



Report to the Secretary of Defense

Task Group on a Strategic Relationship Model between the Department of Defense and the Industrial Base

Report FY08-3

- **Recommendations for improving the strategic relationship between the Department of Defense (DoD) and its manufacturer and service suppliers**

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Strategic Relationship Model between the Department of Defense and the Industrial Base

TASK

The Deputy Secretary of Defense tasked the Defense Business Board (DBB) to form a Task Group with the support of the Defense Science Board (DSB) to evaluate and make recommendations to the Department of Defense (DoD) regarding actions that could improve the strategic relationship between the Department and its manufacturer and service suppliers.

Specifically, the Task Group was asked to deliver actionable recommendations for how the Department could better align its objectives, as a primary customer, with the objectives of its supplier base, while also ensuring the broadest possible industrial base participation. The Task Group also was asked to make recommendations to improve the supplier/customer relationships and communications at all levels of the Department's leadership team with large traditional suppliers, and the variations needed to communicate effectively with mid-sized and smaller companies.

A copy of the official Terms of Reference (TOR) outlining the scope and deliverables for the Task Group can be found at **Appendix A**. The Task Group was co-chaired by Denis Bovin (DBB) and Phil Odeen (DSB Representative). Other Task Group Members included: Henry Dreifus, Mel Immergut and Dov Zakheim from the DBB; and Pierre Chao and Leigh Warner representing the DSB. The Task Group Sponsor was Gordon England, Deputy Secretary of Defense and the Task Group DoD Liaison was John Young, Under Secretary of Defense, Acquisition, Technology and Logistics (AT&L). The Task Group Executive Secretaries were Captain Dave Knapp, USN and Kelly S. Van Niman, DBB Deputy Director.

PROCESS

The Task Group identified a sample of large, medium and small companies – domestic and international, current and prospective DoD

suppliers. The Task Group developed a set of interview questions to guide their discussions with the Chief Executives and General Counsels of these companies. The Task Group also interviewed former and current General Counsels of DoD, as well as, the current and former Under Secretaries of Defense (AT&L). The Board is grateful for their time and insights.

The Task Group began their discovery with the premise that the strategic objectives and relationships between the DoD and its manufacturer and services suppliers are not well aligned or mutually supportive, and that this misalignment is impeding DoD's ability to optimally support the war fighter. The Task Group further presumed that better alignment of strategic objectives and frequent communications will be even more critical to DoD in periods of constrained resources.

The Task Group presumed that the Department could realize the following benefits by taking immediate steps to improve its dialogue with industry:

- o Improved costs, more realistic and achievable schedules, and enhanced technical performance on programs
- o Improved understanding and effectiveness starting at the requirements setting process and continuing through the entire acquisition life-cycle
- o Ability to access innovation and advanced technology quickly
- o Industry Research and Development (R&D) and capital investments that are better aligned with the Department's future needs and better support for the war fighter

The Task Group presented their findings and recommendations to the full Board on July 17, 2008 (**see Appendix B**).

OBSERVATIONS

The Task Group observed an inadequate level of dialogue between DoD's senior leadership and industry. Lack of a clearly articulated view of the desired customer-supplier relationship and a narrow legal interpretation of allowable communications continue to fuel this problem. The Task Group observed that most dialogue was limited to large manufacturing

suppliers, and sometimes ignored small and medium sized companies in the service industry. The Task Group learned of situations where the lack of clear strategic direction from DoD led to poorly aligned capital investment by industry. Similarly, the lack of ongoing communications precluded early warnings to Department executives when programs began to encounter problems.

The Task Group also observed that communication models in prior years were more robust and effective, wherein the Secretary of Defense and/or Deputy Secretary of Defense met semi-annually with key defense industry leaders to provide policy direction and guidance on key issues. Additionally, the Under Secretary for (AT&L) would host regular, program-focused meetings with providers of major programs, and invite the Under Secretary (Comptroller), Service Secretaries, and the Chairman of the Joint Chiefs of Staff to attend. These discussions led to improved mutual understanding and better cost, schedule and performance.

The Task Group observed that the limited and inconsistent role by industry in shaping military capability requirements leads to technical “overreach” on requirements, and cost, schedule and performance problems in acquisition programs. The members of the Joint Requirements Oversight Council (JROC) and the Combatant Commanders (COCOMs) have limited dialogue with industry, and this dialogue usually occurs *after* the capability requirements are set. The lack of dialogue between industry, the COCOMs, and the Military Services regarding future operational needs makes it difficult for the supplier to efficiently invest in R&D and for DoD to forge ties to companies with unique, advanced technology.

The Task Group made several observations regarding the acquisition workforce. Recent budget cuts and retirements have reduced the number, quality and effectiveness of the DoD civilian acquisition workforce and resulted in a greater reliance on contractors. This loss of experience and reliance on contractors has reduced DoD’s ability to lead and manage the acquisition life-cycle. Consequently, the Task Group saw an even greater need for DoD’s senior leadership to build a strong, interactive relationship with industry. The Task Group also observed that restrictive laws and regulations contribute to this problem, making “management mobility” between industry and government difficult, and made specific recommendations to address this issue.

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The Task Group observed two other important trends that the Department should address. The first trend is the increasing role of service contractors. Despite the fact that services contracts account for a large and increasing percentage of all acquisition dollars, DoD does not have an adequate understanding of contracting for services. Additionally, services contractors are not involved in COCOMs contingency planning, despite their increasing role in supporting military operations. The second trend is the increasingly global make-up of the defense industrial base despite numerous regulatory barriers. The Task Group observed that DoD sometimes must go overseas to acquire superior technology and foreign defense companies are active in the U.S. market as a result of past acquisitions. Hence, communications with international suppliers are increasingly important. The Task Group noted that these communications are often complicated by security and export concerns.

RECOMMENDATIONS

The Defense Business Board recommends that the Secretary of Defense implement the following four steps to improve the Department's overall strategic relationship with its manufacturer and service suppliers and better align its objectives with the objectives of its supplier base:

1. Articulate a clear strategy and action plan to guide senior leadership actions
2. Direct the COCOMs and JROC to strengthen communications with the global supplier base
3. Direct the Military Services and the COCOMs to expand communications with services contractors/suppliers
4. Take steps to ensure the necessary human resources are available to support effective DoD-industry relations

As a first step the DoD's senior leadership must establish and articulate a clear strategy and action plan to guide senior leadership actions and communications with industry. To facilitate open and constructive discussions with industry the Office of the DoD General Counsel should establish clear and flexible guidance that will encourage open, constructive discussions. The strategy and action plan should then be implemented by the Secretary and/or Deputy Secretary of Defense via meetings (convened

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semi-annually at a minimum) with seniors leaders from the defense industrial base, to include small-, mid-, and large-size companies. Service Chiefs and Under Secretaries (especially AT&L) should also meet with industry to oversee key acquisition programs and to articulate R&D and capability requirements. A summary of key discussions should be promptly published and appropriately disseminated via the internet, e.g., a limited access web site.

The Defense Business Board also recommends that the COCOMs and JROC strengthen communications with the global supplier base given DoD's more globally diverse supply chain. The COCOMs and members of the JROC should meet with industry to provide them a better understanding of operational planning and evolving tactical doctrine. These discussions should occur in the early stages of the capabilities requirements process to avoid unrealistic program goals and to assist industry in setting R&D priorities and capital investments. In addition, the COCOMs should provide industry a better understanding of the latest technical and operational needs of the war fighter by tapping into military leaders returning from operational commands.

The Defense Business Board recommends that the Department include in its priority communications efforts much greater dialogue with services contractors/suppliers. In order to achieve alignment of objectives with this sector the Board recommends that DoD issue guidance on the nature and scope of future support requirements and integrate suppliers into COCOM contingency planning exercises and operations planning. By so doing, the Department will better understand contractor limitations and provide industry with information necessary to effectively support military contingency planning and operations.

And lastly, the Defense Business Board recommends that the Department take steps to ensure that the necessary human resources are available to support effective DoD-industry relations, and specifically recommends that DoD propose modifications to "revolving door" legislation/regulations. These laws and regulations must be modified to encourage the movement of experienced personnel between government and industry if there is to be a mutual understanding of each other's operating environments, goals and objectives.

CONCLUSION

The Board advises the Secretary and Deputy Secretary of Defense to convey this critical advice to their successors, who will have a unique opportunity to forge an improved and mutually supportive relationship with DoD's manufacturer and service suppliers. Specifically,

1. The Secretary of Defense should ask the DoD General Counsel to issue clear and constructive legal guidance to support expanded communications with industry
2. The Secretary of Defense should convene a meeting of the Defense Senior Leadership Conference to discuss these recommendations and recommend an implementation plan and timetable
3. The senior DoD leadership should share the thrust of this report with:
 - Industry (industry meetings, trade associations, etc.)
 - Appropriate Congressional defense committees
4. The Secretary and Deputy Secretary of Defense should convey this critical advice to their successors

The Department's strategic relationship with industry must be built on trust and cooperation that can only be achieved when the Department engages in open and frequent dialogue with industry. The stakes are too high. The Department and the defense industrial base must succeed and must come together to align objectives and activities in order to deliver the necessary cutting-edge technology and support to our nation's war fighters.

Respectfully Submitted,



Denis A. Bovin
Task Group Co-Chair



Philip A. Odeen
Task Group Co-Chair

Defense Business Board

APPENDIX A
(TASK GROUP TERMS OF REFERENCE)

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DEPUTY SECRETARY OF DEFENSE

1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

OCT -9 2007

MEMORANDUM FOR CHAIRMAN, DEFENSE BUSINESS BOARD (DBB) CHAIRMAN, DEFENSE SCIENCE BOARD (DSB)

SUBJECT: Terms of Reference - Defense Business Board Task Group on the Strategic Relationship between the Department of Defense and the Industrial Base

With the evolving configuration of the Department's Industrial Base, request you form a joint Task Group, led by the DBB with the support of the Defense Science Board, to evaluate and make recommendations to the Department of Defense (DoD) regarding possible actions that could improve the strategic relationship between the Department and its manufacturers and service suppliers.

Specifically, the Task Group should deliver actionable recommendations for how the Department could better align its objectives, as a primary customer, with the objectives of its supplier base. The Task Group should consider whether the Department has properly established acquisition and regulatory frameworks as well as intellectual property and incentive mechanisms to enable the broadest possible industrial base participation and to ensure that both the Department and the industrial base can meet their objectives. The Task Group also should suggest other ways to improve the supplier/customer relationships that currently exist. Specifically, is there a better level, mode and frequency of communication than has traditionally existed between all levels of the Department's leadership team and large incumbent suppliers, and how should that vary when communicating with mid-sized and smaller companies?

The Under Secretary of Defense for Acquisition, Technology and Logistics will be the DoD Liaison. DBB Task Group Co-Chair will be Denis Bovin, and DSB Task Group Co-Chair will be Phil Odeen. The DBB is to nominate a qualified individual to serve as the Task Group Executive Secretary. The Task Group will present recommendations no later than the April 2008 DBB meeting.

The Task Group will be operated in accordance with the provisions of P.L. 92-463, the "Federal Advisory Committee Act," and DoD Instruction 5105.04, the "Department of Defense Federal Advisory Committee Management Program." It is not anticipated that this Task Group will need to go into any "particular matters" within the meaning of Section 208 of Title 18, U.S. Code, nor will it cause any member to be placed in the position of acting as a procurement official.



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APPENDIX B

(TASK GROUP FINAL REPORT – JULY 17, 2008)

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Task Group on Department of Defense and Industrial Base Strategic Relationship

Final Report

July 2008



Task Group

Defense Business Board

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Kelly S. Van Niman, DBB Deputy Director



- **Deliverables**

- Recommendations for improving the strategic relationship between the Department of Defense (DoD) and its manufacturer and service suppliers
- Recommendations to address:
 - Alignment of Department and supplier objectives
 - Improved communication
 - Ensure broadest participation by industry
 - Contrast communications with large, mid-size, and small
 - Discuss the appropriate level, mode, and frequency of communications

- **Milestones**

- Final Recommendations – July 2008 (DBB meeting)



Premise

- The strategic objectives and relationships between the DoD and its industrial and services suppliers are not well aligned or mutually supportive, impeding DoD's ability to optimally support the war fighter
 - Early and frequent communications will lead to improved costs, more realistic and achievable schedules, and enhanced technical performance on programs
 - Effective dialogue starting at the requirements setting process and continuing through the entire acquisition life-cycle would improve these relationships
 - The Department's ability to access innovation and advanced technology quickly will be enhanced by effective dialogue and clear guidance from DoD
 - Improved communications will result in industry Research and Development (R&D) and capital investments that are better aligned with the Department's future needs and better support for the war fighter
- Better alignment of strategic objectives and frequent communications will be even more critical to DoD in periods of constrained resources



Observations

1. Inadequate dialogue exists between DoD's senior leadership and industry:
 - There is no clearly articulated view of the desired customer/supplier relationship, including overall strategy and goals, war fighter needs, and priorities
 - Narrow legal interpretation of allowable communications in recent years has undermined efforts to build open, constructive relationships
 - Advice by senior DoD legal advisors has been much more cautious than that of the 1980's and 1990's
 - Former DoD General Counsels believe senior DoD executives can and should have much greater flexibility
 - Meetings with individual companies focus on problem programs, but
 - There is no existing forum to discuss future needs and priorities, and
 - Most dialogue is limited to large manufacturing suppliers
 - Smaller companies in the service industry are seldom included



Observations

1. Inadequate dialogue ... (continued):

- Meetings with trade associations are used to outline new policies and practices, but
 - Lack systematic and constructive feedback loops
 - Feedback more likely to come from smaller meetings or individual companies
- Absent clear strategic direction, industry capital investment may be poorly aligned with DoD's future needs
- Lack of ongoing communications precludes early warning to Department executives when programs begin to encounter problems
- Lack of ongoing dialogue with industry on technology trends hampers the Department's capabilities definition efforts



2. Earlier communication models were more robust and effective:

- SecDef/DepSecDef level – Semi-annual meetings with key defense industry leaders provided policy direction and guidance on key issues (e.g., consolidations and the outlook for future funding)
 - In the past, SecDef/DepSecDef convened formal defense industry advisory bodies
- USD (Acquisition Technology and Logistics) (AT&L) level – Regular, program-focused meetings with providers of major (e.g., Acquisition Category-1 (ACAT-1)* systems and platforms; USD (Comptroller) also participated (Service Secretaries, Service Acquisition Executives, Vice Chairman Joint Chiefs of Staff (VCJCS) and appropriate Combatant Commander (COCOM) representatives, could also be included)
 - Meetings focused on problem programs and broader DoD concerns about company performance
 - Dialogue led to improved mutual understanding and improvements on costs, schedule and performance

* ACAT means Acquisition Category for Major Defense Acquisition Programs (MDAP). An ACAT-1 is an MDAP estimated by the USD(AT&L) to require an eventual total expenditure for research, development, test and evaluation (RDT&E) of more than \$365 million in fiscal year (FY) 2000 constant dollars or, for procurement, of more than \$2.190 billion in FY 2000 constant dollars.



3. The Defense acquisition workforce is challenged:

- Budget cuts and retirements have reduced the number, quality, and effectiveness of the DoD civilian acquisition workforce and led to a greater reliance on contractors
 - Reduced ability to lead and manage the acquisition life-cycle
 - Created risk-averse culture that undermines effective communication
- Puts an even greater and more immediate burden on senior leadership to build strong interactive relations with industry



4. Regulatory issues impact an effective strategic relationship:

- Restrictive laws and regulations make “management mobility” between industry and government difficult (“revolving door”) adversely affecting the mutual understanding of needs, business processes and cultures
- Both government and industry are frustrated by the acquisition process
 - Effective reform is stalled
- Rules and regulations on intellectual property and export controls (which threaten their international competitiveness) deter high tech companies from dealing with the Department (other than “catalog” items)



5. Issues between DoD and service contractors are becoming critical:

- The Department does not have an adequate understanding of contracting for services, though these contracts account for a large and increasing percentage of all acquisition dollars
- Despite the increasing role of contractors supporting military operations, support services contractors are not involved in COCOMs contingency planning or planning for actual operations
 - Seldom included in planning by Services or COCOMs, despite previous inclusion of military units performing similar services
 - Given their key role in supporting combat operations, COCOMs need to be well integrated into planning
 - Expansion of Logistics Civil Augmentation Program to three providers (vice one) complicates the planning and coordination process. Open dialogue is even more critical



6. There is a limited and inconsistent role by industry in shaping military capabilities and requirements:

- Little interaction with the Joint Requirements Oversight Council (JROC) and the COCOMs
 - Dialogue occurs after the required capabilities are set
 - Limited understanding by DoD of technology capabilities and maturity
 - Leads to technical “overreach” on requirements
 - Leads to program cost, schedule, performance problems
 - Source of information is largely from the Services
- Lack of dialogue between industry, COCOMs, and the Military Services regarding future operational needs makes it difficult for the supplier to efficiently invest in R&D or forge ties to companies with unique, advanced technology



7. The industrial base is increasingly global despite numerous regulatory barriers
- Products and services of foreign firms are becoming increasingly important
 - Most major commercial products have significant foreign content
 - DoD occasionally must go overseas to acquire superior technology
 - Some major international defense firms are entering the DoD supplier base through direct sales, partnerships, and acquisitions of U.S. defense companies
 - Communications with international suppliers are even less frequent than with domestic suppliers
 - Complicated by security and export control concerns
 - Global consortiums add to communications challenges



Recommendations

1. Senior Leadership Actions – A clear strategy and action plan should be articulated by the senior DoD Leadership
 - To facilitate dialogue with industry: clear, flexible guidance from the General Counsel is essential
 - Goal: encourage open, constructive discussion
 - Senior leaders need guidelines, not rigid rules
 - This plan should then, at a minimum, be implemented by :
 - The Secretary and/or Deputy Secretary – Meetings with Senior Leadership of industrial base at least semi-annually
 - Small Groups (e.g., fit around SecDef's conference table)
 - Major prime Chief Executive Officers (CEOs) twice a year
 - Second Tier company CEOs annually (both service and hardware companies)



1. Senior Leadership Actions (continued)

- The Secretary and/or Deputy Secretary – (continued)
 - Meetings should include representative small/medium-sized company CEOs
 - USD (AT&L) and USD (Comptroller), Service Secretaries, Service Acquisition Executives, VCJCS and appropriate COCOM representatives should attend
 - A summary of key discussions should be promptly published and appropriately disseminated via the internet, e.g., a limited access web site



1. Senior Leadership Actions (continued)

- Key Communication Topics:
 - Strategic priorities, budget outlook and trends
 - Capabilities needed and trade-offs to be considered
 - Industry technology, services, and development/manufacturing/ logistics processes needed to support priority missions
 - Policy regarding competition, mergers and acquisitions (M&A) and consolidations
 - Policy related to international suppliers, cross border collaboration and export control
- Should be a true dialogue with industry leaders – encourage their input on issues and their concerns
 - Feedback/reaction to issues raised by the DoD presentations
 - Business challenges facing the industry (credit environment, investor concerns/pressures, competitive dynamics, etc.)



1. Senior Leadership Actions (continued)

- Service Secretary/Chief of Staff
 - Regular, frequent meetings on major programs with major primes throughout the acquisition process
 - Status of ACAT-1 and other high profile programs (e.g. IT/ communications projects)
 - Other concerns regarding company performance
 - Half day – Saturday meetings – CEOs must attend
 - Dialogue with key suppliers on R&D priorities and urgently required military capabilities (probably led by Under Secretary and Vice Chief)
 - Identify technologies and services needed to support priority war fighter missions
 - Solicit information regarding industry capabilities and Independent Research and Development (IR&D) results and priorities
 - Dialogue could be done by community, e.g., aviation, ships, ground vehicles, Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR)
 - Encourage participation by small companies and technology providers outside the traditional Defense Industrial Base



1. Senior Leadership Actions (continued)

- USD/AT&L – Dialogue should cover three areas (at least semi-annually):
 - Provide guidance on key policies and processes impacting industry
 - Acquisition policy/process issues
 - M&A/consolidation/competition
 - Export controls and intellectual property
 - Special effort required to reach out beyond the traditional DoD base including international suppliers
 - Identify R&D priorities, manufacturing/logistics processes that enhance capabilities and reduce costs/timelines
 - Continue efforts to strengthen acquisition workforce to meet evolving objectives



1. Senior Leadership Actions (continued)

- Status, issues and actions – ACAT-1 and other high impact programs with prime contractors
 - Conduct joint review with Military Service leaders of the largest programs (e.g., F-35)
 - In addition to ACAT-1 reviews, USD/AT&L should lead reviews of large C4ISR programs that cut across the Military Services
- Dialogue and interaction with industry should regularly be followed up with assigned responsibility, action steps and metrics to assess progress



2. Given the growing joint world role in acquisition, the COCOMs and JROC should strengthen communications with the global supplier base
- Provide industry a better understanding of operational planning and evolving tactical doctrine
 - Meetings with industry chaired by the Vice Chairman should be held twice a year
 - Focus on technology and capabilities that could significantly enhance combat capabilities
 - Will assist industry in setting IR&D priorities and capital investments
 - Provide industry a better understanding of latest technical and operational needs of the war fighter, as relayed by military leaders returning from operational commands
 - Tap into rich flow of after action tour reports by commanders (usually at O-6 level)
 - This information exists in all the Services but is seldom shared with industry



2. Given the growing joint world role... (continued)

- Encourage industry input into the early stages of the capabilities requirements process. Optional approaches include:
 - DARPA model – Broad Area Announcements to get input on emerging technologies
 - A milestone minus-1 to lay out preliminary system requirements and gain from industry an understanding of technology/technical maturity, cost, schedule and key performance indicators
- Use limited access web site recommended earlier to broader industry access to information and to encourage industry collaboration
- Goal: provide realistic, information on technology maturity to the requirements process to avoid unrealistic program goals that result later in major cost/schedule problems



3. The services contractors/suppliers should be explicitly included in the Department's communications efforts

- Guidance should be provided on likely future support trends and needs by Services
 - Nature and scope of potential requirements
- Suppliers should be integrated with COCOM contingency planning exercises and actual operations plans
 - Government needs to understand a contractor's limitations and information needed to support planning
- Plans to award multiple combat support contracts complicate industry planning and make the need for industry to participate in military planning more critical
 - Future requirements for a company will be harder to predict
 - Services/COCOMs will need to work with all awardees



4. The Department should take steps to ensure the necessary human resources are available to support effective DoD-industry relations

- Propose modifications to “revolving door” legislation and regulations to encourage movement of experienced personnel between government and industry
- Strengthen efforts to recruit, train and retain the acquisition workforce
 - Make use of the National Security Personnel System flexibility to raise starting salaries, provide more competitive pay increases and financial incentives
 - Develop Presidential Management Intern-type programs to attract highly qualified college graduates to service in DoD
 - Create recognition systems and communication vehicles to enhance esprit, morale and loyalty



NEXT STEPS

1. The Secretary of Defense should ask the DoD General Counsel to issue clear and constructive legal guidance to support expanded communications with industry
2. The Secretary of Defense should convene a meeting of the Defense Senior Leadership Conference to discuss these recommendations and recommend an implementation plan and timetable
3. The Senior DoD leadership should share the thrust of this report with:
 - Industry (industry meetings, trade associations, etc.)
 - The appropriate Congressional defense committees
4. The Secretary and Deputy Secretary of Defense should convey this critical advice to their successors