

ACQUISITION REFORM: IT'S NOT AS EASY AS IT SEEMS

Mark Cancian

The current acquisition system represents trade-offs among many competing and often contradictory goals. This article explores the various objectives the system is designed to achieve, the priorities of different players, the trade-offs among the priorities, and the prospects of future reform.

The acquisition system is broken and needs to be fixed. How many times have officials said this? From the Secretary of Defense, who pledged during his confirmation hearings to “institute innovative management techniques to vigorously foster acquisition reform” (U.S. Senate, 1994), to the head of the American Defense Preparedness Association, who called for “[acquisition reform that is] so desperately needed by the defense industrial base” (Skibbie, 1993), DoD officials, industry executives, outside experts, and academics voice the same complaint.

This opinion is also shared by the public at large. When asked how much waste, fraud, and abuse there is in the defense budget, 68 percent in one poll answered “a lot” and another 28 percent answered “some.” In another poll Americans believed by an 87 percent to 10 percent margin that “there is too much waste in defense spending” (Americans Talk, etc., 1988; Harris, 1985).

Reinforcing this impression of waste and inefficiency are the continuous public efforts at reform. Over the years commission after commission has called for reform (Packard Commission, 1986; et al.). If the problem is so clear, then why is improvement so hard?

The usual answer is that “special interests” and “obstructionist bureaucrats” are preventing progress. After all, who else would defend an obviously broken system? Conscientious, public-spirited people want change, while selfish, short-sighted people want to maintain the current corrupt, inefficient system.

This depiction shows why so little progress has been made. In fact, *the current system is not broken. It is well designed to accomplish the goals that the nation values.* But how can this be when so many people are critical of the system? The reason is simple: different players have different goals and priorities. The current

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system represents trade-offs among many competing, often contradictory goals and, not surprisingly, works imperfectly as a result. “Acquisition reform” is not a matter of fixing a system that is broken. For each player it is a matter of wanting to re-design the system to favor what they value.

That these trade-offs exist is no secret. Both Perry and Colleen Preston, the Assistant Deputy Under Secretary of Defense for Acquisition Reform, have indicated this. For instance, Perry has stated: “My opinion is that the level of management control is probably appropriate for the acquisition system we have. Therefore, we’re going to have to change the system in a fundamental way.”

Unfortunately, the demands of public rhetoric today push the discussion towards fixing the system rather than making trade-offs. Trade-offs mean that one must give something up to gain something of greater value, but public discussions today do not allow for talk of sacrifice. Hence, there is an inclination to characterize the problem as if the nation could get something for nothing, thereby fixing the problem. These two approaches collide when an actual reform package has to be proposed. Because any reform must, in effect, be a trade-off, the losers cry foul and oppose the package. This is what happened with the most recent administration package.

This article explores why something that virtually everyone professes to want, acquisition reform, is so hard to actually attain. The article discusses the different objectives that the acquisition system is designed to achieve, the priorities of the different players, the trade-offs among the priorities, and finally looks at future reform prospects.

WHY IS DEFENSE DIFFERENT?

Before going further it is worthwhile reminding ourselves why this problem is so hard. Yes, we all know that the defense industry is different. However, reviewing the reasons why this is so will put the discussion about reform into perspective and remind us of how different the defense industry actually is from commercial industry (Fox, 1974):

1. There is one buyer—a monopsony—and hence no true market;
2. For any particular item, there is often only one or at most a very few sellers;
3. The user’s “bottom line” is not financial but performance. Competition therefore strongly emphasizes performance over price;
4. Major contracts are signed years before actual results are available and therefore must be based on estimates of cost, schedule, and performance;
5. Performance is difficult to judge, and is often judged subjectively, except for the rare occasions when the nation actually uses military force on a large scale;
6. The enterprise operates with public funds, the use of which is held to a different standard than private funds;
7. Decisionmaking power is diffuse, being shared between the executive

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branch and the legislative branch (with its many committees and subcommittees); and,

8. Decisions and operations are conducted in the open, under great public scrutiny.

J. Ronald Fox, in his classic study of defense acquisition, concluded from these characteristics, that “There is no sensible reason to deny the obvious... The basic tenets of the free enterprise system do not apply” (Fox, 1974, p. 474). As a result many, perhaps most, business practices common in commercial industry for evaluating and controlling operations have no application in the defense world. There are few objective criteria by which to judge defense activities and outcomes. Mostly these judgments are subjective, based on professional knowledge and experience that can be radically different for different people.

So what are the competing goals that the system is trying to accomplish? The number of items could be virtually infinite, but the list below is a good start:

1. *Performance (faster, higher, farther)*: There is always pressure to push the envelop of technology. Sometimes this is in response to a particular threat. At other times it is a more general desire to gain a battlefield advantage against potential opponents;
2. *Cost Minimizing*: Obviously, the less something costs, the more you can buy;
3. *Schedule*: Anything worth having is worth having immediately;
4. *Risk*: Minimizing the possibility that something goes wrong;
5. *Control*: Allowing senior officials adequate warning of possible problems and

the means to intervene to correct them;

6. *Jointness and Interoperability*: Able to be used by more than one service and to interact with the equipment of other services;
7. *Industrial Base*: Ensuring that the defense industry stays in business and can produce needed equipment in the future;
8. *Fairness and Propriety*: Treating all participants properly. Because this is a public, very open process, all decisions and procedures must be justified, not only to the few involved, but to the public and its representatives. This goes beyond legality to include propriety. Seemingly arbitrary decisions that may be acceptable in a private context are not acceptable for a public enterprise; and,
9. *Socioeconomic*: Advancing certain national goals such as encouraging small businesses, promoting minority- and women-owned businesses, strengthening unions, and buying U.S. products. These goals are often regarded as illegitimate by people inside the system because they have no direct bearing on national security or on acquisition. Indeed, they look like the workings of powerful special interests trying to bend society’s rules in their favor. However, democracy is a messy form of government. One person’s selfish special interest is another’s vital national priority. Furthermore, every national process inevitably gets involved with these kinds of national policies. Consider, for instance, the tax system and its many special provisions that have no bearing on revenue generation.

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Of course, all the players in the acquisition process care about all these goals. However, they do not care about the goals equally. At the risk of caricaturing some of the players, here is an analysis of what the major players value most:

The Defense Industry: Industry exists to make a profit. In public debate this is almost embarrassing to acknowledge but is nevertheless true. After profitability industry wants to stay in business (usually characterized as “maintaining the industrial base”) and wants to have as little interference as possible. The defense industry looks with envy at its commercial sisters who don’t have legions of auditors, inspectors, staffers and contract administrators looking over their shoulders. Industry’s perspective on acquisition reform is clearly contained in a package put together by a coalition of associations. This package focuses entirely on government oversight and imposed requirements (Defense Acquisition, etc., 1993).

The Program Manager: He wants to field something. He is judged as having a successful program if, at the end, the troops get a new piece of hardware. Cost, schedule, and even performance mean nothing if the hardware is not fielded.

The Military Services and Ultimate Users: The services are tasked with equipping units for use by the combatant commanders-in-chief and hence are required to represent the user’s interests. They care above all about getting equipment that will give them a warfighting advantage. Ultimately, this means high performance on a rapid schedule. Cost and everything else are secondary.

The Office of the Secretary of Defense (OSD): Historically, OSD has cared first about executing the acquisition contract. This minimizes risk and ensures control (or

at least the illusion of it). All acquisition programs have signed a contract, either explicitly in the Defense Acquisition Board (DAB) Acquisition Decision Memorandum (ADM) or implicitly in various program and budget decisions. OSD expects to see these contracts carried out and works to minimize risk of deviation. Second, OSD cares about the affordability of the overall defense program. Ultimately all programs must fit within the allocated top line, and there are always more programs than there are resources. Program cost, therefore, gets close scrutiny. Finally, jointness, and the interoperability it implies, offers the prospect of better joint warfighting (of great interest to the Joint Staff particularly) and of common equipment (and therefore lower costs).

The Congress: The Congress is moved primarily by its fiduciary responsibilities; that is, the need to ensure that public moneys are seen to be used in ways consistent with national purposes. Here the end does not justify the means; the means must stand on their own. This concern is often characterized by a focus on fraud, waste, and abuse. This concern is shared by an American public who strongly distrusts both the military in its procurement activities and the defense industry. The result is that many members distrust the department. The Congress therefore believes that without explicit guidance and close scrutiny the department will waste money. The Congress also, as a national proponent of socioeconomic goals, desires to see these furthered by the acquisition system.

HOW DOES THIS AFFECT REFORM?

Because of these differing values acquisition reform is like the tale of the blind men and the elephant, where each participant characterizes the whole by the part he is

closest to. For industry, acquisition reform is reducing interference; for the Congress, it is improving safeguards; for yet others, it is reducing risk. As a result all agree that acquisition reform is vital, a must-do for any administration, but cannot agree on an actual set of actions.

As noted earlier, the essence of any acquisition reform is a trade-off among desirable goals. Three high visibility examples here make the point:

1. Black (special access) programs are those that require very high security. The acquisition system for black programs is attractive to some because many of the reviews, analyses, and outside interference of the traditional system are removed. Black programs trade off control and frequently cost for an accelerated schedule and a much higher acceptance of technical risk. They can have tremendous successes. The F-117, for instance, was a black program. It was developed quickly and overcame large technical problems (e.g., two of the first prototypes crashed) that might have terminated an open program. As a result of these advantages, the acquisition process for black programs is often held up as a model for the entire acquisition system. Indeed, there is suspicion that the department has been moving in this direction because during the 1980s the size of black programs grew tremendously, more than merely the progress of technology would seem to require.

However, there is a downside to the black system also, as the A-12 experience showed. Here the lack of visibility into the program, the lack of reviews and analysis (among other managerial failings) and the compartmentation of information allowed serious problems to develop and grow. When they became known, it was more attractive to cancel

the program than to try to save it. The result was a severe blow to naval aviation.

2. Dual use technologies and commercial off-the-shelf (COTS) technologies are currently extolled as ways to save money and accelerate the acquisition process. They offer the prospect of using a much larger industrial base and of harnessing the vitality and drive of the commercial sector.

Indeed, for certain kinds of products where technology is moving rapidly (information processing, for example) commercial products give both lower price and higher performance. Commercial products, even with their limitations, come from processes that are much more agile than the defense acquisition system.

However, in other areas commercial products often involve a trade-off. Cost may be lower, and schedule may be faster. However, performance, broadly defined, is also often lower.

Commercial products are not built to the demanding environmental and stress standards attained by military articles.

For example, few commercial products are required to operate at temperatures ranging from

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40 degrees below zero to 140 degrees above. But military equipment often does need this capability, and users will be disappointed if the equipment does not have it. For instance, one recently developed military training system extensively incorporated COTS components but found that the CRTs cracked

in field handling, that the system couldn't take the extremes of heat and cold, and that the system's air conditioning unit disintegrated under vibration.

COTS equipment will frequently lack all the features that the military desires. A large scale example would be buying commercial aircraft like the 747 instead of the C-17. The 747 has impressive capabilities and is much cheaper.

The department can get different, often less capable, equipment for less money.

However, it lacks a wide range of capabilities that the C-17 has, for

instance: the ability to handle oversized and outsized cargo, the ability to land on short and rough fields, self-protection capabilities, the ability to back up on an incline, and many others.

Military Specification (milspec) items are, by definition, interoperable with other military items. COTS items may not be interoperable if there is no industry-wide standard.

Finally, commercial products rarely come with the documentation and support that milspec items do. For instance, a milspec software procurement will include enough documentation so that the code can be changed later. A commercially acquired software package would not. Similarly, a milspec procurement often includes a technical data package so that multiple producers could compete in building the item. A commercial procurement would not. These limitations of COTS would be as easy for outsiders to criticize as the milspecs they replace. Indeed, one can well imagine a future GAO report entitled, "DoD buying In-supportable and Incompatible Equipment."

None of this means that COTS acquisition is not worth doing. It does mean that there is a trade-off that is often unrecognized. Indeed, this is particularly true with COTS because the implication is often made that the department can get the same equipment for less money. This is rarely true. The department can get different, often less capable, equipment for less money. Frequently this trade-off will be attractive because the milspec capability is "nice to have," but not essential, especially in a time of severe budgetary constraints. Usually, however, there is a real loss.

3. The most important trade-off, however, is between the risk of abuse and the level of oversight. Reductions in oversight, the essence of many reform notions (especially from industry), mean that more things will go wrong and that they will remain unseen longer. If viewed from purely a cost-effectiveness standpoint, however, one could easily believe that less oversight would be more effective. After all, no commercial operation maintains this high level of oversight, so it is probably not cost-effective for the government despite its different circumstances (DoD's Cost, etc., 1992).

But as the earlier analysis of system goals and players' values indicated, cost effectiveness is only one criterion. Public visibility and fiduciary responsibility to the taxpayers also count heavily. The acceptance of risk trades these off to some extent. It says, in effect, that we accept the fact that more things will go wrong, but it is not worthwhile trying to prevent them. In our private lives we do this often. In our public lives as a nation it is much more difficult to acknowledge this. Furthermore, there is the risk of a "mega-problem" the size of the savings and loan disaster that develops unseen

and then explodes with huge consequences.

The perception of fairness and of propriety are also important for public endeavors and an elaborate system of controls helps to ensure this. The public and their elected representatives want to impose certain standards of behavior on those who receive taxpayers' money beyond what is recognized by the commercial code. Some of this concern about fairness involves the government getting a good value for its money. Whereas industry has to accept the fact that sometimes it does not get the best possible price, this is seen in a public environment as the government being overcharged. Who wants to hear that the government paid \$10 for something that was sold the next month for \$8? Even though this happens to us in our personal lives all the time, we see it differently when it happens with public money. As a result the government has legislated that it will obtain the best price possible and will have access to contractor cost and pricing data to ensure this.

Some of this concern involves industry behavior, particularly regarding corporate perks and policies. For instance, a GAO report on small business overhead turned up meetings at resorts, rental of yachts, T-shirt purchases, sports tickets and liquor purchases, all characterized by a prominent senator as "a pattern of abuse". In commercial transactions, of course, no one cares what the seller does with his money. With public money, however, there is a perception that it is supporting and, hence, condoning such behavior.

The fact that trade-offs exist doesn't mean they aren't worth making. It does mean that change isn't free of cost.

WHAT IS OUR EXPERIENCE WITH REFORM?

Because reform entails trade-offs among desirable goals, it is not surprising to find that reforms tend to be cyclical. There are some excellent examples.

Perhaps the classic example in contracting is the trade-off between fixed-price and cost-plus contracts. The department has continuously wavered between the two, drawn to fixed-price contracts because of the incentives they give the contractor, yet stumbling on the high uncertainty in major weapons acquisitions that makes fixed-price terms hard to set. For instance, in the 1950s contracting was dominated by cost-plus contracting in an effort to push technology forward rapidly and gain on the Soviets. In the 1960s this practice fell into disrepute as huge overruns occurred. Secretary of Defense Robert S. MacNamara then instituted Total Package Procurement (TPP), essentially a fixed-price contract for R&D and initial procurement. This sounded like a good idea, but it failed. There was too much risk. TPP contracts on systems like the F-14 and the LHA failed to constrain cost and eventually had to be rewritten. So fixed-price instruments fell into disuse on major systems until the 1980s. At that time the department, under attack for a variety of procurement "scandals," rediscovered the fixed-price contract. Secretary of the Navy John Lehman particularly vowed to "hold the contractor's feet to the fire." Again major acquisitions were put on fixed-price contracts, and again the fixed-price contracts failed for the same reasons: There was too much uncertainty at the early stages of a major procurement to set firm costs and schedules. Indeed, at this writing the department is still in court over the A-12 contract. So a new reform was instituted: no fixed price contracts early on in the acquisition cycle, and that is where policy now stands. But does anyone doubt that the wheel of

reform will turn again and that the department will someday rediscover fixed-price contracts?

Nor is this cyclicity limited to contracting. Live fire testing and truth-in-negotiations were major reforms of the acquisition system in the 1980s. Today their elimination or modification is also considered reform.

The current effort in acquisition reform consists of two elements: revising acquisition laws (the “Section 800” Report) and reducing milspecs. Both are worthy efforts. However, for neither will major reform be easy.

The Section 800 report formed the basis of the recent acquisition reform bill. This report was produced at the direction of the Congress to “streamline the acquisition process” and “eliminate unnecessary laws” while “ensuring continued financial and ethical integrity” and “protecting the best interests of the department.” Many provisions involved cleaning up obsolete and unused statutory provisions. It was a worthwhile but low impact effort. However, some provisions had more bite to them, the main ones being the raising of thresholds for socioeconomic laws and a reduction in weapon system testing requirements.

The proposal on socioeconomic laws was fairly modest (to raise the thresholds, not eliminate the provisions) and the argument in favor of doing this was very strong: the thresholds had not changed in many years and so, in real terms, had fallen much below what had been originally intended. Further, the provisions added significantly to the cost and effort of contract administration. However, the beneficiaries of these provisions (unions, small businesses, minority-owned businesses) were reluctant to give up their advantage. They succeeded in modifying some of the proposed changes (Meadows, 1994).

On weapons testing, proponents of an aggressive approach, such as Senators David

Pryor and Richard Roth, railed against any weakening of the existing requirements that had been set up in 1983 during an earlier round of acquisition reform. As Pryor wrote,

Our troops deserve weapons that work. Independent testing of weapons provides the integrity and objectivity needed to achieve this goal. We must preserve and strengthen independent test and evaluation in the high-stakes world of military procurement (Prior, 1994).

As a result of this opposition the department backed off its proposal.

The other major effort in acquisition reform involves making milspecs less onerous and more compatible with commercial specs, thereby allowing greater use of commercial products. It’s an important effort and will certainly produce a worthwhile result. Milspecs and milstandards tend to flourish over time, become outdated, become layered, and generally not get the skeptical scrutiny they should get. Without question, periodic pruning is in order.

However, producing significant change will be difficult. Sometimes this effort is characterized as “eliminating boilerplate” from contracts and, while helpful, this alone is unlikely to produce major change. Boilerplate implies language that is added routinely and without much thought, leading one to conclude that if only boilerplate is being eliminated, there’ll not be much impact in terms of reform. Of course, one person’s boilerplate may be another’s critical contract provision. In this case the effort will involve trade-offs, either explicitly or implicitly. As noted earlier, even using commercial specifications often involves trade-offs. And trade-offs are hard. It remains to be seen what kind of trade-offs will be proposed and how they will be received.

WHAT ARE THE PROSPECTS FOR REFORM?

The current administration is deeply sincere about acquisition reform and has both the expertise and the organization to effect real change. But no observer can be wholly optimistic about the prospects.

First, acquisition reform is a very hard problem as everyone knows. Trading off desirable goals is difficult and contentious. The efficacy and validity of any proposed change is usually uncertain while the cost is clear. Further, many of the problems stem from organizational culture and attitudes that are extraordinarily difficult to change.

Second, real reform entails a political cost. Because reform requires trade-offs, there will be “losers” in any reform package. The losers will be unhappy, and must be defeated or persuaded politically. This requires the investment of political capital and no administration has political capital to spare. There are so many higher priorities that an administration might want to focus on that acquisition reform will probably not make the list. However, there is no way to accomplish real reform on the cheap. An acquisition reform package that is low in political costs will also be low in impact.

Third, acquisition reform is a victim of the politics of perception. The widespread

dissatisfaction with the current acquisition system, coupled with the difficulty in talking about costs publicly, means that every administration must be seen trying to reform the system, must have an active acquisition reform policy and rhetoric, *even if no real progress is made*. In this, acquisition reform is like many other difficult policy problems; administrations must talk a good game even if no real action is implemented. Aggressive rhetoric gets 80% of the political credit. Real action, with all the political costs involved, is thus unattractive, even unnecessary. Whether consciously or not, therefore, administrations get stuck in the rhetorical stage, stating what they sincerely believe about acquisition reform, but never moving far into the action stage because of the costs involved.

Predictions are always risky. As that great American sage, Yogi Berra, once said: “I never make predictions, especially about the future.” Throwing caution aside, however, I will say this: that radical reform of the acquisition system will not happen until it becomes a presidential priority, heard frequently in his speeches. It is the President, after all, who ultimately decides where to fight his administration’s battles and on what to spend his political capital. Until that happens, acquisition reform will be a low cost, and hence low impact, effort.

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