



ISSUE PAPER

What is Best for the Warfighter and Taxpayer

BACKGROUND

DoD's downsizing and outsourcing activities during the 1990s helped to create an aging acquisition workforce and shortage of acquisition skills that "substantially exceeded that of the rest of the DoD workforce."ⁱ Resulting defense acquisition challenges were highlighted in the House and Senate Armed Services Committee reports on the FY2006 Defense Authorization Act. These reports, in turn, spurred the Deputy Secretary of Defense to authorize creation of the *Defense Acquisition Performance Assessment (DAPA) Project* that provided a set of recommendations for acquisition reform. In response to the DAPA findings, the Aerospace Industries Association (AIA) released a special report, *U.S. Defense Acquisition: An Agenda for Positive Reform*, which found that the ability to produce the best military equipment at the best value for taxpayers is dependent on several important factors, including a well-trained and experienced acquisition workforce.ⁱⁱ

The acquisition workforce must be staffed with competent, thoroughly trained professionals. Everyone benefits from having experienced professionals on both sides who possess a deep understanding of the mission and who can negotiate solid, productive agreements. Government acquisition professionals must be thoroughly trained to become intelligent buyers.

AIA agrees that certain narrowly defined functions, as defined in the FAIR Act, should be considered inherently governmental. However, AIA continues to be concerned that the definition of "inherently governmental" in the interpretation of "in-sourcing" initiatives has been applied much too broadly and will have a negative impact on the warfighter and taxpayer.ⁱⁱⁱ Most recently, AIA has stated its concern with OFPP's efforts to clarify the definition of "inherently governmental:"

In general, we support OFPP's efforts to clarify the definition of what constitutes "inherently governmental" work that must be performed by federal government employees. We understand the need to clarify definitions for work that, while not "inherently governmental," nevertheless also must be performed by federal government employees for reasons specific to the mission of the particular agency or department or because of the nature of the function. On the other hand, we have a continuing concern that agencies will interpret this policy as a mandate to in-source. We do not believe this is the intent of the proposed policy letter and needs to be actively guarded against.

Because determination of "inherently governmental" or other functions reserved for performance by government employees confers immunity from examination of best value, we assert the interests of both the American taxpayer and industry are best served by defining concepts narrowly to ensure that appropriate functions

are properly examined. We further assert that the complement of “inherently governmental” is not automatic outsourcing but due diligence in search of the most effective result for the American taxpayer.

We are particularly concerned that the underlying adversarial tone of the proposed policy is one which calls for the government to be vigilant in order to guard against contractor attempts to overtake portions of the government’s mission. We find this language to be counter-productive and would suggest that this proposed policy contain explicit language emphasizing the government/industry partnership, particularly for functions that are not inherently governmental, and our mutual interest in conducting the public’s business in as cost effective a manner as possible.^{iv}

DoD recently announced its Efficiency Initiative in which DoD expects cost savings of \$100 billion.^v Some have argued that insourcing is a key part of gaining efficiencies. Taxpayers expect and deserve efficiencies and accountability for every dollar. But efficiency is more than lowest cost – we must measure efficiency in terms of best value. AIA will examine the implications of these initiatives in a series of articles over the coming months. This month, we start with discussion of those success factors which will lead to greater acquisition efficiencies for both the warfighter and taxpayer.

WHAT IS THE BEST FOR THE WARFIGHTER AND TAXPAYER

Simply stated, the best way to support the warfighter is to provide the right products and services, in the right quantity, at the right time, at the right place, at the right price to meet warfighter needs. The following principles lay out the way to best accomplish this goal.

Full Cost Accounting – Policies that preemptively assign sourcing without a fair, accurate, and comprehensive business case analysis that includes a full accounting of all costs – both direct and indirect work – is at odds with obtaining best value. AIA agrees that certain narrowly defined functions, as defined in

the FAIR Act, should be considered inherently governmental. All other considerations of whether to outsource functions must make a full and fair business case analysis the primary factor in the sourcing decision. We must avoid sacrificing cost or operational effectiveness for a segment of cost.

Performance – Bottom-line performance is the true measure of operational effectiveness. There is little point in low cost if the mission is compromised. Business cases must give consideration to factors above and beyond static cost comparisons, including the process efficiencies and performance outcomes delivered for a given cost. Product support strategies that incentivize delivery of performance align the objectives of the customer and support provider in a manner that transactional contracts cannot, and those factors must and should be considered in product support relationships. Historically, industry support contracts specifying delivery of outcomes incentivize and motivate investment in continuous product and process improvement in a manner that traditional, transactional DoD organic performance cannot duplicate.

Trust – There have been rare examples of missteps both from the private sector and the government, which have been dealt with accordingly. But industry and government are two halves of a permanent and inseparable relationship – both are essential to achieving best value for the taxpayer and warfighter. Trust is forged through partnership across the government/industrial base, and recognition of this interdependence. A lack of trust results in increasing layers of protection, complexity, and difficult relationships – all of which are cost drivers. The 1994 Coopers & Lybrand study found the DoD cost premium for complying with government oversight was 18 percent.^{vi} Compliance has only become more difficult and expensive during the intervening time.

Transparency – The Obama Administration has advocated strongly for government transparency since inauguration. “Transparency promotes accountability and provides

information for citizens about what their Government is doing.”^{vii} Transparency requires visibility into the analyses serving as the basis for sourcing decisions. Business cases and models have not been made public. Transparency of analysis and decision making inspires confidence, generates trust, and expands the ability to evolve relationships and achieve better outcomes.

Competition – Competition drives superior products and more effective performance. Everyone stays sharp. Former Under Secretary of Defense for Acquisition, Technology & Logistics Jacques Gansler tells us that competition results in average savings of 30 percent, no matter who wins.^{viii} Competition promotes innovation and drives cost savings. Lack of competition forfeits these benefits. Competition underlies the economies of industrialized economies and competition through the government procurement process, whether between companies or between industry and government providers, can only benefit the taxpayer.

It is important to note that the benefits of competition are realized only when managed appropriately. Data clearly shows that sustainment contract term periods consistent with statutory contract limits – 10 years maximum consisting of a 5 year base period and up to 5 additional option years – provide the contract length necessary to incentivize industry risk-based investments that benefit the customer. Merely implementing more frequent competition (e.g., every 2-3 years) inhibits investments for cost reduction resulting in incremental contract cost growth and increased administrative burdens and transition costs.

Competition should be based on a thorough competitive analysis and is just as important a component of the decision making process as cost analysis.

Fairness – Regulations and legislation that are intended to benefit the government employee over private sector employees not only skews analysis, but also ignores the very real imperative to reward merit and weigh all the cost factors on a level

competitive playing field. Title 10 U.S.C. 2461 prohibits conversion of public sector jobs to contractor performance unless the cost comparison provides no advantage to contractors with respect to health and retirement benefits. The House version of the FY2011 National Defense Authorization Act would add a new paragraph to section 2463 that would further embed this distortion of cost analysis and decision-making. Other federal requirements include “special consideration” for government employees and other favorable benefits. DoD Instruction 1100.22 allows in-sourcing without cost analysis for “esprit de corps” or simple “management decision.” Lack of fairness is very expensive and beneficiaries of this largesse have very little incentive for economy or efficiency. It sets a poor example when policy and statute intentionally bias decisions in favor of organizations or sources based on factors other than full, fair, and objective criteria leading to best value.

CONCLUSION – Sourcing Wisely

The nation battles daily with a struggling economy and burgeoning debt. Skipping or altering the cost analysis in sourcing decision-making to give the government a competitive advantage over industry diminishes DoD’s ability to incentivize superior performance and achieve its efficiency goals. Taxpayers sacrifice proven benefits of competition and could lose confidence that government and defense leadership are working in their best interest. Poor sourcing decisions are not good for the taxpayer or the warfighter.

Competition and long-term performance-based outcomes stimulate the greatest level of innovation, productivity, effectiveness, and efficiency. This requires a well trained, appropriately staffed, and empowered government acquisition workforce. To help meet DoD’s efficiency goals, a more narrow interpretation of “inherently governmental” will help maximize these success factors for the warfighter and taxpayer when evaluating organic versus industry solutions for product support and business services.

ⁱ *Shaping the Civilian Acquisition Workforce of the Future*, DoD, October 11, 2000.

ⁱⁱ *U.S. Defense Acquisition: An Agenda for Positive Reform*, Aerospace Industries Association, November 2008.

ⁱⁱⁱ AIA Testimony to the DoD: Public Hearing on Implementation of Section 207, Weapon Systems Acquisition Reform Act of 2009 (December 8, 2009).

^{iv} Council of Defense and Space Industry Associations response to OFPP Policy Letter – Work Reserved for Performance by Federal Government Employees (June 4, 2010).

^v See <http://www.defense.gov/Speeches/Speech.aspx?SpeechID=1510>.

^{vi} *The DoD Regulatory Cost Premium: A Quantitative Assessment*, Coopers & Lybrand, July, 1995.

^{vii} White House memo: *Transparency and Open Government*, January 21, 2009.

^{viii} “*Competitive Sourcing*”: *The Results to Date*, Jacques Gansler, November 11, 2004.