characteristics revealed that those respondents from the Army, those who were

TABLE V-10

Analysis of Responses to Items 40a and 40d
of the DFAIR Survey
By Respondent Characteristics

The flexible progress payment model is:

d. An effective method of insuring that an appropriate progress payment rate is established on a particular contract.

a. Too complex to administer.

	N	Percentage			N	Percentage		
		Agree	Neutral	Disagree		Agree	Neutral	Disagree
All Respondents	(713)	45	31	24	(711)	26	44	30
Agency								
Army	(222)	37	37	26	(222)	32	40	28
Navy	(116)	48	28	23	(114)	21	46	33
Air Force	(363)	48	28	24	(363)	24	47	29
Position								
Major Headquarters and Directors or Deputies	(83)	40	30	30	(84)	31	36	33
Supervisors	(248)	47	29	24	(244)	24	41	34
Working Level Staff and Journeyman	(339)	45	33	22	(340)	26	49	25
Grade/Rank								
GS-12/0-3	(263)	41	37	22	(263)	29	47	24
GS-13/0-4	(205)	49	26	25	(204)	24	44	33
GS-14/0-5	(137)	48	31	21	(135)	19	46	35
GS-15/0-6	(61)	34	28	38	(62)	39	24	37
Value of Contracts								
Less than \$1 million	(75)	44	41	15	(73)	23	59	18
\$1 - \$100 million	(423)	48	30	22	(422)	27	43	30
More than \$100 million	(211)	38	30	32	(212)	26	40	34

working level staff or journeymen, and those who were GS-15/0-6s were all marginally more likely to agree or disagree with this statement than to be neutral.

In order to determine whether the opinion of the respondents as to the complexity of the flexible progress payment model (Item 40a) had any relation to their opinion about the effectiveness of the model as a method to insure an appropriate progress payment rate (Item 40d), the responses to Item 40d were analyzed in terms of Item 40a. The results of this analysis are presented in Table V-11.

As can readily be seen, whether or not the flexible progress payment model is seen as too complex bears a direct relationship to its perceived effectiveness. Among those respondents who agreed that the model was too complex (Item 40a), a plurality (46%) also disagreed that it was an effective method (Item 40d). In contrast, among those respondents who disagreed that this model is too complex (Item 40a), a majority (51%) also agreed that it is an effective method (Item 40d).

Items 40b and 40c dealt with whether the flexible progress payment model is too beneficial to contractors in general (Item 40b) and whether it is more advantageous for large versus small contractors. As is shown in Table V-12, a plurality (44%) of respondents expressed neither agreement nor disagreement with Item 40b, while 33% agreed and 23% disagreed. Notably, a larger percentage of higher-level respondents, as measured by position and grade/rank, disagreed with the statement that the flexible progress payment model is too beneficial to the contractor. Of those

TABLE V-11

Analysis of Responses to Item 40d
of the DFAIR Survey
By Responses to Item 40a

		<u>Item 40d</u>		
		<u>The flexible progress payment model is:</u>		
		<u>An effective method of insuring that an appropriate progress payment rate is established on a particular contract.</u>		
		<u>Percentage</u>		
<u>Item 40a</u>	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
<u>Too complex to administer.</u>				
Agree	(312)	13	42	46
Neutral	(221)	25	59	15
Disagree	(171)	51	29	20

TABLE V-12

Analysis of Responses to Items 40b and 40c
of the DFAIR Survey
By Respondent Characteristics

		The flexible progress payment model is:				
		b. Too beneficial to the contractor.			c. More advantageous to the large contractor than the small contractor.	
		Percentage			Percentage	
	N	Agree	Neutral	Disagree	Agree	Neutral Disagree
All Respondents	(709)	33	44	23	55	34 11
Agency						
Army	(221)	33	46	21	54	34 12
Navy	(114)	32	45	23	54	35 10
Air Force	(362)	32	43	25	55	34 11
Position						
Major Headquarters and Directors or Deputies	(84)	29	37	35	61	30 10
Supervisors	(243)	34	44	23	58	33 9
Working Level Staff and Journeymen	(340)	32	47	21	50	36 14
Grade/Rank						
GS-12/0-3	(263)	33	46	20	51	36 13
GS-13/0-4	(203)	34	43	23	59	32 9
GS-14/0-5	(135)	36	39	25	60	32 7
GS-15/0-6	(62)	23	35	42	58	29 13
Value of Contracts						
Less than \$1 million	(74)	35	54	11	56	32 12
\$1 - \$100 million	(419)	31	45	24	55	34 11
More than \$100 million	(212)	35	39	26	55	35 11

respondents whose position was in a major headquarters or who were directors or deputy heads of an activity, 35% disagreed with Item 40b while 29% agreed. Among those respondents whose rank was GS-15/0-6 a plurality (42%) disagreed with Item 40b, while 35% expressed neutrality and 23% agreed. Also notable is the finding that only 11% of those respondents who usually handled contracts of less than \$1 million disagreed that the flexible progress payment model is too beneficial to the contractor.

In response to Item 40c, that the flexible progress payment model is more advantageous to the large contractor rather than the small contractor (see Table V-12), a majority (55%) of all respondents agreed, while only 11% disagreed. When these results were broken down by respondent characteristics there was little variation in the percentages agreeing and disagreeing, compared to the aggregate of all respondents.

In order to determine if there was a relationship between the responses to Item 40b, that the flexible progress payment model is too beneficial to the contractor, and those to Item 40c, that the model is more advantageous to the large contractor, the responses to Item 40c were analyzed in terms of the response to Item 40b. The results of this analysis are presented in Table V-13.

Regardless of whether the respondents agreed or disagreed that the flexible progress payment model is too beneficial to the contractor, a majority of the respondents agreed that the model was more advantageous to the large contractor. However, the percentage of respondents who agreed with both items (77%) was substantially larger than the percentage that

TABLE V-13

Analysis of Responses to Item 40c
of the DFAIR Survey
By Responses to 41b

		Item 40c			
		The flexible progress payment model is:			
		More advantageous to the large contractor than the small contractor.			
		Percentage			
Item 41b	N	Agree	Neutral	Disagree	
Too beneficial to the contractor.					
Agree	(230)	77	15	8	
Neutral	(313)	40	53	7	
Disagree	(162)	51	25	25	

disagreed with Item 40b and agreed with Item 40c (51%). These results are generally consistent with those found when the distribution of responses of all respondents to Item 40c were examined (Table V-12). But, it appears that the agreement with Item 40c, that the flexible progress payment rate is too advantageous, applies more to large contractors than it does to small ones.

Flow Down of Financing Provisions

Government-authorized financing provisions are arranged with the prime contractor alone. The prime contractor, and not the government, is responsible for assuring that its subcontractor has sufficient financing to perform its contractual obligations. The Contract Financing Section of the DFAIR questionnaire sought to determine whether or not prime contractors "flowed down" government-authorized financing provisions to subcontractors, and when they did so, whether or not lower prices to the Government resulted. The statements posed to the DFAIR respondents were:

44. When prime contractors flow down Government authorized financing provisions to subcontractors, lower prices to the Government result.
45. Prime contractors flow down Government authorized financing provisions to subcontractors to the maximum extent possible.

As shown in Table V-14, plurality (40%) of all respondents neither agreed nor disagreed that the flow down of financing provisions to sub-

TABLE V-14

Analysis of Responses to Items 44 and 45
of the DFAIR Survey
By Respondent Characteristics

	Item 44				Item 45			
	When prime contractors flow down Government authorized financing provisions to subcontractors, lower prices to the Government result.		Prime contractors flow down Government authorized financing provisions to the maximum extent possible.		When prime contractors flow down Government authorized financing provisions to subcontractors, lower prices to the Government result.		Prime contractors flow down Government authorized financing provisions to the maximum extent possible.	
	N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree
All Respondents	(728)	26	40	34	(716)	15	44	41
Agency								
Army	(223)	26	43	30	(218)	14	52	34
Navy	(124)	19	45	35	(119)	21	40	40
Air Force	(369)	28	36	36	(367)	13	41	46
Position								
Major Headquarters and Directors or Deputies	(84)	31	36	33	(85)	12	31	58
Supervisors	(251)	28	40	32	(246)	15	43	42
Working Level Staff and Journeyman	(351)	23	40	36	(345)	15	48	36
Grade/Rank								
GS-12/0-3	(268)	25	40	35	(264)	16	53	31
GS-13/0-4	(209)	26	41	33	(205)	15	39	46
GS-14/0-5	(141)	23	41	36	(139)	14	43	43
GS-15/0-6	(63)	33	35	32	(64)	16	27	58
Value of Contracts								
Less than \$1 million	(72)	28	47	25	(68)	4	54	41
\$1 - \$100 million	(436)	26	38	36	(430)	15	44	41
More than \$100 million	(215)	24	41	35	(214)	19	40	42

contractors results in lower prices (Item 44). Of those respondents remaining and who expressed an opinion, more (34%) disagreed with this statement than agreed (26%). The distribution of responses, when analyzed by respondent characteristics, were much the same for all of the sub-groups as for all respondents.

In response to Item 45, that prime contractors flow down financing provisions to the maximum extent possible, a plurality (44%) of all respondents expressed neither agreement nor disagreement (see Table V-14). Only 15% of all respondents agreed that flow down to the maximum extent occurs, while 41% disagreed.

The analysis of responses to Item 45, broken down by respondent characteristics, produced substantial variation among the sub-groups of respondents. A plurality (46%) of Air Force respondents disagreed that financing flowed down to subcontractors, compared to 39% of the Navy respondents and 34% of the Army respondents. An outright majority (58%) of major headquarters personnel and directors and deputy heads of activities and GS-15/0-6 respondents disagreed with this item, compared to substantially lower percentages disagreeing at the lower-level positions and grade/ranks.

Presented in Table V-15 is an analysis of the responses to Item 44, that the flow down of contract financing from prime contractors to subcontractors results in lower prices, in terms of the responses to Item 45, that flow down of financing occurs to the maximum extent possible. This analysis reveals that there is little sentiment that these policies result

TABLE V-15

Analysis of Responses to Item 44
of the DFAIR Survey
By Responses to 45

		Item 44			
		When prime contractors flow down Government authorized financing provisions to subcontractors, lower prices to the Government result.			
		Percentage			
Item 45		<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
Prime contractors flow down Government authorized financing provisions to subcontractors to the maximum extent possible.					
Agree	(107)	34	31	36	
Neutral	(312)	20	57	23	
Disagree	(293)	28	26	47	

in lower prices to the Government. Of those respondents who agreed that flow down occurs, more disagreed (36%) that lower prices result, than agreed (34%). Among those respondents who disagreed with the statement that flow down occurs to the maximum extent possible (Item 45), only 28% agreed that it results in lower prices, compared to 47% who disagreed.

Use of Advance Payments

Finally, Item 43 posed three statements of a prescriptive nature regarding the use of advance payments. This item read:

43. Advance payments:
- a. Should be used more often.
 - b. Should be used at the discretion of the contracting officer.
 - c. Would encourage more competition for defense contracts.

Overall, a large majority (64%) of all respondents disagreed with Item 43, that advance payments should be used more often, while only 14% agreed (see Table V-16). When these responses were broken down by respondent characteristics there was little variation among the sub-groups. It appears clear that there is little sentiment for the more frequent use of advance payments.

As to whether advance payments should be used at the discretion of the contracting officer (Item 43b), a majority of all respondents (57%) agreed that this ought to be done, while 31% disagreed (see Table 16). When these

TABLE V-16

Analysis of Responses to Items #3a, #3b, and #3c
of the DPAIR Survey
By Respondent Characteristics

Advance payments:												
	a. Should be used more often.				b. Should be used at the discretion of the contracting officer.				c. Would encourage more competition for defense contracts.			
	N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree
All Respondents	(732)	14	22	64	(736)	57	12	31	(731)	37	31	32
Agency												
Army	(225)	11	23	66	(230)	61	16	23	(224)	34	36	30
Navy	(123)	12	13	75	(124)	65	6	29	(124)	31	36	33
Air Force	(372)	16	24	60	(370)	51	12	36	(371)	40	26	34
Position												
Major Headquarters and Directors or Deputies	(84)	17	15	68	(85)	49	7	44	(85)	38	29	33
Supervisors	(252)	12	23	65	(248)	56	13	31	(250)	34	32	34
Working Level Staff and Journeyman	(355)	15	23	62	(359)	58	14	28	(354)	38	32	31
Grade/Rank												
GS-12/0-3	(270)	13	23	64	(274)	59	16	24	(267)	36	33	31
GS-13/0-4	(210)	15	24	61	(209)	52	13	35	(210)	39	30	31
GS-14/0-5	(141)	13	16	72	(140)	59	8	34	(141)	36	28	36
GS-15/0-6	(63)	19	14	67	(63)	52	6	41	(63)	38	35	27
Value of Contracts												
Less than \$1 million	(75)	11	36	53	(75)	49	16	35	(74)	34	34	32
\$1 - \$100 million	(435)	14	18	68	(438)	59	11	31	(435)	36	30	34
More than \$100 million	(218)	15	24	61	(218)	54	15	31	(217)	39	31	30

results were broken down by respondent characteristics, respondents from the Air Force were less likely to agree (51%) than those from the Army (61%) and Navy (65%). The higher ranking respondents, as measured by position and grade/rank, were also less likely to agree with this statement than the lower ranking respondents. Among those respondents who held positions at major headquarters or who were directors or deputy heads of activities, 49% agreed that advance payments should be used at the discretion of the contracting officer, compared to 56% of the supervisors and 58% of the working-level staff and journeymen. Among those respondents whose grade/rank was GS-15/0-6, 52% agreed and 41% disagreed with Item 40b. Despite these variations there is still strong sentiment that discretion in the use of advance payments is a good prescription.

In response to Item 43c, that advance payments would encourage more competition for defense contracts (see Table V-16) a plurality (37%) of all respondents agreed, while 31% were neutral, and 32% disagreed. When these results were broken down by respondent characteristics, pluralities of respondents from the Army (36%) and Navy (36%) were neutral in response to this statement, while a plurality (40%) of the Air Force respondents agreed. Among the other sub-groups, pluralities agreed with Item 43c, except for those holding positions as supervisors or those whose grade/rank was GS-14/0-5. Among these two sub-groups opinion was divided with equal percentages agreeing and disagreeing. These results indicate that there is an absence of clear sentiment that advance payments would encourage more competition for defense contracts.

SECTION VI

Contractor Investment Incentives Policies and Practices

Policy Objectives

The final section of the DFAIR questionnaire dealt with issues concerning contractor investment incentive policies and practices. This section began with a set of items (Items 46a - 46e) that asked respondents the extent of their agreement or disagreement regarding the contribution of current DoD contractor investment incentive policies and practices to policy objectives. Table VI-1 presents the text of these items and the distributions of the responses.

In no case did a plurality of respondents agree that current DoD contractor investment incentive policies and practices contribute to the policy objectives stated. Pluralities of respondents expressed a neutral opinion regarding Item 46a, maintaining the viability of the industrial base (41%), and Item 46c, quality products (47%). A plurality (44%) disagreed with Item 46b, that current contractor investment incentives policies and practices contribute to efficient contractor performance. Nearly equal percentages of respondents were neutral (37%) or disagreed (38%) with Item 46e, regarding the policy objective of encouraging capital investment. Finally, a majority (52%) of the respondents disagreed that contractor investment incentive policies contribute to the lowest possible cost to the Government.

TABLE VI-1

Analysis of Responses to Item 46
of the DFAIR Survey

Current DoD CONTRACTOR INVESTMENT INCENTIVES policies and practices contribute to:	N	Percentage		
		Agree	Neutral	Disagree
a. Maintaining the viability of the industrial base.	(692)	27	41	33
b. Efficient contractor performance.	(697)	15	41	44
c. Quality products.	(694)	13	47	40
d. The lowest possible cost to the Government.	(695)	10	38	52
e. Encouraging capital investment.	(694)	26	37	38

Two of the five objectives included in Item 46, maintaining the viability of the industrial base and encouraging capital investment are most affected by DoD contractor investment incentives. In light of this, further analysis of the responses by respondent characteristics was performed for these two items.

Presented in Table VI-2 are the results of this analysis for Item 46a regarding the objective of maintaining the viability of the industrial base. A plurality (44%) respondents from the Navy disagreed with Item 46a, while pluralities from the Army (49%) and Air Force (41%) neither agreed nor disagreed. As measured by position, the higher ranking respondents, those in major headquarters positions or who were directors or deputy heads of an activity, were more likely to disagree with this item, while the lower ranking respondents, the journeymen and working level staff, were more likely to agree. A near majority (49%) of the higher level respondents disagreed with Item 46a while 23% agreed. Among the working level staff and journeymen respondents, 31% agreed with the statement, 25% disagreed and 45% neither agreed nor disagreed. Among the supervisors, 41% expressed neutrality, 22% agreed and 37% disagreed.

There was much variability in the distribution of responses as measured by grade/rank. At the lowest grade/rank, GS-12/0-3, a plurality (49%) of the respondents expressed no opinion, while at the highest grade/rank, GS-15/0-6, a plurality (41%) disagreed that current contractor investment incentive policies contribute to maintaining the viability of the industrial base. At the intermediate grade/rank levels, equal percentages (39%) of the GS-13/0-4 respondents were neutral or disagreed, while a plurality (43%) of the GS-14/0-5 respondents disagreed with Item 46a.

TABLE VI-2

Analysis of Responses to Item 46a
of the DFAIR Survey
By Respondent Characteristics

Current DoD CONTRACTOR INVESTMENT
INCENTIVES policies and practices
contribute to:

Maintaining the viability of the
industrial base.

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(692)	27	41	33
Agency				
Army	(211)	26	49	26
Navy	(123)	28	28	44
Air Force	(347)	27	41	33
Position				
Major Headquarters and Directors or Deputies	(82)	23	28	49
Supervisors	(240)	22	41	37
Working Level Staff and Journeyman	(330)	31	45	25
Grade/Rank				
GS-12/0-3	(244)	32	49	19
GS-13/0-4	(203)	22	39	39
GS-14/0-5	(138)	22	34	43
GS-15/0-6	(59)	32	27	41
Value of Contracts				
Less than \$1 million	(69)	29	51	20
\$1 - \$100 million	(406)	27	40	34
More than \$100 million	(212)	26	40	34

As measured by the value of contracts usually handled, those handling contracts of less than \$1 million were more likely to express neutrality (51%) than were those handling contracts of larger values (40%).

In response to Item 46e, that current DoD contractor investment incentive policies and practices contribute to encouraging capital investment, a minority (26%) of all respondents agreed, while nearly equal percentages expressed neutrality (37%) or disagreed (38%) (see Table VI-3). When these results were broken down by respondent characteristics, substantial variation among the sub-groups was found. Among those respondents from the Army, a larger percentage were neutral (43%) in response to this item than disagreed (33%). In contrast, larger percentages of Navy and Air Force respondents disagreed, 43% and 39% respectively, while 32% and 34% respectively, neither agreed nor disagreed.

As measured by position, twice as many respondents who worked in major headquarters or who were directors or deputy heads of an activity disagreed (48%) with Item 46e as were neutral (24%). Similarly, more supervisors (42%) disagreed than were neutral (38%), though the difference was much smaller. A plurality (39%) of working level and journeymen respondents neither agreed nor disagreed with this statement, while 32% disagreed.

As measured by grade/rank, a plurality (39%) of GS-12/0-3 respondents were neutral regarding Item 46e, that current contractor investment incentive policies contribute to encouraging capital investment, while nearly equal percentages agreed (31%) and disagreed (30%). At the GS-13/0-4 and GS-14/0-5 grade/rank levels, pluralities (43% and 49%, respectively)

TABLE VI-3

Analysis of Responses to Item 46e
of the DFAIR Survey
By Respondent Characteristics

Current DoD CONTRACTOR INVESTMENT INCENTIVES policies and practices contribute to:				
<u>Encouraging capital investment.</u>				
	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(694)	26	37	38
Agency				
Army	(211)	24	43	33
Navy	(122)	25	32	43
Air Force	(350)	27	34	39
Position				
Major Headquarters and Directors or Deputies	(82)	28	24	48
Supervisors	(240)	21	38	42
Working Level Staff and Journeymen	(332)	28	39	32
Grade/Rank				
GS-12/0-3	(246)	31	39	30
GS-13/0-4	(204)	20	37	43
GS-14/0-5	(137)	20	31	49
GS-15/0-6	(59)	36	29	36
Value of Contracts				
Less than \$1 million	(69)	25	49	26
\$1 - \$100 million	(409)	27	36	37
More than \$100 million	(211)	24	33	43

disagreed with Item 46e, while 37% and 31%, respectively, expressed neutrality. Among the GS-15/0-6 respondents, a minority (29%) expressed neutrality, while nearly equal percentages agreed (35%) and disagreed (36%).

Finally, as measured by the value of contracts handled, the percentage of respondents who were neutral regarding Item 46e decreased as the value of contracts handled increased, while the percentage that disagreed increased. Among those respondents handling contracts of less than \$1 million a plurality (49%) expressed neutrality, while 36% and 33% of those respondents handling contracts valued at \$1 - \$100 million and more than \$100 million, respectively did so. Among those respondents handling contracts valued at less than \$1 million, 26% disagreed with Item 46e (a percentage slightly larger than the 25% that agreed), while 37% of those handling contracts of \$1 - \$100 million and a plurality (43%) of those handling contracts of more than \$100 million did so.

Viability of the Industrial Base

As has already been noted, one of the principal goals of DoD contractor investment incentive is to maintain the viability of the industrial base. One measure of the achievement of this goal is the size of the industrial base available to support the procurement needs of DoD. Included in the DFAIR questionnaire were two items that sought to assess the opinions of DoD procurement personnel as to whether there is presently a sufficiently large industrial base at various contractor levels (Item 49) and whether the size of the industrial base has substantially decreased within the past five years (Item 50). The text of these two items of the questionnaire read:

49. There is presently a sufficiently large industrial base at the:

- a. Prime contractor level.
- b. First tier subcontractor level.
- c. Lower tier subcontractor level.

50. Within the past five years, there has been a substantial decrease in the size of the industrial base at the:

- a. Prime contractor level.
- b. First tier subcontractor level.
- c. Lower tier subcontractor level.

As shown in Table VI-4, a majority (51%) of all respondents agreed that there is a sufficiently large industrial base at the prime contractor level (Item 49a), while 26% disagreed, and 23% neither agreed nor disagreed. In response to Item 49b, regarding the size of the industrial base at the first tier subcontractor level, a plurality (37%) agreed, 33% were neutral, and 30% disagreed. Regarding the size of the industrial base at the lower tier subcontractor level (Item 49c), a plurality (38%) of the respondents neither agreed nor disagreed, while 34% disagreed, and 28% agreed.

A plurality respondents provided neutral responses to each of the three statements composing Item 50. Among those respondents who either agreed or disagreed with these statements, 37% disagreed that there had been a substantial decrease in the size of the industrial base at the prime contractor level within the past five years (Item 50a), while 23% agreed.

TABLE VI-4

Analysis of Responses to Items 49 and 50
of the DFAIR Survey

	Item 49				Item 50			
	There is presently a sufficiently large industrial base at the:				Within the past five years, there has been a substantial decrease in the size of the industrial base at the:			
	Percentage				Percentage			
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
a. Prime contractor level.	(709)	51	23	26	(691)	23	41	37
b. First tier subcontractor level.	(701)	37	33	30	(687)	28	44	29
c. Lower tier subcontractor level.	(699)	28	38	34	(684)	34	45	21

At the first tier subcontractor level, opinion was evenly split, with 28% agreeing and 29% disagreeing (Item 50b). In response to Item 50c, 34% agreed that within the past five years there has been a substantial decrease in the size of the industrial base at the lower tier subcontractor level, while 21% disagreed.

Presented in Tables VI-5, VI-6, and VI-7 are analyses of the responses to Items 49 and 50 broken down by respondent characteristics. At the prime contractor level, Table VI-5 shows little variation in the distribution of responses among the sub-groups compared to that for all respondents except for the break-down by value of contracts handled. More respondents (58%) handling contracts in excess of \$100 million agreed that there is presently a sufficiently large industrial base at the prime contractor level (Item 49a) than those handling contracts valued at less than \$1 million (49%) and between \$1 and \$100 million (47%). In response to Item 50a, that there has been a substantial decrease in the size of the industrial base at the prime contractor level, 47% of those handling contracts in excess of \$100 million expressed disagreement, compared to 33% among those handling contracts between \$1 - \$100 million and 28% among those handling contracts of less than \$1 million.

Also noteworthy in Table VI-5 is the finding that a majority of high level respondents disagreed with Item 50a, that there has been a substantial decrease in the size of the industrial base. Among those respondents in major headquarters positions or who were directors or deputy heads of an activity, 51% disagreed with Item 50a. Among those identified as GS-15/0-6, 50% disagreed with this statement.

TABLE VI-5

Analysis of Responses to Items 49a & 50a
of the DFAIR Survey

	Item 49a				Item 50a			
	There is presently a sufficiently large industrial base at the:				Within the past five years, there has been a substantial decrease in the size of the industrial base at the:			
	Prime contractor level.				Prime contractor level.			
	Percentage				Percentage			
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(709)	51	23	26	(691)	23	41	37
Agency								
Army	(223)	53	23	23	(220)	22	43	35
Navy	(121)	54	21	25	(118)	22	38	40
Air Force	(354)	49	24	27	(342)	23	40	37
Position								
Major Headquarters and Directors or Deputies	(85)	55	18	27	(84)	25	24	51
Supervisors	(241)	50	24	26	(235)	22	43	34
Working Level Staff and Journeyman	(342)	51	24	25	(333)	22	42	35
Grade/Rank								
GS-12/0-3	(260)	53	23	25	(251)	23	41	35
GS-13/0-4	(200)	47	25	28	(196)	19	43	37
GS-14/0-5	(137)	51	23	26	(134)	25	40	35
GS-15/0-6	(63)	56	21	23	(62)	29	21	50
Value of Contracts								
Less than \$1 million	(72)	49	25	26	(68)	26	46	28
\$1 - \$100 million	(419)	47	25	28	(406)	25	42	33
More than \$100 million	(214)	58	20	22	(213)	18	35	47

At the first tier subcontractor level (Table VI-6), the results of the analysis of responses by respondent characteristics revealed that those in the higher positions were more likely to disagree that there is a sufficiently large industrial base (Item 49b) and agree that the size of the base has decreased (Item 50b) than were those in lower positions. Of those respondents who held major headquarters positions or who were directors or deputy heads of an activity, 38% disagreed with Item 49b and 41% agreed with Item 50b. In contrast only 30% of the supervisors and 28% of the working-level staff and journeymen disagreed that the industrial base at the first tier subcontractor is sufficiently large (Item 49b) while 28% and 24%, respectively, agreed that the size of the industrial base at this level had decreased (Item 50b).

As measured by grade/rank, the percentage of respondents disagreeing with Item 49b successively increased with each grade/rank as did the percentage agreeing with Item 50b. Compared to the minorities of GS-12/0-3 respondents who disagreed (26%) that there is a sufficient large industrial base at the first tier subcontractor level (Item 49b) and who agreed (23%) that there has been a substantial decrease in the size of the industrial base at the first tier subcontractor level (Item 50b), pluralities of the GS-15/0-6 respondents disagreed (41%) with Item 49b and agreed (46%) with Item 50b.

As measured by the value of contracts handled, 37% of those respondents handling contracts of less than \$1 million disagreed with Item 49b while pluralities of those handling contracts of \$1 - \$100 million and more than \$100 million (39% and 38%, respectively) agreed that the industrial

TABLE VI-6

Analysis of Responses to Items 49b and 50b
of the DFAIR Survey

	Item 49b				Item 50b			
	There is presently a sufficiently large industrial base at the: Lower tier subcontractor level.				Within the past five years, there has been a substantial decrease in the size of the industrial base at the: Lower tier subcontractor level.			
	Percentage				Percentage			
	N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree
All Respondents	(701)	37	33	30	(687)	28	44	29
Agency								
Army	(218)	41	33	26	(215)	22	48	30
Navy	(120)	43	30	28	(117)	26	44	30
Air Force	(352)	33	34	33	(344)	33	40	27
Position								
Major Headquarters and Directors or Deputies	(84)	37	25	38	(83)	41	30	29
Supervisors	(238)	33	37	30	(236)	28	44	28
Working Level Staff and Journeyman	(339)	41	32	28	(330)	24	46	29
Grade/Rank								
GS-12/0-3	(257)	42	32	26	(248)	23	47	29
GS-13/0-4	(198)	37	34	28	(196)	24	43	32
GS-14/0-5	(137)	31	33	36	(135)	33	42	24
GS-15/0-6	(61)	38	21	41	(61)	46	26	28
Value of Contracts								
Less than \$1 million	(71)	25	38	37	(67)	30	52	18
\$1 - \$100 million	(413)	39	31	30	(404)	28	45	27
More than \$100 million	(213)	38	34	28	(212)	27	38	35

base at this level is sufficiently large. In response to Item 50b, successively larger percentages of respondents disagreed that there has been a substantial decrease in the size of the industrial base at the first tier subcontractor level as the value of contracts handled increased. Among those handling contracts of less than \$1 million, a minority (18%) disagreed with Item 50b, while 27% of those handling contracts of \$1 - \$100 million and 35% of those handling contracts of more than \$100 million did so.

In response to the two items regarding the lower tier subcontractor level (see Table VI-7), Air Force respondents tended to believe that there is not a sufficiently large industrial base (Item 49c), while Army and Navy respondents were divided on this question. Similar percentages of Army and Navy respondents agreed, 29% and 34% respectively, and disagreed, 27% and 33% respectively, with Item 49c. In contrast, 25% of the Air Force respondents agreed with Item 49c while 39% disagreed.

In response to Item 50c, that there has been a substantial decrease in the size of the industrial base at the lower tier subcontractor level, fewer respondents from the Army (26%) agreed, compared to 33% of the Navy respondents and 39% of the Air Force respondents.

As measured by position and grade/rank, the higher-level respondents were more likely to disagree with Item 49c, that there is presently a sufficiently large industrial base at the lower tier subcontractor level than were the lower-level respondents. These respondents were also more likely to agree with Item 50c, that there has been a substantial decrease in the

TABLE VI-7

Analysis of Responses to Items 49c & 50c
of the DFAIR Survey

	Item 49c				Item 50c			
	There is presently a sufficiently large industrial base at the:				Within the past five years, there has been a substantial decrease in the size of the industrial base at the:			
	Lower tier subcontractor level.				Lower tier subcontractor level.			
	Percentage				Percentage			
	N	Agree	Neutral	Disagree	N	Agree	Neutral	Disagree
All Respondents	(699)	28	38	34	(684)	34	45	21
Agency								
Army	(217)	29	43	27	(214)	26	52	22
Navy	(120)	34	33	33	(117)	33	42	25
Air Force	(351)	25	36	39	(342)	39	41	19
Position								
Major Headquarters and Directors or Deputies	(84)	27	25	48	(83)	54	25	20
Supervisors	(238)	26	38	36	(236)	34	44	22
Working Level Staff and Journeyemen	(337)	30	40	30	(327)	29	50	21
Grade/Rank								
GS-12/0-3	(255)	31	39	30	(246)	28	50	22
GS-13/0-4	(198)	30	40	30	(195)	30	47	24
GS-14/0-5	(137)	23	35	42	(135)	43	40	17
GS-15/0-6	(61)	28	25	48	(61)	56	20	25
Value of Contracts								
Less than \$1 million	(71)	24	37	39	(66)	35	53	12
\$1 - \$100 million	(411)	28	37	35	(402)	33	45	22
More than \$100 million	(213)	28	40	32	(212)	37	40	23

size of the industrial base at the lower tier subcontractor level than were the lower level respondents.

Among those respondents who held positions in a major headquarters or who were directors or deputy heads of an activity, 48% disagreed with Item 49c, compared to 36% of the supervisors and 30% of the working level staff and journeymen. A majority (54%) of these higher level respondents agreed with Item 50c, compared to 34% of the supervisors and 29% of the working level staff and journeymen. Among those respondents whose rank was GS-15/0-6, 48% disagreed with Item 49b, while 56% agreed with Item 50c. Both these percentages were larger than those found for respondents whose grade/rank was lower.

In order to determine if any relationship existed between the responses to Item 49, that there is presently a sufficient large industrial base, and Item 50, that there has been a substantial decrease in the size of the industrial base, the responses to Items 50a, 50b, and 50c were analyzed in terms of the responses of each corresponding sub-item of Item 49. The results are presented in Table VI-8.

At each level, a majority of those respondents who agreed that there is presently a sufficiently large industrial base (Item 49) also disagreed that there has been a substantial decrease in the size of the industrial base (Item 50) and a majority of those respondents who disagreed with Item 49 also agreed with Item 50.

TABLE VI-8

Analysis of Responses to Items 50a, 50b, and 50c
of the DFAIR Survey
By Response to Items 49a, 49b, and 49c

Within the past five years, there has been a substantial decrease in the size of the industrial base at the:

		<u>Percentage</u>		
		<u>N</u>	<u>Agree</u>	<u>Neutral</u> <u>Disagree</u>
There is presently a sufficiently large industrial base at the:				
<u>Item 49a</u>		<u>Item 50a</u>		
<u>Prime contractor level.</u>		<u>Prime contractor level.</u>		
Agree	(351)	12	27	61
Neutral	(164)	10	83	7
Disagree	(174)	57	27	16
<u>Item 49b</u>		<u>Item 50b</u>		
<u>First tier subcontractor level.</u>		<u>First tier subcontractor level.</u>		
Agree	(255)	10	32	58
Neutral	(227)	11	78	10
Disagree	(203)	68	20	12
<u>Item 49c</u>		<u>Item 50c</u>		
<u>Lower tier subcontractor level.</u>		<u>Lower tier subcontractor level.</u>		
Agree	(189)	13	32	55
Neutral	(260)	12	82	7
Disagree	(232)	76	14	10

Also noteworthy is the finding that successively smaller percentages of respondents who agreed that there is presently a sufficiently large industrial base (Item 49) also disagreed that there has been a substantial decrease in the size of the industrial base (Item 50) at each level. At the prime contractor level 61% of those respondents who agreed with Item 49a also disagreed with Item 50a while the comparable percentages responding to Items 49b and 50b, and Items 49c and 50c were 58% and 55%, respectively.

Among those respondents who disagreed that the industrial base was sufficiently large (Item 49) a successive larger percentage also agreed that there has been a substantial decrease in the size of the industrial base (Item 50) at each level. At the prime contractor level, 57% of those respondents who disagreed with Item 49a also agreed with Item 50a, while the comparable percentages disagreeing with Items 49b and 49c and agreeing with Items 50b and 50c, respectively, were 68% and 76%, respectively.

In summary, the data presented in Table VI-8 indicate that there is a direct relationship between the level of industrial base and its perceived adequacy, as measured by its present size and recent decrease in size. At the prime contractor level a larger percentage of all respondents (31%) view the situation as favorable (indicated by agreement with Item 49 and disagreement with Item 50) rather than as unfavorable (14%) (indicated by disagreement with Item 49 and agreement with Item 50). At the first tier subcontractor level, 22% view the situation as favorable while 20% view it as unfavorable. At the lower tier subcontractor level, more respondents (26%) view the situation as unfavorable compared to 15% who view it as favorable (Data are not shown in the table).

Capital Employed Factor

Included in the weighted guidelines is a provision for the consideration of facilities investment by a contractor in the determination of a profit objective. To assess opinion as to the effectiveness of this provision in promoting investment by DoD contractors, Item 51 was included in the DFAIR questionnaire. This item read:

51. The present capital employed factor (16-20%) is too small to provide a tangible incentive for investment.

As shown in Table VI-9, a plurality (39%) of all respondents neither agreed nor disagreed with this item, while 36% disagreed and 25% agreed. When these results were analyzed by respondent characteristics little uniformity in the distribution of responses among the sub-groups of respondents was found.

A plurality (44%) of the respondents from the Navy disagreed that the present capital employed factor is too small, while a plurality (47%) of Army respondents expressed neutrality, and nearly equal percentages of Air Force respondents expressed neutrality (37%) or disagreed (36%).

The higher the level of responsibility, as measured by position and grade/rank, the more likely were respondents to believe that the capital employed factor is too small (Item 51). Among those respondents who held positions in major headquarters or who were directors or deputy heads of an activity, 34% agreed with Item 51 while 25% disagreed. In contrast, the

TABLE VI-9

**Analysis of Response to Item 51
of the DFAIR Survey
By Respondent Characteristics**

**The present capital employed factor
(16-20%) is too small to provide a
tangible incentive for investment.**

	<u>N</u>	<u>Percentage</u>		
		<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
All Respondents	(703)	25	39	36
Agency				
Army	(218)	21	47	32
Navy	(121)	23	33	44
Air Force	(353)	27	37	36
Position				
Major Headquarters and Directors or Deputies	(79)	34	41	25
Supervisors	(241)	29	41	30
Working Level Staff and Journeymen	(342)	19	36	44
Grade/Rank				
GS-12/0-3	(258)	20	38	42
GS-13/0-4	(201)	27	35	38
GS-14/0-5	(135)	30	41	30
GS-15/0-6	(58)	36	38	26
Value of Contracts				
Less than \$1 million	(68)	24	56	21
\$1 - \$100 million	(421)	25	36	39
More than \$100 million	(209)	26	38	36

supervisors were nearly evenly split with 28% agreeing and 30% disagreeing, and a plurality (44%) of the working level staff and journeymen disagreed while a minority (19%) agreed. A successively large percentage of respondents agreed with Item 51 at each grade/rank while a successively small percentage disagreed. At the lowest grade/rank, GS-12/O-3, 20% agreed and 42% disagreed that the capital employed factor is too small, while at the highest grade/rank, GS-15/O-6, 36% agreed and 26% disagreed.

As measured by value of contracts usually handled, a majority (56%) of those respondents handling contracts of less than \$1 million neither agreed nor disagreed that the present capital employed factor is too small. A plurality (39%) of those respondents handling contracts of \$1 - \$100 million disagreed with this item, while a plurality (38%) of those handling contracts in excess of \$100 were neutral.

In order to determine whether the present capital employed factor was related the responses to Item 46e, regarding the contribution of current DoD contractor investment incentive policies to encouraging capital investment, the responses to Item 51 were analyzed in terms of the responses to Item 46e, the results of this analysis are presented in Table VI-10.

Among those respondents who agreed with Item 46e, that current policies contribute to encouraging capital investment, a majority (54%) also disagreed that the present capital employed factor is too small (Item 51). Among those who disagreed with Item 46e, a plurality (40%) agreed with Item 51, while 29% disagreed. Those respondents who agreed with Item 46e and disagreed with Item 51 represent 14% of all respondents, while those who

TABLE VI-10

Analysis of Responses to Item 51
of the DFAIR Survey
By Response to Item 46c

		<u>Item 51</u>			
		<u>The present capital employed factor (16-20%) is too small to provide a tangible incentive for investment.</u>			
		<u>Percentage</u>			
		<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
<u>Item 46c</u>					
<u>Current DoD CONTRACTOR INVESTMENT INCENTIVE policies and practices contribute to:</u>					
<u>Encouraging capital investment.</u>					
Agree		(174)	16	30	54
Neutral		(248)	17	53	31
Disagree		(252)	40	31	29

disagreed with Item 46e, that current policies contribute to encouraging capital investment, and agreed with Item 51, that the present capital investment is too small, represent 15% of all respondents.

An item similar to Item 51 of the DFAIR question was included in the AFSC '82 survey. A comparison of the distribution of responses among DFAIR Air Force respondents and that obtained in AFSC '82 is presented in Table VI-11. As can be seen, there has been a substantial shift in responses, with the DFAIR Air Force respondents much less likely to agree that the present capital employed factor is too small than were the AFSC '82 respondents.

Capital Investment and Costs

Included in this section of the DFAIR questionnaire were four items that sought the opinions of the respondents regarding the relationship of various aspects of capital investment and costs of procurement to the Government. Item 48 of the questionnaire posed the statement:

48. Increased capital investment by defense contractors would produce cost reductions.

Overall, a majority (58%) of respondents agreed with this item, while 23% expressed neutrality and a minority (18%) disagreed (see Table VI-12).

When these results were broken down by respondent characteristics, majorities of all subgroups agreed with Item 48, except for the GS-12/0-3

TABLE VI-11

Comparison of Responses to Item 51
of the DFAIR Survey
With Those Obtained in AFSC '82^a

		Item 51		
		The present capital employed factor (16-20%) is too small to provide a tangible incentive for investment. ^a		
		Percentage		
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
DFAIR (All Respondents)	(703)	25	39	36
DFAIR (Air Force Respondents)	(353)	27	37	36
AFSC '82 ^a	(*)	52	27	21

* Not available

^a In AFSC '82, the question posed read: The capital employed factor is too small to provide a tangible incentive for investment.

TABLE VI-12

Analysis of Response to Item 48
of the DFAIR Survey
By Respondent Characteristics

		Item 48			
		Increased capital investment by defense contractors would produce cost reductions.			
		Percentage			
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	
All Respondents	(721)	58	23	18	
Agency					
Army	(223)	50	31	19	
Navy	(122)	70	20	11	
Air Force	(365)	60	21	19	
Position					
Major Headquarters and Directors or Deputies	(84)	73	17	11	
Supervisors	(224)	63	25	17	
Working Level Staff and Journeyman	(351)	52	28	21	
Grade/Rank					
GS-12/0-3	(266)	46	29	26	
GS-13/0-4	(206)	63	24	13	
GS-14/0-5	(138)	70	15	14	
GS-15/0-6	(61)	77	16	11	
Value of Contracts					
Less than \$1 million	(72)	49	31	21	
\$1 - \$100 million	(430)	56	23	20	
More than \$100 million	(214)	63	22	13	

respondents (46%) and those respondents who usually handle contracts valued at less than \$1 million. Sub-groups for which very large majorities agreed with this item included respondents from the Navy (70%), those who serve in major headquarters positions or who were directors or deputy heads of an activity (73%), and those whose rank was GS-14/0-5 (70%) or GS-15/0-6 (77%).

Table VI-13 shows that a majority of respondents agreed that increased capital investment would produce cost reductions (Item 48), regardless of their response to Item 46d regarding the contributions of policy to the lowest cost to the Government. Among those who agreed with Item 46d, 65% also agreed with Item 48, while 59% of those who disagreed with Item 46d also disagreed with Item 48.

Item 48 was included in the AFSC '82 questionnaire, and Table VI-14 presents a comparison of those results with those obtained from the DFAIR Air Force sub-sample. As can be seen, there has been little change in the percentage of respondents agreeing with this statement (60% in DFAIR versus 59% in AFSC '82). The percentage disagreeing with this statement increased from 15% in AFSC '82 to 19% among the DFAIR Air Force respondents. Thus, while there is widespread agreement with this notion (as was shown in Tables VI-12 and VI-13) at the present time the strength of this agreement may be somewhat less strong, as measured by the level of disagreement, than it was in 1982. However, this conclusion must be treated cautiously, since it is based only on those Air Force respondents and not all DoD procurement personnel.

TABLE VI-13

Analysis of Responses to Item 48
of the DFAIR Survey
By Response to Item 46d

		Item 48			
		Increased capital investment by defense contractors would produce cost reductions.			
		Percentage			
		<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
Item 46d					
Current	DoD CONTRACTOR				
INVESTMENT INCENTIVE	policies				
and practices contribute to:					
The lowest possible cost to the Government.					
Agree		(68)	65	24	12
Neutral		(261)	56	31	14
Disagree		(359)	59	19	22

TABLE VI-14

Comparison of Responses to Item 48
of the DFAIR Survey
With Those Obtained in AFSC '82

		Item 48			
		<u>Increased capital investment by defense contractors would produce cost reductions.</u>			
		<u>Percentage</u>			
	<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>	
DFAIR (All Respondents)	(721)	58	24	18	
DFAIR (Air Force Respondents)	(365)	60	21	19	
AFSC '82	(*)	59	26	15	

* Not available

Item 52 posed the statement:

52. The flow down of capital incentive provisions to subcontractors would result in lower prices to the Government.

Overall, plurality (41%) of respondents neither agreed nor disagreed with this statement while 35% agreed and 24% disagreed (see Table VI-15).

When these results were broken down by respondent characteristics, the distribution of responses generally conformed to the aggregate of all respondents. The only notable variations were in the break-down by agency. A majority (52%) of the respondents from the Army expressed neutrality, while equal percentages (34%) of Navy respondents agreed and expressed neutrality, and a plurality (41%) of the Air Force respondents agreed.

Presented in Table VI-16 is an analysis of the responses to Item 52, that the flow down of capital investment provisions would result in lower prices to the Government, in terms of the responses to Item 46d, that current contractor investment incentive policies contribute to the lowest possible cost to the Government. A majority (51%) of those respondents who agreed with Item 46d also agreed with Item 52. Nearly equal percentages of those who disagreed with Item 46d also agreed (32%), or neither agreed nor disagreed with Item 52, while 35% disagreed.

The 51% of respondents who agreed with both Items 46d and 52 represent only 5% of all respondents and thus are not very meaningful. Among those respondents who disagreed with Item 46d, that current policy contributes to

TABLE VI-15

Analysis of Response to Item 52
of the DFAIR Survey
By Respondent Characteristics

		Item 52		
		The flow down of capital investment provisions to subcontractors would result in lower prices to the Government.		
		Percentage		
	N	Agree	Neutral	Disagree
All Respondents	(703)	35	41	24
Agency				
Army	(217)	27	52	21
Navy	(119)	34	34	32
Air Force	(356)	41	35	24
Position				
Major Headquarters and Directors or Deputies	(85)	34	38	28
Supervisors	(238)	36	38	26
Working Level Staff and Journeymen	(337)	35	43	23
Grade/Rank				
GS-12/0-3	(258)	33	46	21
GS-13/0-4	(197)	37	38	26
GS-14/0-5	(137)	37	36	28
GS-15/0-6	(61)	39	34	26
Value of Contracts				
Less than \$1 million	(66)	33	50	17
\$1 - \$100 million	(420)	35	40	25
More than \$100 million	(212)	36	38	26

TABLE VI-16

Analysis of Responses to Item 52
of the DFAIR Survey
By Response to Item 46d

		<u>Item 52</u>			
		<u>The flow down of capital investment provisions to subcontractors would result in lower prices to the Government.</u>			
		<u>Percentage</u>			
		<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
<u>Item 46d</u>					
Current DoD CONTRACTOR INVESTMENT INCENTIVE policies and practices contribute to:					
<u>The lowest possible cost to the Government.</u>					
Agree	(67)	51	30	19	
Neutral	(256)	33	55	12	
Disagree	(350)	32	33	35	

the lowest possible cost to the Government, the 32% who also agreed with Item 52, that the flow down of investment provisions would result in lower prices to the Government represent 17% of all respondents as did the 33% who were neutral. Those respondents who disagreed with both Items 46d and 52 represented 18% of all respondents. These results indicate that there is little consensus among that majority (52%) of all respondents who disagreed with Item 46d as to lowered prices resulting from the flow down of capital investment provisions to sub-contractors (Item 52).

The third item included in the questionnaire regarding the relationship of capital investment and cost savings was Item 53, which posed the statement:

53. Significant cost savings could be realized on defense contracts through methods other than capital investment.

Overall, a majority (59%) of the respondents agreed with this statement, while 37% were neutral, and 5% disagreed. When these results were broken down by respondent characteristics (see Table VI-17) there was little variation in the distribution of the responses among the sub-group of respondents.

Presented in Table VI-18 is an analysis of the responses to Item 53, that significant cost savings could be realized through methods other than capital investment in terms of the responses to Item 46d, that current DoD contract investment incentive policies and practices contribute to the lowest possible cost to the Government. As shown, a large majority of

TABLE VI-17

Analysis of Response to Item 53
of the DFAIR Survey
By Respondent Characteristics

		Item 53			
		Significant cost savings could be realized on defense contracts through methods other than capital investment.			
		Percentage			
	N	Agree	Neutral	Disagree	
All Respondents	(703)	59	37	5	
Agency					
Army	(220)	55	42	4	
Navy	(118)	64	31	4	
Air Force	(354)	59	36	5	
Position					
Major Headquarters and Directors or Deputies	(85)	64	29	7	
Supervisors	(239)	59	37	4	
Working Level Staff and Journeymen	(337)	59	36	4	
Grade/Rank					
GS-12/0-3	(257)	56	40	5	
GS-13/0-4	(198)	61	34	5	
GS-14/0-5	(137)	58	39	2	
GS-15/0-6	(61)	70	23	7	
Value of Contracts					
Less than \$1 million	(68)	54	42	3	
\$1 - \$100 million	(418)	58	38	5	
More than \$100 million	(212)	61	33	5	

TABLE VI-18

Analysis of Responses to Item 53
of the DFAIR Survey
By Response to Item 46d

		Item 53			
		Significant cost savings could be realized on defense contracts through methods other than capital investment.			
		Percentage			
		<u>N</u>	<u>Agree</u>	<u>Neutral</u>	<u>Disagree</u>
Item 46d					
Current DoD CONTRACTOR INVESTMENT INCENTIVE policies and practices contribute to:					
The lowest possible cost to the Government.					
Agree	(69)	62	35	3	
Neutral	(252)	47	51	2	
Disagree	(354)	68	27	6	

respondents agreed with Item 53 regardless of their response to Item 46d. These results indicate that regardless of whether current contractor investment incentives contribute to the lowest possible cost to the Government, significant cost savings could, in the opinion of the respondents, still be realized by other methods.

Item 54 of the DFAIR questionnaire posed the statement:

54. There are currently sufficient tools available to reward a contractor for cost savings which are generated by methods other than capital investment.

Overall, a plurality (43%) of respondents agreed with this item, while 25% expressed neutrality, and 31% disagreed (see Table VI-19).

When these results were analyzed by respondent characteristics the only significant variation from the aggregate was among the higher ranking respondents. Disagreement increased with level of authority. While only 27% of the working-level staff and journeymen disagreed that sufficient tools were available, 48% of the major headquarters staff and directors or deputies were of this opinion. Similarly, 24% of the GS-12/0-3 respondents disagreed, compared to 46% of the GS-15/0-6 respondents.

Item 55 of the questionnaire asked the respondents their opinion as to the size of effect on contractor facilities capital investment that would be produced by a number of changes in policy or practice. Table VI-20 presents the text and the response distributions to this item.

TABLE VI-19

Analysis of Response to Item 54
of the DFAIR Survey
By Respondent Characteristics

		Item 54		
		There are currently sufficient tools available to reward a contractor for cost savings which are generated by methods other than capital investment.		
		Percentage		
	N	Agree	Neutral	Disagree
All Respondents	(703)	43	25	31
Agency				
Army	(220)	49	30	20
Navy	(121)	42	20	38
Air Force	(355)	40	24	36
Position				
Major Headquarters and Directors or Deputies	(84)	40	12	48
Supervisors	(249)	40	29	31
Working Level Staff and Journeymen	(342)	46	27	27
Grade/Rank				
GS-12/0-3	(256)	49	27	24
GS-13/0-4	(203)	40	27	33
GS-14/0-5	(136)	36	24	40
GS-15/0-6	(61)	46	8	46
Value of Contracts				
Less than \$1 million	(69)	45	36	19
\$1 - \$100 million	(420)	45	24	31
More than \$100 million	(213)	40	24	36

TABLE VI-20

Analysis of Responses to Item 55
of the DFAIR Survey

What effect would each of the following changes have on contractor facilities capital investment?

	N	Percentage		
		Increase	No Effect	Decrease
a. Increasing profits.	(705)	64	34	2
b. Increasing financing.	(707)	57	38	5
c. Increasing program stability.	(703)	80	19	1
d. Increasing competition.	(702)	51	28	21
e. Increasing depreciation allowances.	(694)	80	18	2
f. Increasing the relative importance of facilities capital employed within WGL.	(700)	53	46	1

A majority of respondents stated that each of the changes listed would result in an increase in contractor facilities capital investment. Those changes which the largest majorities (80% each) felt would increase contractor facilities capital investment were Item 55d, increasing program stability, and Item 55e, increasing depreciation allowances. Increasing competition produced the smallest percentage (51%) of respondents who felt it would increase investment and the largest percentage (21%) who felt it would result in decreased capital investment. Less than 5% of the respondents felt that all the other proposed changes would result in a decrease in contractor facilities capital investment.

APPENDIX A
SURVEY QUESTIONNAIRE

1984 Defense Financial and Investment Review Survey

This survey is sponsored by the Defense Financial and Investment Review (DFAIR) group under the auspices of the Under Secretary of Defense (Acquisition Management), and is being conducted by the Defense Manpower Data Center (DMDC). Its purpose is to support a study mandated by the Deputy Secretary of Defense to identify possible revisions and improvements of defense pricing, financing, and profit policies towards meeting the objectives of Executive Order 12352, "Federal Procurement Reforms".

The number which appears at the top of the first page of the questionnaire is a sequence number and will be used for record management purposes only. Your anonymity is assured. DMDC will not release any individual data; only group statistics will be reported. Your participation in this survey is voluntary, but is encouraged so that the data will be complete and representative.

INSTRUCTIONS FOR COMPLETING THIS SURVEY

1. READ EACH QUESTION CAREFULLY.
2. Some questions ask you to circle a **number** next to your answer.

EXAMPLE: Where do you live?

CIRCLE ONE

District of Columbia 1

Maryland 2

Virginia (3)

3. Some questions ask you to provide your opinion: (a) Refer to the scale that precedes the question, and then (b) write the number that describes your response in the space provided for each item.

EXAMPLE:

For each of the following statements, indicate the extent of your agreement or disagreement. Use the scale below and write your response number in the blank space provided next to each item.

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree

A survey of the opinions of DoD procurement personnel:

5 Is a useful way to evaluate policy.

3 Should be conducted annually.

4. If you are unfamiliar with the content area covered in a question, leave the response space blank and go on to the next item.
5. If you have any questions about these instructions, please call the Survey Data Collection Desk at DMDC: AVN226-5850, or Commercial (202) 696-5850.

SECTION I. BACKGROUND

1. For which Service or other Defense activity do you work?

CIRCLE ONE

Army 1
Navy 2
Marine Corps 3
Air Force 4
Defense Logistics Agency 5
Other Defense activity (Specify in the box below) . . 6

2. What is the level of your current position?

CIRCLE ONE

Major headquarters position 1
Director or deputy head of unit or activity 2
Supervisor or branch head of unit or activity . . . 3
Journeyman level 4
Working level staff 5
Other (Specify in the box below) 6

3. Which of the following job titles **best** describes your current duties?

CIRCLE ONE

Price analyst. 1
Contract specialist 2
Principle ACO. 3
Contract negotiator. 4
Procurement analyst. 5
Other (Specify in the box below) 6

Questions 4 and 5 require you to enter a **number**. You should do two things:

- o Write the number in the boxes provided, making sure that the **last** digit is always in the **right-hand** box.
- o Fill in any **unused** boxes with **zeros**.

EXAMPLE:

In what month were you born?

You would record **July** as

0	7
---	---

4. What is your **current** grade?

GS or GM:

--	--

(If Military)

O:

0	
---	--

5. How long (**total service**) have you been working in **any** defense contracting capacity?

Years:

--	--

Months:

--	--

6. What is the **main** type of materials or commodities procurement with which you deal?
(Select only one.)

CIRCLE ONE

- Ships. 1
- Aircraft 2
- Missiles 3
- Combat Vehicles. 4
- Communications & Control 5
- Overhaul and Repair. 6
- Research and Development 7
- Electronics. 8
- Other (Specify in the box below) 9

--

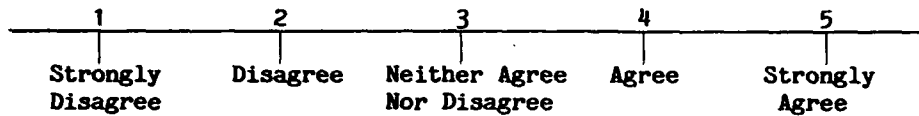
7. With what value contracts do you principally deal?

CIRCLE ONE

- Less than \$1 million 1
- Between \$1 million and \$100 million. 2
- Over \$100 million. 3

SECTION II. PRICING

For each of the following statements, indicate the extent of your agreement or disagreement. Use the scale below and write your response number in the blank space provided next to each item.



8. Current DoD PRICING policies and practices contribute to:
- a) _____ Maintaining the viability of the industrial base.
 - b) _____ Efficient contractor performance.
 - c) _____ Quality products.
 - d) _____ The lowest possible cost to the Government.
 - e) _____ Encouraging capital investment.
9. DoD PRICING policies and practices sufficiently take into consideration issues of:
- a) _____ Profit.
 - b) _____ Contract financing.
 - c) _____ Capital investment.
10. The DoD approach to pricing should consider the:
- a) _____ Type of contract.
 - b) _____ Size of the contract.
 - c) _____ Type of materials, commodity, or service.
11. _____ The type of contract used in weapons acquisition is frequently not the most appropriate one for the particular type of procurement.
12. _____ When negotiating firm fixed-price contracts, agreement is usually separately reached on the cost and profit portions of the contract price.
13. _____ DoD should establish a more explicit policy for determining the reasonableness of the contractor's employee compensation costs charged to defense contracts.
14. _____ Defense contractors are adequately compensated for interest expenses.

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree

15. Cost Accounting Standard 414, "Facilities Capital Cost of Money":

- a) _____ Is very confusing.
- b) _____ Has motivated contractors to invest in capital assets.
- c) _____ Should be included in the cost base for determining profit.
- d) _____ Should be considered as part of profit rather than as a cost.

16. When DoD negotiates price with a contractor, it usually:

- a) _____ Has sufficient knowledge of the contractor's cost proposal.
- b) _____ Has time to negotiate an equitable price.
- c) _____ Has adequate in-house expertise.
- d) _____ Assumes that the proposed price is inflated.

SECTION III. PROFIT

17. Current DoD **PROFIT** policies and practices contribute to:

- a) _____ Maintaining the viability of the industrial base.
- b) _____ Efficient contractor performance.
- c) _____ Quality products.
- d) _____ The lowest possible cost to the Government.
- e) _____ Encouraging capital investment.

18. DoD **PROFIT** policies and practices sufficiently take into consideration issues of:

- a) _____ Pricing.
- b) _____ Contract financing.
- c) _____ Capital investment.

19. _____ DoD should substantially revise its profit policies.

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree

20. Profits realized by defense contractors are too low:
- a) _____ As measured as a percentage of the selling price.
 - b) _____ As measured by return-on-investment.
21. _____ There is little direct relationship between quality or performance of product and levels of profit.
22. _____ The system puts a lot of pressure on contracting officers to keep profits down.
23. _____ Profit should be allowed on escalation under economic price adjustment clauses.
24. _____ The method for offsetting facilities capital cost of money should be simplified.
25. The cost-based method of determining profit:
- a) _____ Yields a realistic reward for contractor effort.
 - b) _____ Discourages the development of new efficiencies.
 - c) _____ Tends to increase defense contract costs.
26. _____ For manufacturing contracts, profit objectives should be based entirely on capital investment and risk.
27. _____ Profit should be based primarily on the return-on-investment concept.
28. _____ The weight ranges in the contractor-input-to-performance (CITP) section of the WGL do not properly reflect the contribution of the various cost elements to contract performance.

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree

29. DoD could develop a two-tiered profit methodology to explicitly recognize the time-phased contractor investment in a contract (i.e., costs less government provided financing) on very large contracts, and a much more simplified approach for all other contracts.
- a) _____ This would be an effective approach.
- b) _____ This approach would be administratively practical.
30. The weighted guidelines (WGL):
- a) _____ Are used more as a crutch to justify the final negotiated price than as a tool to develop an appropriate profit objective.
- b) _____ Tend to depress negotiated contractor profits.
- c) _____ Approach is sufficiently flexible to provide adequate profits to the majority of contractors.
- d) _____ Format should be simplified.
- e) _____ Should be eliminated.
- f) _____ Should be used at the discretion of the contracting officer.
31. _____ Proper use of the manufacturing, R&D, and services columns in WGL is confusing.
32. _____ Regardless of WGL, contractors are out for a specific profit return on each contract.
33. The special productivity factor (line 19 in WGL) is:
- a) _____ A viable tool for encouraging and rewarding improvements in productivity.
- b) _____ Administratively too difficult to apply.
34. _____ The Government profit/fee objective is often dictated by management, regardless of the WGL computation.
35. _____ The weight ranges currently allowed in the WGL for contractor risk are too high.

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree

36. Negotiated profit rates are:

- a) ☐ Usually lower than those actually realized by contractors.
- b) ☐ More closely related to profit rates negotiated with a particular contractor on previous contracts than they are to the WGL objectives.

37. ☐ Foreign Military Sales (FMS) contracts should include higher profit rates to reimburse a contractor for increased risks.

SECTION IV. CONTRACT FINANCING

38. Current DoD **CONTRACT FINANCING** policies and practices contribute to:

- a) ☐ Maintaining the viability of the industrial base.
- b) ☐ Efficient contractor performance.
- c) ☐ Quality products.
- d) ☐ The lowest possible cost to the Government.
- e) ☐ Encouraging capital investment.

39. DoD **CONTRACT FINANCING** policies and practices sufficiently take into consideration issues of:

- a) ☐ Pricing.
- b) ☐ Profit.
- c) ☐ Capital investment.

40. The flexible progress payment model is:

- a) ☐ Too complex to administer.
- b) ☐ Too beneficial to the contractor.
- c) ☐ More advantageous to the large contractor than the small contractor.
- d) ☐ An effective method of insuring that an appropriate progress payment rate is established on a particular contract.

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree

41. The standard progress payment rate:

- a) _____ Is too high.
- b) _____ Is too low.
- c) _____ Should be tied to current interest rates.
- d) _____ Should be 100% of costs incurred under fixed-price FMS contracts.
- e) _____ Should be tied to the contractor's borrowing rate.
- f) _____ Should be considered in establishing a profit objective.
- g) _____ Should be 100% for all contracts.

42. _____ If DoD lowers the standard progress payment rate, contract prices paid by DoD would increase proportionally.

43. Advance payments:

- a) _____ Should be used more often.
- b) _____ Should be used at the discretion of the contracting officer.
- c) _____ Would encourage more competition for defense contracts.

44. _____ When prime contractors flow down Government authorized financing provisions to subcontractors, lower prices to the Government result.

45. _____ Prime contractors flow down Government authorized financing provisions to subcontractors to the maximum extent possible.

SECTION V. INVESTMENT INCENTIVE

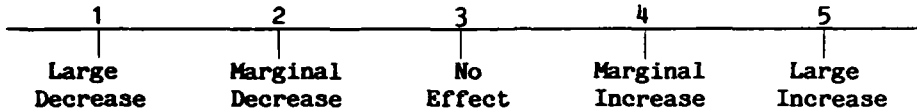
46. Current DoD **CONTRACTOR INVESTMENT INCENTIVE** policies and practices contribute to:

- a) _____ Maintaining the viability of the industrial base.
- b) _____ Efficient contractor performance.
- c) _____ Quality products.
- d) _____ The lowest possible cost to the Government.
- e) _____ Encouraging capital investment.

1	2	3	4	5
Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree

47. DoD **CONTRACTOR INVESTMENT INCENTIVE** policies and practices sufficiently take into consideration issues of:
- a) _____ Profit.
 - b) _____ Contract financing.
 - c) _____ Pricing.
48. _____ Increased capital investment by defense contractors would produce cost reductions.
49. There is presently a sufficiently large industrial base at the:
- a) _____ Prime contractor level.
 - b) _____ First tier subcontractor level.
 - c) _____ Lower tier subcontractor level.
50. Within the past five years, there has been a substantial decrease in the size of the industrial base at the:
- a) _____ Prime contractor level.
 - b) _____ First tier subcontractor level.
 - c) _____ Lower tier subcontractor level.
51. _____ The present capital employed factor (16-20%) is too small to provide a tangible incentive for investment.
52. _____ The flow down of capital investment incentive provisions to subcontractors would result in lower prices to the Government.
53. _____ Significant cost savings could be realized on defense contracts through methods other than capital investment.
54. _____ There are currently sufficient tools available to reward a contractor for cost savings which are generated by methods other than capital investment.

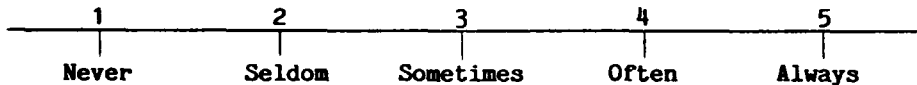
For each of the following changes, indicate how much of an effect would result. Use the scale below and write your response number in the blank space provided next to each item.



55. What effect would each of the following changes have on contractor facilities capital investment?

- a) _____ Increasing profits.
- b) _____ Increasing financing.
- c) _____ Increasing program stability.
- d) _____ Increasing competition.
- e) _____ Increasing depreciation allowances.
- f) _____ Increasing the relative importance of facilities capital employed within the WGL.

For each of the following technical areas, indicate how often you refer to the FAR or DoD regulations. Use the scale below and write your response number in the blank space provided next to each item.



56. How often do you refer to:

- a) _____ Pricing policy and practices.
- b) _____ Cost Accounting Standard 414.
- c) _____ Profit policy and practices.
- d) _____ Weighted guidelines.
- e) _____ Contract financing policy and practices.
- f) _____ The flexible progress payment model.

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE.
PLEASE SEAL IT IN THE RETURN ENVELOPE PROVIDED AND MAIL IT TO DMDC.

COMMENTS: You are encouraged to amplify your responses or make general remarks by making written comments on this page. Please relate your comments to the item in the questionnaire by providing the question number to which it refers.

SUPPLEMENTAL SURVEY QUESTION: At the 30 May 1984 Defense Financial and Investment Review Steering Committee meeting many of the members expressed interest in understanding how you treat risk reduction provisions (such as economic price adjustments clauses, capital indemnification clauses and increased progress payment levels) when you establish your pre-negotiation profit objective. Does the existence of these provisions influence you to offer lower profits than you would if they were not included? Do you believe they are helpful in achieving lower profits and/or prices for the government? If you have a firm opinion on this issue, please provide your comments in the space provided below.

APPENDIX B
RESPONSES TO SURVEY QUESTIONNAIRE ITEMS

RESPONSES TO QUESTIONNAIRE ITEMS

SECTION II - PRICING

Item Number	N	Percentage				
		Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
8a	(766)	5	22	37	33	2
8b	(769)	9	38	28	23	1
8c	(770)	4	28	41	26	1
8d	(771)	12	41	18	25	4
8e	(764)	15	32	30	22	2
9a	(773)	6	24	10	53	8
9b	(764)	4	24	23	43	5
9c	(764)	8	32	23	34	3
10a	(771)	0	1	2	55	41
10b	(770)	1	8	9	56	27
10c	(770)	1	2	6	58	33
11	(765)	6	40	18	29	8
12	(775)	20	41	6	26	7
13	(757)	3	9	29	39	20
14	(767)	7	26	22	34	11
15a	(741)	2	19	26	41	12
15b	(734)	12	42	32	13	1
15c	(733)	17	34	20	24	4
15d	(735)	5	30	19	30	16
16a	(767)	2	21	11	59	7
16b	(762)	13	38	14	34	2
16c	(762)	10	36	17	34	4
16d	(764)	3	12	21	52	13

RESPONSES TO QUESTIONNAIRE ITEMS

SECTION III - PROFIT

Item Number	N	Percentage				
		Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
17a	(752)	5	29	38	27	1
17b	(754)	6	44	28	21	1
17c	(752)	4	36	42	17	1
17d	(757)	9	46	25	17	2
17e	(752)	10	40	34	15	1
18a	(761)	3	23	25	47	2
18b	(753)	6	37	25	31	1
18c	(753)	6	37	24	31	2
19	(755)	1	14	24	41	20
20a	(762)	10	39	25	24	2
20b	(755)	14	36	24	22	3
21	(772)	3	21	12	50	14
22	(775)	2	12	11	50	25
23	(765)	17	42	17	22	3
24	(753)	1	6	24	53	16
25a	(753)	4	35	29	30	2
25b	(749)	3	22	21	44	11
25c	(750)	2	18	29	42	10
26	(763)	5	44	20	27	5
27	(762)	5	36	28	26	4
28	(747)	1	17	40	38	4
29a	(740)	2	11	35	46	5
29b	(736)	4	17	42	34	4

RESPONSES TO QUESTIONNAIRE ITEMS

SECTION III - PROFIT (CONTINUED)

Item Number	N	Percentage				
		Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
30a	(763)	5	33	12	40	10
30b	(758)	3	33	20	39	4
30c	(759)	3	30	19	45	3
30d	(760)	2	22	39	31	6
30e	(759)	9	38	30	14	9
30f	(760)	7	28	17	36	13
31	(751)	4	39	20	32	5
32	(769)	1	3	5	56	35
33a	(735)	10	38	30	21	1
33b	(736)	2	16	31	41	10
34	(769)	4	29	12	41	14
35	(761)	7	58	29	6	1
36a	(757)	4	28	26	38	5
36b	(752)	1	11	17	62	10
37	(745)	10	42	22	24	3

RESPONSES TO QUESTIONNAIRE ITEMS

SECTION IV - CONTRACT FINANCING

Item Number	N	Percentage				
		Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
38a	(731)	3	17	36	41	3
38b	(735)	5	40	36	18	0
38c	(731)	4	36	45	15	0
38d	(733)	7	43	33	16	1
38e	(726)	8	43	32	17	1
39a	(723)	4	32	34	29	0
39b	(721)	5	36	32	27	0
39c	(717)	6	37	35	22	0
40a	(713)	1	23	31	36	8
40b	(709)	1	22	44	28	5
40c	(709)	1	10	34	47	8
40d	(711)	4	26	44	25	1
41a	(728)	2	30	43	21	3
41b	(724)	5	41	46	7	1
41c	(723)	4	30	29	34	3
41d	(713)	10	53	23	12	2
41e	(715)	6	37	30	24	3
41f	(727)	2	18	13	57	9
41g	(724)	26	57	13	2	1
42	(732)	4	31	23	38	3
43a	(732)	13	52	22	13	1
43b	(736)	7	24	12	50	6
43c	(731)	6	27	31	34	3
44	(728)	4	30	40	25	1
45	(716)	3	38	44	15	1

RESPONSES TO QUESTIONNAIRE ITEMS

SECTION V - INVESTMENT INCENTIVE

Item Number	N	Percentage				
		Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree
46a	(692)	4	28	41	26	1
46b	(697)	4	40	41	15	0
46c	(694)	4	37	47	13	0
46d	(695)	7	45	38	9	0
46e	(694)	6	31	37	24	1
47a	(685)	4	32	39	25	1
47b	(684)	4	29	44	23	1
47c	(682)	4	29	45	22	0
48	(721)	2	16	24	46	12
49a	(709)	3	23	23	47	4
49b	(701)	3	27	33	36	1
49c	(699)	6	28	38	26	2
50a	(691)	3	34	41	20	2
50b	(687)	2	27	44	25	2
50c	(684)	2	19	45	29	5
51	(703)	5	32	39	23	2
52	(703)	3	22	41	34	1
53	(703)	1	4	37	50	8
54	(707)	3	29	25	40	3

RESPONSES TO QUESTIONNAIRE ITEMS
SECTION V - INVESTMENT INCENTIVE (CONTINUED)

<u>Item Number</u>	<u>N</u>	<u>Percentage</u>				
		<u>Large Decrease</u>	<u>Marginal Decrease</u>	<u>No Effect</u>	<u>Marginal Increase</u>	<u>Large Increase</u>
55a	(705)	0	2	34	53	11
55b	(707)	0	5	38	49	7
55c	(703)	0	1	19	33	47
55d	(702)	3	18	28	32	19
55e	(694)	1	2	18	57	23
55f	(700)	0	1	46	46	7

		<u>Percentage</u>				
		<u>Never</u>	<u>Seldom</u>	<u>Sometimes</u>	<u>Often</u>	<u>Always</u>
56a	(758)	1	13	34	42	9
56b	(759)	10	37	34	14	6
56c	(757)	2	13	35	40	9
56d	(759)	1	11	26	43	19
56e	(756)	6	28	38	24	5
56f	(755)	16	36	29	14	5

APPENDIX C
LETTERS TO RESPONDENTS



RESEARCH AND
ENGINEERING
(AM)

OFFICE OF THE UNDER SECRETARY OF DEFENSE

WASHINGTON DC 20301

4 June 1984

Dear Survey Participant:

The enclosed questionnaire is part of a survey sponsored by the Defense Financial and Investment Review (DFAIR) Group. Its purpose is to support a study mandated by the Deputy Secretary of Defense to identify possible revisions and improvements to defense contract pricing, financing, and profit policies towards meeting the objectives of Executive Order 12352, "Federal Procurement Reforms."

This survey is being conducted by the Department of Defense Manpower Data Center (DMDC). DMDC has developed the questionnaire, will distribute it, collect the data, and prepare a final statistical report. All the information collected will be confidential with only group statistics reported.

The success of this survey depends on the full cooperation of those who have been selected to participate. The survey provides you the opportunity to express your opinions about some key issues. In answering the questionnaire, please keep in mind that we are interested in your opinions, even if you think that they are not the same as those of your colleagues. The survey is anonymous--you are asked not to put your name on the questionnaire.

Please complete the survey as soon as possible, but not later than 22 June 1984. Seal it in the confidential return envelope which is enclosed and mail it directly to DMDC.

Thank you for participating. Your timely cooperation is needed to make the results of this survey comprehensive and accurate.

Sincerely,

Mary Ann Gilleece
Deputy Under Secretary of Defense
(Acquisition Management)

Report Control System No. DD-DR&E(OT)1647
has been assigned to this one-time reporting requirement.

11892



DEPARTMENT OF DEFENSE
MANPOWER DATA CENTER

3 July 1984

REPLY TO DMDC

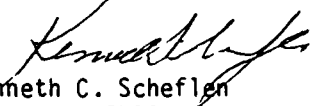
- ☒ 4TH FLOOR
1600 N. WILSON BOULEVARD
ARLINGTON, VIRGINIA 22209
- ☐ 550 CAMINO EL ESTERO, SUITE 200
MONTEREY, CA 93940

Dear Survey Participant:

Several weeks ago the Defense Manpower Data Center (DMDC) sent you a questionnaire for a survey sponsored by the Defense Financial and Investment Review (DFAIR) Group under the auspices of the Deputy Under Secretary of Defense (Acquisition Management). Its purpose is to identify possible revisions and improvements to defense contract pricing, financing, and profit policies towards meeting the objectives of Executive Order 12352, "Federal Procurement Reforms."

If your completed questionnaire is in the mail, I would like to take this opportunity to thank you for your participation. If not, please complete the questionnaire and return it to DMDC by 13 July 1984 or as soon as possible. (A copy of the questionnaire is enclosed for your convenience.) Your cooperation will help ensure that the data reported are of high quality and that the policy analyses required by the Department of Defense and Congress are based on solid and complete information.

Thank you for your help in this important survey.


Kenneth C. Schefflen
Director, DMDC

Enc1

APPENDIX D
LETTERS TO SERVICES



OFFICE OF THE UNDER SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

11 APR 1984

RESEARCH AND
ENGINEERING
(AM)

MEMORANDUM FOR DIRECTOR OF PROCUREMENT AND PRODUCTION, DARCOM

SUBJECT: Defense Procurement Personnel Opinion Survey

As part of the Defense Financial And Investment Review (DFAIR) effort, a survey will be conducted to obtain the opinions of defense procurement personnel on the effectiveness of current pricing, financing and profit policies. Your assistance is requested to identify Army personnel who will be asked to participate in the survey.

We will attempt to survey all individuals within major weapon systems buying activities who meet certain criteria. For the Army, the locations selected to participate in the survey are:

- Armament, Munitions and Chemical Command
- Aviation Systems Command
- Communications - Electronics Command
- Missile Command
- Tank-Automotive Command
- Troop Support Command
- HQ, DARCOM (DRCPP-SC only)

Request that the information listed on the attached form be provided for each individual within these commands who meets the following criteria:

GRADE/RANK: GS-12 and above/Captain and above

YEARS OF EXPERIENCE IN DEFENSE CONTRACTING: Eight or more

CURRENTLY INVOLVED IN: Negotiated major weapon systems contracts valued at \$2M or more

JOB TITLE: Contracting Officer
Contract Specialist
Contract Price Analyst
Contract Negotiator
(Including supervisors of the above)

Request that this information be provided by 4 May 1984 to:

OUSDR&E(AM)/DFAIR
1735 North Lynn Street
Plaza West Building
Room 105
Arlington, VA 22079


Ronald R. Finkbiner
Col, USAF
Director, DFAIR

Attachment
As Stated

ATTACHMENT
INFORMATION ON INDIVIDUALS
TO BE SURVEYED
(ARMY)

NAME:

MAILING ADDRESS:

TELEPHONE NUMBER: (AUTOVON)
(COMMERCIAL)

GRADE/RANK:

JOB SERIES:

JOB TITLE:



RESEARCH AND
ENGINEERING
(AM)

OFFICE OF THE UNDER SECRETARY OF DEFENSE

WASHINGTON D.C. 20301

11 APR 1984

MEMORANDUM FOR DEPUTY CHIEF OF NAVAL MATERIAL FOR CONTRACTS AND
BUSINESS MANAGEMENT

SUBJECT: Defense Procurement Personnel Opinion Survey

As part of the Defense Financial And Investment Review (DFAIR) effort, a survey will be conducted to obtain the opinions of defense procurement personnel on the effectiveness of current pricing, financing and profit policies. Your assistance is requested to identify Navy personnel who will be asked to participate in the survey.

We will attempt to survey all individuals within major weapon systems buying activities who meet certain criteria. For the Navy, the locations selected to participate in the survey are:

- Naval Sea Systems Command
- Naval Electronic Systems Command
- Naval Air Systems Command
- HQ, Naval Material Command (Contracts and Business Review Division only)

Request that the information listed on the attached form be provided for each individual within these commands who meets the following criteria:

GRADE/RANK: GS-12 and above/Lieutenant and above

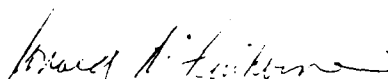
YEARS OF EXPERIENCE IN DEFENSE CONTRACTING: Eight or more

CURRENTLY INVOLVED IN: Negotiated major weapon systems contracts valued at \$2M or more

JOB TITLE: Contracting Officer
Contract Specialist
Contract Price Analyst
Contract Negotiator
Procurement Analyst (NAVMAT only)
(Including supervisors of the above)

Request that this information be provided by 4 May 1984 to:

OUSDR&E(AM)/DFAIR
1735 North Lynn Street
Plaza West Building
Room 105
Arlington, VA 22079


Ronald R. Finkbiner
Col, USAF
Director, DFAIR

Attachment
As Stated

ATTACHMENT
INFORMATION ON INDIVIDUALS
TO BE SURVEYED
(NAVY)

NAME:

MAILING ADDRESS:

TELEPHONE NUMBER: (AUTOVON)
(COMMERCIAL)

GRADE/RANK:

JOB SERIES:

JOB TITLE:



OFFICE OF THE UNDER SECRETARY OF DEFENSE

WASHINGTON D C 20301

RESEARCH AND
ENGINEERING

(AM)

11 APR 1984

MEMORANDUM FOR DIRECTOR OF CONTRACTING AND MANUFACTURING
POLICY, AFRDC

SUBJECT: Defense Procurement Personnel Opinion Survey

As part of the Defense Financial And Investment Review (DFAIR) effort, a survey will be conducted to obtain the opinions of defense procurement personnel on the effectiveness of current pricing, financing and profit policies. Your assistance is requested to identify Air Force personnel who will be asked to participate in the survey.

We will attempt to survey all individuals within major weapon systems buying activities who meet certain criteria. For the Air Force, the locations selected to participate in the survey are:

- Aeronautical Systems Division
- Armament Division
- Ballistic Missile Office
- Electronic Systems Division
- Space Division
- Ogden Air Logistics Center
- Oklahoma City Air Logistics Center
- San Antonio Air Logistics Center
- Sacramento Air Logistics Center
- Warner Robbins Air Logistics Center
- HQ, Air Force Systems Command (PMMP and PMP only)
- HQ, Air Force Logistics Command (PMPF and PMC only)

Request that the information listed on the attached form be provided for each individual within these commands who meets the following criteria:

GRADE/RANK: GS-12 and above/Captain and above

YEARS OF EXPERIENCE IN DEFENSE CONTRACTING: Eight or more

CURRENTLY INVOLVED IN: Negotiated major weapon systems contracts valued at \$2M or more

JOB TITLE: Contracting Officer
Contract Specialist
Contract Price Analyst
Contract Negotiator
Procurement Analyst (HQ, AFSC and HQ, AFLC only)
(Including supervisors of the above)

Request that this information be provided by 4 May 1984 to:

OUSDR&E(AM)/DFAIR
1735 North Lynn Street
Plaza West Building
Room 105
Arlington, VA 22079


Ronald R. Finkbiner
Col, USAF
Director, DFAIR

Attachment
As Stated

ATTACHMENT
INFORMATION ON INDIVIDUALS
TO BE SURVEYED
(AIR FORCE)

NAME:

MAILING ADDRESS:

TELEPHONE NUMBER: (AUTOVON)
(COMMERCIAL)

GRADE/RANK:

JOB SERIES:

JOB TITLE: