## INS. VIEW

## Forge a New Partnership

Government-Defense Industry Ties Must Evolve

By MARK WERFEL

The defense drawdown presents major dilemmas to defense industry leaders who are responsible to shareholders for profitability and to highly sidiled employees for employment. Similar dilemmas are facing their governmental counterparts. Accordingly, the already declining Defense Industrial Base (DIB) may lose its breadth and depth at a time when we cannot predict our military opponents or the type of warfare to be fought.

This stuation arises because the DIB, is not managed, but is the fortuitous outcome of the acquisttion process. While the federal government is explicitly responsible for national defense, there is an implicit reliance on the private sector for its bedrock, the DIB. Government financial support for DIB fixed and semi-variable industrial costs (such as for plant and production equipment) is derived from contracts for delivery of given quantities of weapon systems. This varies annually due to programmatic and budgetary factors as well as political ones.

Industrial cost expenditures are significant and their recovery from the government customer is uncertain. Further, they are not subject to managerial control once committed to, and can only be recovered if the anticipated future work is actually received and at the anticipated annual volume.

Without clear responsibility and accountability, and without clear govern-

Mark Werfel is a U.S. Army acquisition manager and a member of the Advisory Committee on the Space Station redesign. The article reflects only the views of the author.

ment commitment, any long-term planning is one-sided and therefore Initially, inclustry may be required to build up capacity in anticipation of program funding simply to be a potential participant. For the winning bidder, industrial cost risk then increases because outyear inclustrial costs may not be fully recovered. Production contract pricing, when performance extends beyond the current year, assumes that additional contract work will be awarded in the outyears and inclustrial costs will be absorbed by current and estimated future work.

If not borne out, actual outyear overhead rates will exceed estimates due to the smaller business base. However, current fixed price contract work cannot be repriced. Further, the vulnerability of plants that are dedicated to one or to a few customers is particularly high. One program's cancellation will increase the unit costs of remaining programs, and could lead to their cancellation as well.

Instead, the Defense Department should clearly distinguish between the defense and commercial industrial base, accept responsibility for the former and also its inability to control the latter. By taking this essential step, and by altering its approach to both, DoD would no longer pursue many competing goals and instead resolve the long-standing complaint that government contract clauses are pressed upon a commercial base offering cheaper, and today superior, products, but which will not accept government controls.

Primarily, DoD must explicitly define the companies in the DIB that it will pro-

bility for it. By doing so, DoD can manage er, would not be constrained in delivering worldwide marketplace that is more comect and recognize its financial responsinership, reducing acrimony and promot the former more effectively and use the nize the government as a major customcommercial base, while it would recogcreased profits that can be taxed to pay latter in a new way. The DoD-DIB relationship would become more of a partbetter and less costly products for govonly would commercial firms generate products which compete and win in a errunent and other customers, but inpetitive than ever before. In fact, not ing work toward shared goals. The for the defense base.

Once DoD does so, it should first organize acquisition by inclustrial sector, such as satellites, shipbuilding, military vehicles or munitions. While it does follow this pattern to some extent, for instance each service has an aircraft unit, a broader DoD perspective not constrained by a particular service may be required. Once accomplished, each DoD sector would manage consolidated requirements from development through production, including surge and mobilization.

Each sector would identify and evaluate the firms supporting it; not an overly burdensome task. Only major plants that already have extensive government relationships already would be involved. By matching each sector's requirement with the DIB supporting it, excess capacity would be identified as well as the basis for selecting firms most deserving of continued support, thereby defining the DIB.

For example, in its aircraft sector the government might rank business units using criteria such as ability to develop and produce innovative and superior systems due to engineering excellence, to deliver on time, to forecast and control cost or to manage change. The best of those businesses, to the extent required to support consolidated requirements, would be offered "partnership contracts." Each sec-

tor would have a flexibility to address current prime and subcontractors as it deems best.

 bual-use opportunities would be openwith respect to planning and manufacturownership issues would be resolved earsame or be lower because excess capaciplanning and control, but costs would be ly explored. The costs would remain the charged differently. Rather than partner ship costs, including inclustrial costs, be ners, would have access to sensitive acment by accountable individuals in govquisition information currently denied. Many DIB efficiencies would result ing. DIB contractors, now really parternment and industry should improve charged direct to a new, separate conintellectual property sponsorship vs. ing charged indirectly, they would be ty would be reduced. Direct managetract solely for each DIB plant.

So the production cost of weapon system units would be based on the variable costs associated with the quantity desired, removing the negative programmatic aspects related to plant and production equipment cited earlier in this article. Because of the partnership arrangement, the industry partner would expect defined future production work.

In the commercial industrial base, government controls and contractual language will no longer be applicable. Interdivisional cost transfers from a firm's commercial units to DIB units would be accepted by the government as certified by the industrial partner's commercial accounting firm. Commercial suppliers would have better access to government customers, and the winners would be the best commercial firms and the

government.

It is clear that current conditions demand this positive, partnership approach be pursued. Implementation must be carefully done, and include a transitional period during which realistic costs for employee retraining or a firm's entry into dual-use markets are considered.