

# Getting Down to Business

## How Innovative Partnerships with Industry Can Benefit the Army

In recent years, the Army has recognized a growing need to collaborate and partner more with industry. This need has been driven in large part by the Army's interest in leveraging additional resources to offset a decade of downsizing and reduced budgets. Today, the Army is undergoing a broad transformation to ensure its future dominance across the full spectrum of operations and thus requires significant advances in its science and technology capabilities. The Army also continues to bear substantial other responsibilities, including the maintenance of its vast real property holdings.

To assist the Army in gaining access to additional resources, researchers at RAND Arroyo Center have focused on opportunities for Army/industry collaborations and partnerships. In *Seeking Nontraditional Approaches to Collaborating and Partnering with Industry*, Bruce Held et al. explore these issues and identify three promising approaches for collaboration: real estate public-private partnerships (PPPs), a venture capital fund, and spinoffs of Army activities into Federal Government Corporations (FGCs). If used imaginatively and flexibly, these activities have the potential to improve the Army's readiness posture, help achieve its technology requirements, and support its core mission of preparing for, deterring, and fighting the nation's wars.

### **PUBLIC-PRIVATE PARTNERSHIPS**

Public-private partnerships (PPPs) offer a means for the Army to leverage the value of its substantial non-monetary resources, including real property, to support its objectives in other areas. A PPP is a flexible arrangement in which private and public organizations use shared resources to achieve similar or, at least, not incompatible goals. For example, the Navy leases part of its Port Hueneme facility to the Mazda Corporation, which

in return helps the Navy maintain the facility in case of future need. To the extent that the Army can find similar opportunities to gain value from its underused real property holdings, it can improve its readiness posture by freeing up personnel and resources currently involved in property maintenance.

The success of PPPs will depend heavily on the match between the local community's needs and the assets available on Army installations. The potential value of any PPP must be assessed systematically before an agreement is made to develop it. In identifying opportunities for PPPs, the Army will benefit from a proactive approach that starts from the premise that many good ideas are currently being discussed locally. Over time, the PPP process can be expanded and improved through guidance from the Army Staff on such issues as compatible business options, partnership tools, and management practices.

Despite the many benefits of PPPs, the Army should establish safeguards to prevent their misuse. For example, the Army will need to stipulate which businesses are allowed onto installations and must devise adequate security plans for any activities. In addition, the Army should issue and enforce rules and guidelines for evaluating the fair market value of assets offered and for ensuring that both local and broader political priorities are addressed in developing PPPs.

### **VENTURE CAPITAL APPROACHES**

An Army venture capital fund would allow the Army to invest in companies and technologies of military interest when those technologies also have commercial applications. Venture capital offers the Army the potential to leverage non-Army resources and market incentives to accelerate the development of important technologies. Such an approach can also provide access to and create

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networking opportunities with the high-tech community that is spawning new technologies for the commercial sector. This community has grown increasingly important over the last few decades, but so far it has remained insulated from the Army's own technology development efforts. An Army venture capital fund also has the potential to earn a return on Army technology investments, thus providing additional R&D resources for accelerated Army transformation.

A key advantage of an Army venture capital organization would be its ability to circumvent government acquisition rules that discourage greater R&D partnering with the private sector. In addition, the fund can help bridge the cultural chasm that separates the Army from the commercial sector. The venture capitalist who runs the fund—drawn from outside government—would serve as a middleman who understands the needs of both the Army and the business and technology communities.

An Army venture capital fund would require careful management, however. Selected technologies must have clear military and commercial applications, and in each case, the Army's need for the new product or technology must come ahead of that of other users. The technology must also be mature enough to develop into a product or proprietary technology within the limited time and with the limited dollars implied by venture capital investing. It will also be critical for the Army to find "sponsors" and users for the venture-backed technologies and to integrate its venture capital investments with other ongoing technology and R&D programs.

## FEDERAL GOVERNMENT CORPORATIONS

Federal Government Corporations (FGCs) provide a potentially useful organizational alternative that straddles the divide between public and private management. Originally established by Congress more than 200 years ago, FGCs in operation today include Fannie Mae, the U.S. Postal Service, and the Smithsonian Institution.

Compared to traditional government organizations, the FGC organizational model allows greater flexibility and freedom in doing business. The free-market forces inherent to FGCs generally lead to lower-cost products

and services. Unlike most government organizations, FGCs can enter contracts for goods and services, buy and sell assets, borrow funds, issue debt, and own property. They are also not subject to year-end budgets and can engage in multiyear commitments.

For the Army, the FGC model could be a particularly attractive option for the activities—such as the depot system—that fall between the core and the periphery of its operations. The depots are currently an overwhelmingly civilian operation; so by spinning off the depot system as an FGC, the Army could reduce its civilian workforce without eliminating jobs. Because the Army depot system is a Working Capital Fund (WCF) activity, it already operates in many respects like a business; the FGC model has the potential to improve the system's efficiency by taking it out of the planned economy of the DoD, with its non-market-like constraints on spending, investments, and prices. As an FGC, the depot system would also be free to seek out new customers and markets.

The position of FGCs atop the divide between federal and private roles and responsibilities has raised questions about their level of accountability to the public. Each FGC would need a well-crafted congressional charter laying out the roles and responsibilities of the corporation, the executive management, and the board of directors. Also, external commercial opportunities must be found for Army operations such as the depots if the FGC concept is to function at its best. FGCs would also need to plan carefully when structuring their ongoing relationships with other Army organizations that are critical to operations.

## CONCLUSION

The Army can best achieve a full understanding of the opportunities inherent to these new approaches by establishing pilot programs to test out the concepts. Following such a method would put the Army in line with the new industry paradigm arguing that one learns more by acting on a new approach than by waiting until all possible questions about it are answered. In the quest to secure the fast-moving technologies needed to support the Army of the future, not acting has become the equivalent of staying behind.

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*RAND research briefs summarize research that has been more fully documented elsewhere. The research summarized in this brief was carried out in the RAND Arroyo Center; it is documented in Seeking Nontraditional Approaches to Collaborating and Partnering with Industry, by Bruce Held, Kenneth P. Horn, Christopher Hanks, Michael Hynes, Paul Steinberg, Christopher Pernin, Jamison Jo Medby, and Jeff Brown, MR-1401-A, 2002, 124 pp., \$18.00, ISBN: 0-8330-3053-1, available from RAND Distribution Services (Telephone: toll free 877-584-8642; FAX: 310-451-6915; or Email: order@rand.org). Abstracts of all RAND documents may be viewed on the World Wide Web (<http://www.rand.org>). Arroyo Center URL: <http://www.rand.org/ardl>. Publications are distributed to the trade by NBN. RAND® is a registered trademark. RAND is a nonprofit institution that helps improve policy and decisionmaking through research and analysis; its publications do not necessarily reflect the opinions or policies of its research sponsors.*

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