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**Improving National Defense Acquisition and Resource Management
through Enterprise Organization, Capabilities Assessment, Radical
Reengineering, Capital and Longer-term Budgeting and
Privatization/Marketization**

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by

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**4th Annual Acquisition Research Symposium
of the Naval Postgraduate School:**

**Acquisition Research:
Creating Synergy for Informed Change**

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Improving National Defense Acquisition and Resource Management through Enterprise Organization, Capabilities Assessment, Radical Reengineering, Capital and Longer-term Budgeting and Privatization/Marketization

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Presenter: Jerry McCaffery, PhD is a Professor of Public Budgeting in the Graduate School of Business and Public Policy at the Naval Postgraduate School where he teaches courses focused on defense budgeting and financial management. He has taught at Indiana University and the University of Georgia. His current research interests include defense transformation and the PPBE system and their impact on DoD acquisition and resource allocation. He and Professor Jones are the authors of *Budgeting and Financial Management for National Defense* (2004).

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Abstract:

Our guiding assumption in organization of our research and this report is that to understand the defense acquisition process and reform arguments, it is necessary to know something about the organizational and managerial context in which such reform must take



place. Consequently, this report for the 2007 NPS Acquisition Symposium is organized into four parts: (i) an analysis of the Enterprise organization and management initiative now underway in Department of Defense (DoD), demonstrating (ii) how it encompasses the new approach to defense capabilities thinking, planning and management as a preamble to our argument for acquisition system and process reform. Along the pathway to presentation of our acquisition reform proposals, we show (iii) the role of better business practices and information technology in adding value to DoD acquisition and resource management in terms of improved organization strategy based on lessons from economics in the private sector in evolving from bureaucracy to hyperarchy and netcentric organization. In this section, we draw lessons from the manner in which businesses operate in the new global economy and how the development of new information technology should enable managerial reform. This analysis supports the types of change we recommend later in the report in a way that adds value to DoD acquisition and resource management. We advance our analysis in part by applying lessons from economic, information and value-chain theory and practice, illustrating the utility of this approach using the examples of Toyota Motor corporation and the DoD Global Information Grid (GIG); by employing these examples, we demonstrate both possibilities and obstacles to be overcome in reorganizing the DoD and its acquisition and resource management processes to better meet market demand and to respond to changes in the threat environment. Part of this argument includes assessment of the application of new technology, particularly IT, and the principle of netcentricity and hyperarchy in DoD reorganization and acquisition/resource management reform. We assert the necessity for understanding something about the new economics of organizations and a critique of bureaucratic organization as critical intellectual components of support for our proposed reforms. Finally, (iv) we advance two approaches to reform in terms of magnitude of change in DoD acquisition, procurement and resource management: (a) an argument for marginal adjustment based on our view of the need for implementation of longer-term capital and performance-oriented budgeting in combination with radical DoD business process reengineering, consistent with the principles, methods and goals of enterprise management, and (b) a much more radical conversion of the DoD to an approach that we term "marketization and privatization" of defense acquisition systems and resource-management processes. We note that these options are not mutually exclusive, as both are needed.

Preface

Problem: If a cop in Anytown, USA, pulls over a suspect, [ideally] he checks the person's ID remotely from the squad car. He's linked to databases filled with Who's Who in the world of crime, killing and mayhem. In Iraq, there is nothing like that. When our troops and the Iraqi army enter a town, village or street, what they know about the local bad guys is pretty much in their heads, at best. Solution: Give our troops what [some of] our cops have. The Pentagon knows this. For reasons you can imagine, it hasn't happened... This is a story of can-do in a no-can-do world, a story of how a Marine officer in Iraq, a small network-design company in California, a nonprofit troop-support group, a blogger and other undeterrable folk designed a handheld insurgent-identification device, built it, shipped it and deployed it in Anbar province. They did this in 30 days, from Dec. 15 to Jan. 15. Compared to standard operating procedure for Iraq, this is a nanosecond... Before fastening our seatbelts, let's check the status quo. As a high Defense Department official told the *Journal's* editorial page, "***We're trying to fight a major war with peacetime procurement rules.***" The department knows this is awful. Indeed, a program exists, the Automated Biometric Identification System: retina scans, facial matching and the like. The reality: This war is in year four, and the troops don't have it. Beyond Baghdad, the US role has become less about killing insurgents than arresting the worst and isolating them from the population. Obviously it would help to have an electronic database of who the bad guys are,



their friends, where they live, tribal affiliation—in short, the insurgency's networks... The Marine and Army officers who patrol Iraq's dangerous places know they need an identification system similar to cops back home. The troops now write down suspects' names and addresses. Some, like Marine Maj. Owen West in Anbar, have created their own spreadsheets and PowerPoint programs, or use digital cameras to input the details of suspected insurgents. But no Iraq-wide software architecture exists... On the night of Jan. 20, Maj. West, his Marine squad and the "jundi" (Iraq army soldiers) took the MV 100 and laptop on patrol. Their term of endearment for the insurgents is "snakes." So of course the MV 100 became the Snake Eater. The next day Maj. West e-mailed the US team digital photos of Iraqi soldiers fingerprinting suspects with the Snake Eater. "It's one night old and the town is abuzz," he said. "I think we have a chance to tip this city over now." A rumor quickly spread that the Iraqi army was implanting GPS chips in insurgents' thumbs... Over the past 10 days, Maj. West has had chance encounters with two Marine superiors—Maj. Gen. Richard Zilmer, who commands the 30,000 joint forces in Anbar, and Brig. Gen. Robert Neller, deputy commanding general of operations in Iraq. He showed them the mobile ID database device... I asked Gen. Neller by e-mail on Tuesday what the status of these technologies is now. He replied that they're receiving advanced biometric equipment, "like the device being employed by Maj. West." He said "in the near future" they will begin to network such devices to share databases more broadly. Bottom line: "The requirement for networking our biometric capability is a priority of this organization." As he departs, Maj. West reflected on winning at street level: "We're fixated on the enemy, but the enemy is fixated on the people. They know which families are apostates, which houses are safe for the night, which boys are vulnerable to corruption or kidnapping. The enemy's population collection effort far outstrips ours. The Snake Eater will change that, and fast." You have to believe he's got this right. ***It will only happen, though, if someone above his pay grade blows away the killing habits of peacetime procurement.*** [comments in brackets, italics and bold added by Jones and McCaffery.] (Henninger, 2007, p. A14).

Introduction

In previous research sponsored under the Naval Postgraduate School (NPS) acquisition research program, we have argued (2005) that there are mismatches and discontinuities between the acquisition decision process and the Planning, Programming, Budgeting and Execution System (PPBES). We identified a number of problems associated with the misalignment of these two Department of Defense (DoD) resource-decision systems. To reduce misalignment, we recommended significant business process reengineering of both systems. We are pleased to observe that some of what we recommended was implemented by the former Under Secretary of Defense for Acquisition, Technology and Logistics (USD AT&L) Kenneth J. Krieg and the military departments and services (MILDEPS). However, in May 2006, the Under Secretary stated that while some successful reengineering had been done, more was needed. In December 2006, the USD AT&L noted that he was planning to do more of this within his own staff and within the decision processes he controls.

With respect to further changes to bring better alignment between the acquisition decision process and PPBES, we now conclude that not much more is likely to occur soon despite the need for resolution of the many mismatches between the two processes. The initiative to further reform PPBES has disappeared with the departure of former Secretary of Defense Donald Rumsfeld as champion of administrative transformation, and the absence of funding to finance it due to the continued demands placed on the DoD to finance OIF and the Long War. Without additional PPBES and budget reform, we do not believe it is possible to



improve the fit between resource allocation and acquisition decision processes in the near term to any significant degree.

In 2006, we presented our research at the NPS Acquisition Symposium that argued for implementation of capital budgeting in the DoD and across the federal government, with emphasis on mirroring to some extent how it is done in the private sector. We also explained how capital budgeting could be implemented within the DoD without changing the congressional decision process, and explained some of the issues to be resolved to do so. We are pleased to observe that the office of the USD AT&L has been implementing some of our recommendations on capital budgeting.

For the 2006-2007 acquisition funding cycle, we have concentrated on four areas that we report upon in this paper for the 2007 NPS Acquisition Symposium. Our guiding assumption in organization of our research and this report is that to understand defense acquisition process reform, it is necessary to know something about the organizational and managerial context into which such reform must take place. Accordingly, we provide analysis of the Enterprise organization and management initiative now underway in the DoD, and show how it encompasses the new approach to defense capabilities thinking, planning and management as a preamble to our argument for acquisition system and process reform. Along the pathway to presentation of our acquisition reform proposals, we show how the development of new information technology should enable managerial reform of the type we recommend in a way that adds value to DoD acquisition and resource management. We advance our analysis in part using the example of the DoD Global Information Grid (GIG) to demonstrate both possibilities and obstacles to be overcome in the application of IT and the principles of netcentricity. We also assert the necessity for understanding something about the new economics of organizations as a critical intellectual component of support for the arguments we make for defense acquisition and resource-management reform.

The first part of this report provides an assessment of the efforts currently in progress to apply enterprise management in the Navy and the DoD. In this report, for purposes of description and analysis of the Enterprise organizational framework and structure under which change has been partially implemented in the DoD, we use the example of the Navy and the Naval NETWAR FORCENET Enterprise or NNFE.

In the second part of this report, we examine the introduction of capabilities-based thinking, planning and decision-making into the enterprise organization and management systems, and into the analysis required to support defense acquisition planning and decision-making. We identify and analyze some of the issues faced in application of capabilities-based planning and resourcing, especially those relating to definition of capabilities and deriving methods to crosswalk from (a) traditional program-based proposal and acquisition management to (b) capabilities-based proposal and management. As we indicate, implementation of capabilities-based planning and management in the defense acquisition process changes and adds to the tasks to be performed and the information needed for decision and execution by the Office of the Secretary of Defense (OSD)—particularly the US AT&L and the Secretary (SECDEF), the Joint Chiefs of Staff (JCS) and the military departments and services (MILDEPS): e.g., data needed to build the POM, the SECDEF budget proposal and to perform medium-term capital asset acquisition planning and decision-making at various levels within the DoD.

The third part of this report explains the role of new technology, including information technology (IT), in a new approach to defense acquisition and budgeting. We argue here that IT



provides the basis and potential for almost all managerial and systems reform in the DoD, basing some of our conclusions on evidence from theory and private-sector practice. More broadly, to understand how defense acquisition can and should be done incorporating new technology, we explain the vital role of IT in moving from bureaucracy to hyperarchy and netcentric organization to add value in reform of defense acquisition and resource management, i.e., to enable the types of change we advocate subsequently in the report. This part of the report also advances the relevance of the new economics of organization as a component part of the theoretical and practical underpinnings for reform of defense acquisition and resource management. In essence, we argue the necessity for relying on markets and the private sector in moving from bureaucracy to hyperarchy and netcentric organization.

The fourth and final part of the report outlines and articulates our proposals for fundamental reform of the entire defense acquisition management system and decision process, based on and integrated with the DoD Enterprise organization and management initiative and capabilities-based analysis, decision-making and implementation. We have developed two approaches to reform. The first is a marginal adjustment set of changes to the current system to make it more efficient and productive (i.e., to reduce cycle-time, reduce costs and improve quality per investment dollar) through business process reengineering, enterprise management and improved use of information technology (IT).

The second proposal is for a much more comprehensive and radical reform of how the DoD acquires and procures weapons platforms and systems. The comprehensive reform proposal we refer to as, "privatization and marketization of DoD acquisition." In essence, this proposal argues that to operate defense acquisition more like a business, using better business methods and processes, it is necessary, literally, to make DoD acquisition a business: i.e., to move much of the present DoD process out of the government and to firms in the private sector. In addition, we argue that in facing the make-or-buy decision as all corporate entities must, increased and better acquisition and procurement of commercial off-the-shelf (COTS) weapons, systems and equipment from a worldwide market will get the US taxpayer greater "bang for the buck" in acquiring weaponry for defense and will better and more quickly meet warfighter needs.

We argue that the key advantage of the more comprehensive reform approach is to take full advantage of the competitive dynamics of an international defense capital asset market in the same way that large firms in the private sector operate presently—rather than relying on the system and process the DoD uses now which is, in essence, a gigantic, disconnected and inherently ineffective government bureaucracy that resembles in form a Cold War-era, Soviet-style, long-range planning hierarchy in which *the process has become the product*. We argue for a transition to a system in which the product is the focus of decision effort, and we outline how such a system would operate and some of the most important issues to be resolved in privatizing DoD weapons systems acquisition.

The complex nature and consequent length of this report made it impossible to reproduce the entirety in these *Proceedings*. To read the rest of this paper in full text, please see www.acquisitionresearch.org.



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ENTERPRISE ORGANIZATION, CAPABILITIES
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CAPITAL AND LONGER-TERM BUDGETING AND
PRIVATIZATION/MARKETIZATION**

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PRESENTATION OUTLINE

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

INTRODUCTION

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

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

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

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

This presentation covers only Part IV: Reform options.

Marginal Adjustment Reform

Comprehensive Change Reform

Reform Feasibility

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

Marginal Adjustment Reform

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

Elimination of PPBES

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

The Need for Capital Budgeting

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

Advantages of Capital Budgeting

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

Why Radical Acquisition Process Reengineering?

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

One option for radical business process reengineering

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

Business Process Reengineering: Reducing the number of players

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

Reengineered Process Specifics: Step 1

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

Reengineered Process Specifics: Step 2

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

Reengineered Process Specifics: Step 3

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

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

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

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

Reengineered Process Specifics: Step 4

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

Reengineered Process Assumptions

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

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

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

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

Reengineered Process Assumptions

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

Evaluating Success of Business Process Reengineering

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

Comprehensive Reform: Marketization/privatization of acquisition

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

Marketization/privatization Implications

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

Marketization/privatization

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

Marketization/privatization Issues

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

Marketization/privatization Issues

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

The Privatization Component of Reform

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

What Probably Should Be Included in Privatization

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

Comprehensive Reform Conclusions:

Taking Advantage of Markets

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

Political Feasibility

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

Marketization Feasibility

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

Caveats and Comments for Discussion

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

Questions and Comments?