

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 skilled 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 situation arises because the DIB is not managed, but is the fortuitous outcome of the acquisition 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-

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ment and recognize its financial responsibility for it. By doing so, DoD can manage the former more effectively and use the latter in a new way. The DoD-DIB relationship would become more of a partnership, reducing acrimony and promoting work toward shared goals. The commercial base, while it would recognize the government as a major customer, would not be constrained in delivering products which compete and win in a worldwide marketplace that is more competitive than ever before. In fact, not only would commercial firms generate better and less costly products for government and other customers, but increased profits that can be taxed to pay for the defense base.

Once DoD does so, it should first organize acquisition by industrial 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 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.

Many DIB efficiencies would result with respect to planning and manufacturing. DIB contractors, now really partners, would have access to sensitive acquisition information currently denied. Intellectual property sponsorship vs. ownership issues would be resolved early. Dual-use opportunities would be openly explored. The costs would remain the same or be lower because excess capacity would be reduced. Direct management by accountable individuals in government and industry should improve planning and control, but costs would be charged differently. Rather than partnership costs, including industrial costs, being charged indirectly, they would be charged direct to a new, separate contract 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.