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NATIONAL DEFENSE BUSINESS INSTITUTESM
THE UNIVERSITY OF TENNESSEE COLLEGE OF BUSINESS ADMINISTRATION

*Good Government Solutions
For Acquisition Business Leaders Now*

Acquisition Improvement Challenges: First Principles

Prepared for:
**8th Annual Acquisition Research
Panel #15: Analysis for Enhanced
Acquisition Decision Making**

Date: May 12, 2011



Discussion Points

- **Putting the Acquisition Challenge in Context**
- **Introduction to Incentives: A First Principles Point of View**

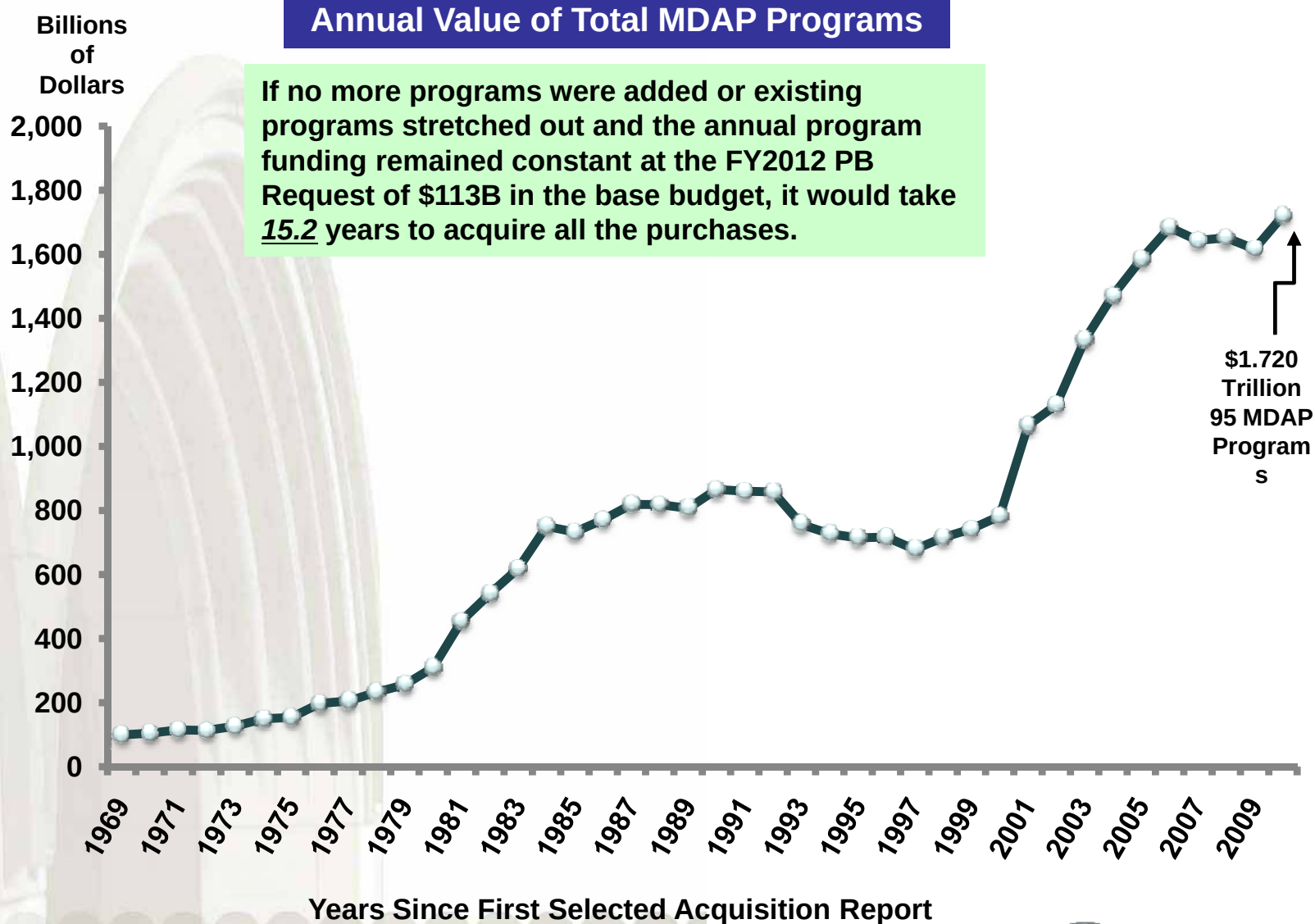
The Challenge In Context: The Partnership

- Single, most significant market risk consistently identified by the big six contractors in annual reports: “only one customer – Government”
- Government and industry are in a partnership, but the definition of “partnership” is different for each
 - Government: industry understands its obligation to deliver, precisely the required warfighter capabilities, if necessary, at the expense of profit or stockholder value
 - Industry: partnership is a collegial arrangement with both industry and government objectives possible and achievable with a fair negotiated value including profit for services or products delivered
- Loudest, most vocal *silent* partner - **CONGRESS**

Remember: “After all, the chief business of the American people is business. They are profoundly concerned with buying, selling, investing and prospering in the world.”

President Calvin Coolidge's address to the American Society of Newspaper Editors, Washington D.C., January 25, 1925.

The Challenge In Context: Magnitude Of The Problem



Contractor Incentives: First Principles

Government Attempts to Influence Program Contract Outcomes over Which It Has Limited Direct Control



- Desired Contractor behavior must achieve program contract objectives and contractor incentives depended upon to do that
- Achieving program contract objectives is measured by
 - Being on cost or better;
 - On schedule or better;
 - Performing as called for in the contract terms and conditions or better
- Key Question: Why does government incentivize the agreed to contract terms and conditions
 - Incentives allow government to exercise control; even on what is the standard
 - At a minimum the government desires to stimulate unobservable effort consistent with its program goals
- But, desired behavior on both the part of government and contractor face hurdles that must be addressed

Contractor Incentives: First Principles

Contractor Incentives in the Context of the Defense Department Realities

- **Contract and programmatic incentives, when properly done, may promote recognition of non-executability of a program early by both parties – could prevent wasted effort and money**
 - But will not fix non-executable programs
- **For an otherwise properly configured program, contract incentives can be used to:**
 - Improve performance (cost, schedule, technical)
 - Achieve goals for production and operational performance
 - Improve resilience of a program when faced with unanticipated issues
 - Create a vehicle to maintain communications
- **Incentives can be most effective when targeted**
 - Task completion – CDR by certain date (Objective elements complete: i.e. 80% design drawings complete); System Verification Review (Physical Configuration Audit + Assessment of LRIP)
 - Magnitude and nature of incentive sufficient to motivate desired behavior
 - Award fees for retaining key contractor personnel

