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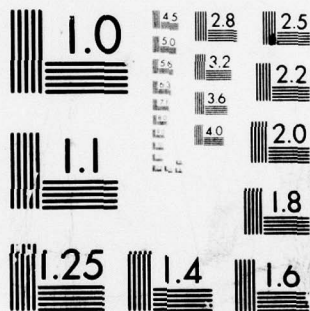
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THESIS

An Analysis of Foreign Military Sales Management
viewed at the Field Activity Level

by

Samuel Lynn Jones

September 1979

Thesis Advisor:

J. W. Creighton

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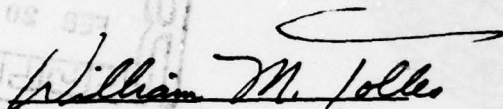
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REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER 14) NPS54-79-009	2. GOVT ACCESSION NO.	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle) 6) An Analysis of Foreign Military Sales Management viewed at the Field Activity Level	5. TYPE OF REPORT & PERIOD COVERED 9) Master's Thesis September, 1979	6. PERFORMING ORG. REPORT NUMBER
7. AUTHOR(s) 10) Samuel Lynn Jones	8. CONTRACT OR GRANT NUMBER(s)	
9. PERFORMING ORGANIZATION NAME AND ADDRESS Naval Postgraduate School Monterey, California 93940	10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS	
11. CONTROLLING OFFICE NAME AND ADDRESS Naval Postgraduate School Monterey, California 93940	12. REPORT DATE 11) September, 1979	13. NUMBER OF PAGES 77
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office) Naval Postgraduate School Monterey, California 93940 12) 77	15. SECURITY CLASS. (of this report) UNCLASSIFIED	16. DECLASSIFICATION/DOWNGRADING SCHEDULE
16. DISTRIBUTION STATEMENT (of this Report) Approved for Public Release; distribution unlimited		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)		
18. SUPPLEMENTARY NOTES Financial Support from the Naval Ordnance Station, Louisville, Kentucky is gratefully acknowledged.		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number) Foreign Military Sales FMS Management Arms Export Weapons sales management		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number) This study concerns the examination of the program of Foreign Military Sales from the perspective of a field activity. It attempts to identify through a historical view the evolution of the foreign military sales management process and analyze some of the observations made in the context of a bureaucratic structural framework. It concludes that the problems facing field activities managing a foreign military sales program can be best characterized by a budget-based		

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bureaucratic structure, that is, funded from public coffers exhibiting acquisitive and consumer behavior. The Navy organization is not entrepreneurial and, therefore, has some difficulty with the concept of selling arms to "friendly foreign" countries. The thesis offers a conceptual idea of how better to conduct Foreign Military Sales.

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**An Analysis of Foreign Military Sales
Management viewed at the Field Activity Level**

by

**Samuel Lynn Jones
Lieutenant, Supply Corps, United States Navy
A.B., University of Michigan, 1970**

submitted in partial fulfillment of
the requirements for the degree of

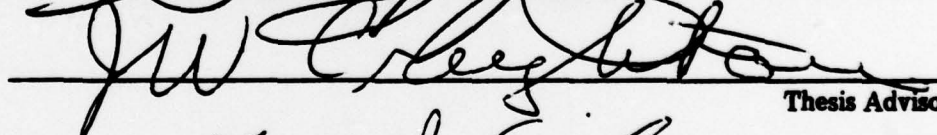
MASTER OF SCIENCE IN MANAGEMENT

from the
**NAVAL POSTGRADUATE SCHOOL
September 1979**

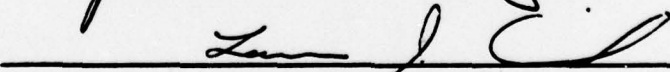
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I. INTRODUCTION

"If a man or 'woman' be gracious and courteous to strangers, it shows he is a citizen of the world."

-Sir Francis Bacon

In his statement on U.S. Arms Transfer of 19 May 1977, President Carter stated, "henceforth arms transfers would be viewed as an exceptional foreign policy implement, to be used only in instances where it can be clearly demonstrated that transfers contribute to our national security interest." In addition, he stated that the United States, "will continue to utilize arms transfers to promote our security and the security of our close friends." The President has continued to advocate a policy of restraint as well as the pursuit of broad initiatives designed to engage the Soviet Union affirmatively for control and influence in the world.

The President's policy statements came at a time when the United States was experiencing a tremendous increase in Foreign Military Sales (FMS). Although the Foreign Military Sales program has been in existence for over twenty-five years, it is estimated that approximately half the business has been concentrated in the past five years.

Since the inception of the Foreign Military Sales (FMS) program in 1949 through the period up to 1961, the United States Government (USG) has provided \$29.9 billion to friendly Foreign Governments (FG) through the Grant Aid Military Assistance Program (MAP) and sold \$2.5 billion in material and services. During the 1961-1968 timeframe, sales to the nations of Western Europe were increased, with the result that while MAP, excluding Military Assistance Service Funds (MASF) to Southeast Asia, declined from \$1.6 billion in 1962 to \$500 million in 1968, Foreign Military Sales (FMS) increased from an average of \$1.5 billion to \$2 billion over the same period. From 1972 to 1974-75 there was a sharp increase in the magnitude of the Foreign Military Sales (FMS) program and a change in the recipient countries to include the Middle Eastern nations. This was stimulated by increased revenues to those countries from the sale of crude oil.

Foreign Military Sales (FMS) increased to approximately \$13 billion during 1974. Although Congress, in passing the international Security Assistance Act of 1976, considered a ceiling of \$9 billion for FY76, Foreign Military Sales (FMS) for the foreseeable future are expected to

decline to approximately \$6 to \$7 billion. The major arm sales will probably shift from the Middle East countries to the NATO allies. The General Dynamics Corporation F-16 aircraft sale to a European Consortium of Norway, Denmark, Belgium, and the Netherlands, with co-production under license arrangements, is an example of this trend.

With the growth and expansion of Foreign Military Sales (FMS) there is a need for management procedures and methods that are adequate or mature enough to accommodate the growth and character of Foreign Military Sales. This thesis is concerned with the management of Foreign Military Sales cases at the field activity level. Increased demands and expectations are expressed by the Foreign Government (FG) when the assistance is on a cash basis rather than under a grant assistance (give away) plan. Because of a cash sale type involvement by the foreign government, the entire management effort becomes more complex and politically sensitive.

Adding to the complex management effort is the potential for creating adverse international relations. If problems, which occur, are not satisfactorily resolved; the impact of a dissatisfied foreign customer can be far greater in magnitude than that of a dissatisfied domestic customer.

In conducting the Foreign Military Sales programs, it behooves all personnel concerned to insure that proper management is employed.

A. OBJECTIVES

U.S. Navy field activities conduct FMS business at varying degrees of involvement in each case and in the number of cases. Each FMS case represents a single contractual agreement between the United States and the foreign government. Hence, each case requires management effort tailored to the peculiarities of the case.

U.S. Navy field activities, in order to properly and effectively execute their participation in a given case, must develop an effective managerial strategy and implementation scheme to accommodate the current and future FMS business.

This work attempts to aid the field activities in this endeavor by clarifying or answering the following questions.

1. What is the nature and scope of FMS business?
2. What are the criteria for determining effective FMS Management?

3. What are the major problems associated with FMS that affect its management?
4. What are some of the possible alternatives available to improve existing management?

B. SCOPE AND LIMITATION OF THE RESEARCH

Certain limitations delineate the bounds of extrapolation applicable to the research. Foreign policy considerations are recognized as being important and sometimes crucial factors with respect to the initiation, negotiation, and consummation of FMS. The foreign policy considerations are viewed as external influences on the management efforts of field activities; therefore, they were not subjected to criticisms within the scope of this research.

The primary thrust is directed at two field activities, characterized by Navy Industrial Fund (NIF) type missions. Their major Foreign Military Sales (FMS) efforts involve sale of minor weapon systems, overhauls, and some manufacture and production of ordnance alterations. Combined Foreign Military Sales (FMS) operations generate in excess of \$50 million each year and continue to grow. It should be noted that sales of aircraft and associated equipment, as well as ship construction, account for more than half of the total dollar volume of Foreign Military Sales (FMS).

The research was limited to those cases that were characterized by cash sales in response to Foreign Governments (FG) request. Supply Support arrangements wherein the Foreign Government (FG) "invests" in the USG logistic system or Foreign Military Sales (FMS) contracts for training were not specifically reviewed.

C. CONCEPTUAL FRAMEWORK

The basic conceptual frame work for the research was provided by a set of assumptions resulting from conclusions drawn from the literature and the author's view of the Foreign Military Sales (FMS) program.

The set of assumptions served to delimit as well as to provide guidance through the environment of the Foreign Military Sales (FMS) organization. The assumptions are as follows:

1. The current organizational and policy structure of the Defense Security Assistance Agency had evolved to a stage where it supported and operated an effective and efficient Foreign Military Sales (FMS) program. It is given that the foreign policy of the United States

3. Machinery and materials to assist European countries in producing their own military items without interfering with the economic recovery.

Even though FMS was authorized as part of the Mutual Defense Assistance Act of 1949, the volume of sales was minuscule in view of the financial disasters caused by the war efforts. Countries were simply not in a position to purchase. The U.S. had emerged from the war as an acknowledged world leader, with an economic base moving towards a commitment to the principle of collective security. However, as the countries of Europe began to recover financially from the war, lesser developed countries sought assistance, and with the growing deterioration of the U.S. international balance of payments, the concept of Foreign Military Sales as a feasible alternative would surface at the end of the 1950's.

The Kennedy Administration provided a new focus on the foreign assistance program. The Foreign Assistance Act of 1961 consolidated economic aid and military assistance and sales under a single law. The Foreign Assistance Act of 1961 reaffirmed the necessity for foreign assistance as an important instrument of U.S. national policy and reaffirmed U.S. support for NATO.

Tantamount to the new emphasis, is a memo from the Secretary of Defense to the Assistant Secretary of Defense (International Security Affairs) in early 1962. In this memo McNamara stated, "I should like to encourage sales of military equipment appropriate to the needs of foreign nations in every possible way." McNamara went on to stress the following objectives in making the sales:

1. Promote the defensive strength of our allies, consistent with our political-economic objectives;
2. Promote the concept of cooperative logistics and standardization with our allies;
3. Offset the unfavorable balance of payments resulting from essential U.S. military deployment abroad. (McHesney, 1976.).

Under the leadership of Henry J. Kuss of the International Logistics office, the Pentagon soon pushed foreign military sales to a pre-eminent position over grant aid. Aggressive salesmanship, use of the credit sale revolving fund established in 1958, and a Department of Defense

had in the past been dominated by the "give away" aid programs. Such organizations would have an emphasis markedly different from a program with cost considerations.

2. The goals and objectives of the Foreign Military Sales (FMS) program were clear and concise with measurable criteria to monitor and control progress. Unlike most governmental programs that lack adequate measures of success or failure, Foreign Military Sales (FMS) can be evaluated based upon cost, quality and schedule.

3. Given that Foreign Military Sales (FMS) occurs in a public sector political environment, a mechanism of management would serve to buffer the basic economic issues of providing a product to the customer (who happens to be an international). If, in fact, the spirit of the free enterprise system is an inherent attribute of the American way of life, it should be manifested in a business-like relationship that would be a part of the contractual relationship, forming the basis for the letter of offer and acceptance.

4. Given that political winds have a tendency to change direction depending on the views that dominate foreign policy, a mechanism of management should exist that would serve to preserve the Foreign Military Sales (FMS) program through a media of advocacy. It would seem both logical and appropriate that such a mechanism exist if Foreign Military Sales (FMS) is to benefit from the advantages of the free enterprise system.

5. The officers and enlisted personnel would find a positive climate of unlimited opportunities for achievement. That is to say, participation in the Foreign Military Sales (FMS) program is career enhancing. The degree to which a program enhances careers determines to a significant extent the type and caliber of officer that "elects" to join and contribute.

D. METHODOLOGY AND LIMITATION

The initial investigation consisted of a visit to the Naval Ordnance Station, Louisville, Kentucky, to review the management effort in progress and to assess the nature of the organization and the problems confronting the management of Foreign Military Sales. A review of the literature, directives, and instructions was conducted to provide a historical perspective of the Foreign Military Sales (FMS) program. This provided a framework within which the managerial problems could be assessed and insight into possible alternatives gained.

Subsequent investigations included a trip to the Naval Ship Weapon Systems Engineering Station, Port Hueneme, California. The visit was to review the management in force and to gain insight into an alternative method of operation of essentially the same type of business and activity level. Interviews were conducted with personnel intimately involved in Foreign Military Sales (FMS).

The scope of operations investigated was restricted to the U.S. Navy environment, as this is the service department with which the author has most knowledge. A final visit was made to Washington, D. C., to the offices of Chief of Naval Operations, Deputy for Security Assistance (OP63), Chief of Naval Material (MAT-08F), Naval Sea Systems Command (SEA-04G, SEA-0184, SEA-654, SEA-653) and Naval Supply Systems Command (SUP-033). A series of interviews was held with personnel knowledgeable in the FMS process. The interviews were non-structured in order to allow free and open discussions, thereby allowing the interviewer the most latitude in gaining information and providing an atmosphere most conducive for the interviewee to contribute.

The documentation examined was found to be repetitious in detail and direction. There were a number of exceptions, notably the DOD 5105.38-M: Military Assistance and Sales Manual, under the cognizance of Defense Security Assistance Agency. The historical perspective is relied upon quite heavily here, since there seems to be a general lack of objectives around which a managerial strategy can be developed. The bulk of the text will present primarily the views of the author gathered through the interviews and the literature. References and credit will be provided as appropriate, codified in the reference section at the end of the thesis.

E. CONSTRUCTION OF THE THESIS

The text has been organized to provide a logical flow from a historical perspective, inclusive of philosophy and an understanding of the Foreign Military Sales process, beginning in Chapter II. Chapter III will provide an understanding of the roles played by the principals in determining and "directing" the Foreign Military Sales (FMS) program. Chapter IV will review the financial management and control systems and their impact on The Foreign Military Sales

program. Chapter V will discuss the field activities' perception of the Foreign Military Sales process and the problems involved in such activities' execution of taskings provided by the implementing command. Chapter VI will attempt to analyze some of the problems, draw conclusions, and make recommendation regarding the basic research question as stated.

II. HISTORY OF FOREIGN MILITARY SALES IN THE UNITED STATES

The purpose of this chapter is to examine the history of the Foreign Military Sales (FMS) program in order to acquire a historical perspective. In tracing the FMS evolutionary process, an attempt will be made to respond to the research question: What is the nature and scope of the FMS business?

The genesis of FMS in the Navy was a small portion of The Military Assistance Program. Military assistance or foreign aid in the form of war implements has been a part of American history ever since the days of the American Revolution. It was first witnessed when France provided a \$6.2 million loan to assist the thirteen colonies in the defeat of Cornwallis at the Battle of Yorktown. The question as to whether to restrict war products to the home shores or to "assist" other emerging nations of the world occupied the thoughts of the young nation in 1793. President Washington said, "no attempt should be made to obstruct the export of arms to any war ignited by the French Revolution." Secretary of State Thomas Jefferson advised the British Minister to the U.S. that, "our citizens have always been free to make, vend and export arms." (Blumenfeld, 1970)

There was little question, therefore, as to whether or not military assistance to other nations during war or otherwise would be given by this country. What appears to be a more pertinent issue is the evolution of the rationale purported to justify to the people (and in fact to the government itself) why military assistance and subsequently military assistance via the FMS program should be provided.

The years following the Revolutionary War found the new country more concerned about local issues, growth and development. The policy of the early days essentially remained intact until 1898, when Congress authorized to the president powers to impose arms embargoes during the Spanish-American War. It was not until World War I that the U.S. began active involvement in providing aid on a massive scale, as much as \$10.2 billion in the form of loans and equipment (Vincent, 1975). Much of the assistance flowed through private channels. However, large scale abuses uncovered through investigations by the Senate Munitions Investigation Committee resulted in a series of neutrality laws being passed, during the period 1934-36.

In addition arms makers and vendors were required to register and obtain licenses from the government.

In the same period, the U.S. was concerned with the internal problems created by the Great Depression, the deterioration of the economic and political situation throughout the world made it difficult for the U.S. to retain an isolationist policy. The economic realities of survival caused an apparent effort on the part of the U.S. to contribute to the demise of the depression. The first step was the Reciprocal Trade Relationship with non-aggressive powers and the creation of the Export-Import Bank of Washington, D.C. The bank was established to encourage international trade by providing loans to foreign governments. The bank would become critical in providing loans in the FMS business in the early 1960's. The second step in an effort to stabilize the economic situation was the Tripartate Declaration between the U.S., Great Britain and France in 1936. It is significant to note in both instances the commonality with FMS of today and these agreements, that is, the national interest of the time is served. The use of military aid through the ages has been instrumental in enhancing the enlightened self-interest of a nation (Hovey, 1965).

With the passage of the Neutrality Acts of 1935, 1936, and 1937, the U.S. reinforced its stance as a neutral nation. Investigations by the Senate Munitions Investigation Committee had uncovered large scale abuses in private industries peddling arms on the world market for profitable gains. The U.S. placed an embargo on the export of arms to countries already at war. Thus the U.S. was prohibited from transporting arms to unfriendly governments. However, further concern over the war and a need to stimulate the economy caused the repeal of the arms embargo portions of the previous Neutrality Acts in the passage of the Neutrality Act of 1939. This latter act allowed for the manufacture and sale of U.S. goods to those countries who were financially capable of purchasing them. This act essentially allowed the U.S. to provide war materials to the Allies without committing direct U.S. support.

Under the conditions of the Lend Lease Act of 1941, the U.S. defense industries were encouraged to expand. Economically motivated, the U.S. government moved closer to inevitable involvement in World War II. Defense articles were provided to Great Britain, France and Russia

without specific terms and conditions for repayment. This was a form of military assistance, but not Foreign Military Sales as referred to in today's terminology. The magnitude of the program was growing rapidly, culminating in more than \$48.5 billion in aid to forty-two countries. At the end of World War II Congress intervened, causing a phasing out of the Lend Lease Act on a bilateral basis with all countries involved.

The threat of communism in Greece, and the real possibility of the Russians forcibly seizing the Dardenelles, combined with the fact that a weary British government could not provide any further assistance, prompted the issuance of the Truman Doctrine and the passage of the National Security Act of 1947. Of note is the historical importance of this doctrine, as it still guides much of the assistance and sales programs today. President Truman in his address to Congress stated:

"I believe that it must be the foreign policy of the United States to support "free people" (author's accents) who are resisting attempted subjugation by armed minorities or by outside pressures. The free peoples of the world look to us for support in maintaining their freedom. If we falter in our leadership, we may endanger the peace of the world, and we shall surely endanger the welfare of our own nation." (H.A. Hovey, 1965)

The passage of the act is recognized as the basis for the Foreign Military Assistance Program, the parent of the Foreign Military Sales program.

With the inception of the North Atlantic Treaty Organization, the passage of the Mutual Defense Assistance Aid of 1949 authorized grant military aid for countries considered vital to the national security. In addition, and again of note, was the permission of sales of equipment to other friendly governments. Three types of military aid were to be supplied on a non-reimbursable basis:

1. Direct transfer of U.S. military equipment. The war was over. Demobilization was in effect, thus, the need for the equipment appeared to have passed.

2. Expert technical assistance and training in the production and use of military equipment. The war effort had stimulated a tremendous research, development and production effort in the U.S. There were a number of employment opportunities available; in addition the countries would have to be trained on the equipment since "NATO: Standardization, Rationalization and Interoperability" was not a concept in active use immediately after the war.

arrangement with the Export-Import Bank that extended credit to countries not identified to the Bank culminated in congressional outcries for reform in the mid-1960's (Harkavy, 1975). A 1967 staff report published by the Senate Foreign Relations Committee cited lack of information, weaknesses in interdepartmental coordination, and a failure to reconcile arms control policies with arms sales programs, resulting in a call for increased legislative oversight (Congressional Staff Study, 1967).

In what was to become the framework of the Nixon Doctrine, the Foreign Military Sales Act of 1968 passed as a direct result of congressional dissatisfaction with operating techniques of FMS under the Foreign Assistance Act of 1961. This new act clarified the goals, authorizations, restraints and controls governing the administration of FMS. A reorganization occurred in the Department of Defense, whereby the former International logistics Negotiation Office (Foreign Military Sales) and the Directorate of Military Assistance (Grant Aid) were combined in a new office under the Deputy Assistant Secretary of Defense for Military Assistance and Sales (Kaine and Wilhite, 1969).

The Act further separated sales from other types of foreign military assistance. It provided for the sale of U.S. produced military equipment and services on a reimbursable basis to friendly foreign governments and international organizations. In passing the FMS Act of 1968, the Congress established the following sales policy (Materna, 1976):

1. Declared the ultimate goal of the U.S. to be a world free from the dangers and burdens of armaments.
2. Affirmed the increasing cost and complexity of defense equipment and recognized that there continues to be a need for international defense cooperation to maintain peace and security.
3. Established that the U.S. will facilitate the common defense by entering into international arrangements with "friendly" (author added quotation marks) countries on projects involving cooperative exchange of data, research, development, production, procurement, and logistics support to achieve national defense requirements and objectives of mutual concern.
4. Authorized sales to "friendly" countries to equip their forces with due regard to impact on social and economic development and on arms races.

5. Declared that all such sales be approved only when they are consistent with the foreign policy interest of the United States.

Some Congressmen had become impatient with the nature and extent of U.S. involvement overseas (Vietnam) and were concerned that the activity of supplying arms or military equipment might lead to further involvement. They felt that our arms sales, unless controlled properly, might encourage a furtherance of the arms race in certain areas of the world. To insure that the basic policy of the FMS Act was executed as intended, Congress also included guidelines and specific restraints to govern the administration of U.S. FMS.

Additional changes were made to the Security Assistance Program during the Nixon Administration. Particularly noteworthy was, the enumeration of the Nixon Doctrine, through which, U.S. allies were called upon to share a larger burden of common defense. The findings of the President's Task Force on International Development in 1970 resulted in the organization for security assistance in both the State and Defense Departments. Some organizational consolidations were made, such as the establishment of the Defense Security Assistance Agency to administer both grant aid and sales programs, and it was clearly stated that the objective was to substitute FMS as rapidly as possible in support of the Nixon Doctrine (Stanley, 1970).

Congressional scrutiny of foreign assistance continued through the early 1970's. Protracted debates in both Houses precluded passage of a military assistance authorization bill for FY1973, and a series of continuing resolutions was required to extend the funding of previously authorized programs (Congressional Digest, 1973). In the authorizing legislation for FY1974, Congress advised the Executive Branch to return arms transfers to commercial sales channels and to reduce FMS to the maximum extent (Foreign Assistance Act, 1973). The following year, the administration was directed to submit each pending foreign military sale exceeding \$25 million to Congress for approval in advance of consummation (The Foreign Assistance Act, 1974). Congress could then veto these sales if both Houses voted to do so within twenty days (later increased to 30 days). The threat of such a veto has been used twice. One example, occurring during the Ford Administration, was the proposed sale of 14 battalions of mobile Raytheon Hawk anti-aircraft missiles to Jordan. Congress feared that mobile battalions might be used for offensive purposes and demanded that the missiles be kept in fixed positions as a precondition of the sale (Lydenberg, 1977).

Congress further expanded its control over the FMS program in 1976. It initially passed legislation that would have placed an annual \$9 billion ceiling on all U.S. arms sales abroad, both commercial and government-to-government combined. President Ford vetoed this definite ceiling, but final legislation (PL 94-329) did contain an expression of the "sense of congress" that foreign military sales should not exceed "present levels." The compromised legislation signed by President Ford contained, among other limitations, the following on U.S. Arms transfers:

1. The title amended from "The Foreign Military Sale Act" to "International Security Assistance and Arms Export Control Act of 1976." (Section: Title)
2. Export licenses for all military sales over \$25 million must be made under the FMS program (except for Sales to NATO countries) (Section 211)
3. An extension of congressional veto power over proposed FMS sales to cover all orders over \$7 million for major weapons systems, and over \$25 million for any other defense articles or sources. The veto must be voted within 30 calendar days. (Section 211)
4. The DOD has in the past stationed Military Assistance Advisory Groups (MAAGS) in various countries around the world to provide advice and assistance to local governments in the purchasing and operation of American arms. Congress ruled that these MAAGS must be phased out by 30 September 1977, unless specific Congressional authorization has been voted in a country by country basis. (Section 104)

The congressional interest in FMS heretofore had been characterized by a *laissez faire* philosophy. The FMS program evolved out of a tradition of providing assistance to friendly countries initially struggling for revolutionary independence. Subsequent contributions were viewed as providing stability in the world and security to the U.S. Post World War II emphasis focused upon the economic benefits of arms trade. With the end of the Vietnam Conflict and a growing fear of world instability, particularly in the Middle East and Africa, a new emphasis emerged. The focus was on arms control; indeed, disarmament pacts have been pursued by the two superpowers, the U.S. and the Soviet Union. There is, however, a clear and precise philosophy, that FMS will remain a very powerful and influential tool of foreign policy, regardless of what course the Congress or the president pursues in the future. There does appear to be a source of conflict, as to how that role will be defined and who (either Congress or the President) will exercise the tool.

During the 1976 Presidential election campaign, President Carter was strongly critical of past U.S. arms transfer policies and promised, if elected, to take Executive action to revise the

U.S. roles in these areas. On 19 May 1977; President Carter issued a new Executive policy on the U.S. role in the international transfer of arms. The strongly worded preface reiterates his desire for a reduction in the current U.S. role.

"Because of the threat to world peace embodied in this spiralling arms traffic, and because of the special responsibility we bear as the largest arms seller, I believe that the United States must take steps to restrain its arms transfers."

President Carter's stance, in sharp contrast to those of the Nixon and Ford Administrations, was the first initiative of its kind coming from the Executive Branch. It was specifically directed at substantially reducing the U.S. role in international arms transfers.

There were several specific exemptions, notably NATO, Japan, Australia and New Zealand. Israel, although not completely exempt, was provided a *de facto* exempt status because of specific reaffirmation of the U.S. commitment to its "security." Further, the President retained the right to make exceptions at his discretion under "extraordinary circumstances" or to offset any regional arms imbalances in which countries "friendly" to the U.S. appeared to be threatened.

The major provisions of President Carter's program were as follows:

1. "Reduce to FY77 totals, the FY78 Military Assistance Program (MAP), and FMS commitments." At the end of FY77, the U.S. had a backlog of undelivered FMS approaching \$36 billion. One year later, on 30 September 1978, the FMS backlog was \$43.5 billion. The Presidential policy of restraint on transfers of all weapons and weapon implements for FY78 required the dollar value of new orders that are FMS and MAP to be less than the FY77 total of \$9.3 billion (measured in 1976 dollars).

The ceiling on FY78 arms transfer agreements was reduced from the FY77 ceiling by \$740 million. This reduction meant that, for FY78, which began 1 October 1977 and ended on 30 September 1978, new commitments for weapons and weapon implements made under the FMS and MAP to all countries (less those exempt) would not exceed \$8.6 billion. Calculated on constant FY76 dollars, this was a reduction of eight percent.

2. "The U.S. will not be the first country to introduce weapons of increased sophistication into a region, nor will it permit the sale of U.S. weapons systems abroad until they are fully deployed with U.S. Forces."

These limitations attempted to restrain the shift toward sale of the most advanced U.S. weapons that accompanied the shift from military aid to arms sales. Outside of the Middle East, major sales of advanced equipment had recently gone to U.S. allies already specifically exempted from the guideline. Recent administration decisions, however, made it seem unlikely that this policy would be strictly or consistently enforced. For example, in July 1977 President Carter approved the sale of seven Airborne Warning and Control System Aircraft to Iran for \$1.2 billion. These expensive radar and communications aircraft represent one of the most advanced and sophisticated U.S. weapons systems (Lydenberg, 1977). In the face of substantial congressional opposition, President Carter withdrew this proposed sale for further Administration consideration.

3. "Development and significant modification of advanced weapons systems solely for export will not be permitted."

"The Administration has approved preliminary discussions which may lead to the sale of the F-18L to various NATO countries, Australia and Japan." (Lydenberg, 1977)

4. The new policy would prohibit coproduction agreements of "significant" weapons in countries not specifically exempt from the Carter policy.

5. The U.S. "may stipulate" that weapon systems it is selling can not be retransferred under any circumstances by the purchasing nation to a third country.

6. U.S. Embassies and military representatives abroad will not be permitted to promote arms sales, and corporate representatives must obtain State Department authorization for any promotion of arms sales abroad.

This policy was intended to insure that initiatives of arms sales remain under State Department control and to counter criticism that corporate or DOD representatives had in the past promoted sales (McNamara era) without State Department knowledge.

Recent decisions by President Carter to proceed with the sales of sophisticated weapon systems to Israel and Egypt (and even offers to Somalia) raise a serious question as to the extent that the guidelines enumerated above would be effectively enforced by the administration.

Certainly Congress was taking a more active role in the restraint of U.S. arms sales abroad. The Carter policy statement, nevertheless, did break with the tradition established by former Administrations in the recent past.

III. THE ROLE OF GOVERNMENTAL DEPARTMENTS AND AGENCIES

The purpose of this chapter is to examine the roles of the various agencies and departments, within the Navy organization, that participate in the FMS process, to gain an insight into the current *modus operandi* of the FMS organization confronting a field activity. As can be surmised from the discussions in Chapter II on the history of FMS, much of FMS functioning is subject to the dictates of foreign policy.

The Foreign Assistance Act of 1961, as amended, provides the authority for both economic assistance and the Military Assistance Program. Foreign Military Sales are made under the authority of the Foreign Military Sales Act of 1968 and the Arms Export Control Act of 1976. These three acts and their respective amendments establish the basic policies and provide authorities, measures and restrictions for our present Security Assistance Program, and more specifically for FMS programs. Each act is reviewed annually by Congress and amendments and funds needed to carry out the program are authorized.

It should be recognized, that a FMS, as authorized under the Arms Export and Control Act of 1976, is a government-to-government sale. The U.S. government contracts with a manufacturer or tasks a field activity for the item or service, takes title to the item and transfers title to the foreign government upon delivery. Such an arrangement interpositions the Department of Defense between U.S. contractors supplying the military goods or services and the foreign government, as well as implying subsequent DOD monitoring and management of the contractual effort by the U.S. contractor.

In addition to the unique contractual interposition, there are international considerations. FMS necessitates agreements with foreign governments so that understandings can be formalized and made a matter of record. The FMS legislation provides the legal basis for agreements are of two forms: treaties, which are formal and require ratification by Congress, and Executive Agreements which are between designated representatives of the President and the Foreign Ministers of the country concerned. Most international arrangements are of the "executive agreement" variety.

The Congress authorizes the Foreign Military Sales Program by enactment of laws. These laws are brought about by changes in the world environment and reflect the foreign policy of

the United States at any given point in time. The sense of the Congress, as expressed in these acts is intended to convey general guidance as well as objectives and restraints. In order to ensure that the intent of the law is being adhered to, the Congress requires that the President submit to Congress for their review and disapproval, if desired, all potential Foreign Military Sales prior to consummation. As a further assurance that the FMS is being conducted within the guidelines, the Congress requires annual reports from the President on FMS status. In addition, there are five committees that regularly solicit data and information concerning the status of FMS. Such solicitations often result from hearings on particularly sensitive transactions that have been initiated by the Executive Branch.

The President has the responsibility to determine foreign government eligibility to purchase defense armaments and implements and provide reports to Congress and standing committees concerning FMS. The Office of Management and Budget (OMB) reports to the President, with its International Affairs Division being responsible for FMS Activity. The National Security Council advises the President concerning FMS Policy. The Secretary of State reports to the President concerning FMS responsibilities that have been delegated and effects coordination with the Secretary of Defense in his areas of responsibility.

The Congress has continually insisted that the Security Assistance Program be considered as an integral part of the U.S. foreign policy and that the Secretary of State maintain firm control over the total program. That concern and desire is explicitly stated in the Arms Export Control Act and in Executive Order 11501 (December 24, 1969). As a result of this realization, the Secretary of Defense alone cannot decide which countries will be included in the program, since this is a principal responsibility of the President. Former Secretary of State Kissinger has described the overall responsibility of the State Department for FMS "as putting into practice the three basic principles of the Nixon Doctrine, which represent the basic foundation of our foreign policy" (Cullin, 1977). Sales have, in the past, improved foreign countries internal order and increased the prospects for regional stability, thereby reducing the likelihood of direct U.S. military involvement.

Extensive liaison is maintained between the Department of State and the Department of Defense to insure the coordination of U.S. political, military and economic objectives. Within the Department of State, a political-military board, chaired by the UnderSecretary of State for Security Assistance, meet, regularly to discuss FMS. Major sales are weighed for their foreign policy implications.

The State Department, in addition to approval authority over FMS, also controls commercial sales of military exports. The Mutual Security Act requires the State Department to grant export licenses for any military arms or munitions items. Therefore, the Secretary of State has full control and decision authority over all military hardware being exported from the United States regardless of the source or means of payment. (Cullin, 1977). In the Foreign Military Sales Program, the Department of Defense (DOD) is the primary agency that implements the sale. The scope and responsibilities suggest total involvement:

1. Assisting the customer in determining its requirements as related to a specific system or support. This responsibility was particularly significant to the mission of the Military Assistance Advisory Groups (MAAGS).
2. Contracting for the weapon system development production and delivery to the foreign government.
3. Providing training, construction and logistic support.
4. Collecting the purchase price from the foreign government and paying the contractor.
5. Management of the contract.
6. Sale of defense articles and defense services from stocks of DOD.

In carrying out its responsibilities the DOD provides pricing, production, scheduling, and delivery details to eligible foreign governments, on approval of the sale by the Department of State and determination that the sale will be in the national interest of the U.S. After the request for purchase has been approved, usually based upon an inquiry for Price and Availability (P&A) of a defense system or service from a foreign government, the DOD responds to the request with the issuance of a Letter of Offer . . . (A Letter of Offer becomes a Letter of Offer

and Acceptance (LOA) upon signature by the foreign government.) In addition, the law provides that for orders of \$25 million or more, the DOD must submit the proposal to the Congress for review and concurrence.

Once a FMS case has been approved by the DOD, all implementing actions to actually furnish the material or service are left to whichever military department has cognizance of the particular product or service and industry or industries. It should be noted, however, that the military departments are party to the transactions from the outset. They do not, as a matter of law, have any authority on their own to make a sale. During the negotiations, they are responsible for providing price, service, availability and lead time data. After the Assistant Secretary of Defense, International Security Affairs [ASD (ISA)], the principal staff assistant to the Secretary of Defense, approves the sale, the military departments are responsible for procurement and shipment of the material. The departments use their normal logistic organizations to handle their transactions. (DOD Directive 5123.3)

The interface between the purchasing country and the DOD is the MAAG, a part of the U.S. country team. The MAAG has the responsibility of explaining FMS procedures to the host country and for advising them of valid requirements. Usually the MAAG is used as the conduit for FMS negotiations, in conjunction with or independent of the country's embassy in Washington working directly with the DOD. The role of the MAAG's has been modified somewhat by the Arms Export Control Act of 1976 (Section 104).

After September 30, 1977, no Military Assistance Advisory Group, military mission, or other organization of United States military personnel performing similar military advisory functions under this Act may operate in any foreign country unless specifically authorized by the Congress.

An additional provision of the Act states:

The President may assign not more than three members of the Armed Forces of the United States to the Chief of each U.S. Diplomatic Mission to perform such functions as such Chief of Mission determines are necessary with respect to international military education and training provided . . . , to sales of defense articles and services under the Arms Export Control Act, or to such other international Security Assistance Programs as the President may designate. After September 30, 1977, no such functions or related activities may be performed by any defense attaches assigned, detailed, or attached to the U.S. Diplomatic Mission in any foreign country. (Cullin, 1977)

It is expected that this action by Congress will severely limit the information available to the Defense industry, as well as to the program managers who are responsible for anticipating many of the problems associated with providing products and services to foreign countries.

The U.S. Navy role in support of FMS is implemented through the Education and Training Command and the Material Command. Security Assistance organization in the Navy is structured into four echelons: policy, management, review and implementation. Elements of this organization are as follows:

1. The Assistant Secretary of the Navy for Manpower, Reserve Affairs and Logistics (MRA&L) renders top level policy decisions concerning FMS procurement as it impacts on the naval community. He is a member of the Navy FMS Steering Group and is a policy maker regarding material acquisitions and training.

2. The FMS Steering Group is chaired by Vice Chief of Naval Operations (VCNO, OP-90) and is composed of ASN(MRA&L), Chief of Naval Material (CNM), Chief of Naval Education and Training, and all principal flag officers heading major OPNAV staff elements. This group meets periodically to review, FMS programs, address policy and procedural issues, and to resolve problems related to FMS that require high level decisions.

3. The Foreign Military Training Board is composed of the Chief of Naval Education and Training and OPNAV staff elements concerned with training.

4. The Foreign Disclosure Review Board is composed of those OPNAV flag officers concerned with equipments or training that are classified in nature. Their deliberations involve the feasibility and appropriateness of releasing classified information and/or equipment to services of other nations through FMS.

5. The Security Assistance Division of the staff of the Chief of Naval Operations serves as the Navy focal point for FMS for the State Department, Defense Security Assistance Agency, Congress and foreign governments. It coordinates and processes all Navy and Marine Corps-related FMS cases, ensuring that Department of the Navy implementation is consistent and that every internal Navy cognizant authority is consulted and considered.

6. The primary function of the Security Assistance Division (OP-63) of the Deputy Chief of Naval Operations is to establish and promulgate overall USN Security Assistance program policy and to negotiate and sign, Foreign Military Sales transactions for the Navy.

7. Within the Naval Material Command, the Assistant Deputy Chief of Naval Material Security Assistance (ADCNM) (NMAT-80F) under the Deputy Chief of Material (DCNM) for acquisition (NMAT-08), is the counterpart to OP-63 in OPNAV. The function of ADCNM is to provide centralized planning, coordination and management of FMS Cases within the Naval Material Command (NMC) and to provide the central point of contact for foreign customers after the case has progressed to the material acquisition stage. The ADCNM controls and coordinates the implementation of policy decisions in NMC.

8. Naval Material Command is organized into five functional commodity commands; for example, the Naval Sea Systems Command. These commands are responsible for acquisition and logistic support of NMC cognizance weapons systems, equipment, training and services contracted for under FMS. It is these commands and their field activities that are the working level of the material acquisition process.

It is important to note and emphasize that in implementing FMS cases the Navy uses the same resources and support organization that are used in acquisition and support of U.S. programs. There is no formal organization established to satisfy specific FMS needs. There are, however, offices established in each Systems command to administer and monitor those FMS programs being managed within that command and to act as control coordination for all FMS activities within the purview of the systems command. In addition, they provide policy and guidance to the respective acquisition managers.

Processing a FMS case through the Navy begins with a request for material or training by a foreign nation. In a typical FMS case, the request would be relayed to Security Assistance Division, CNO, either directly from the foreign embassy concerned, from its counterpart U.S. embassy, or from DSAA or the State Department. This request would be reviewed initially by the OPNAV staff for possible impact on Navy resources. If foreign disclosure of classified material is at issue, the Foreign Disclosure Review Board is consulted. If the case involves a

major procurement or negatively impacts on the Navy training program, the next step is for the FMS Steering Group to review the case to determine what significant issues are involved and whether or not it is feasible to proceed with the contract. The FMS Steering Group focuses high level attention on the case; with group concurrence, the case reaches its most important Service-level decision milestone. After completing a satisfactory CNO FMS Steering Group Review, the case is forwarded to either the Commandant of the Marine Corps, Chief of Naval Material (CNM), or the Chief of Naval Education and Training, as applicable, for price and availability information.

Within the Naval Material Command, the case is coordinated by the Assistant Deputy Chief of Naval Material for Security Assistance [ADCNM (SA)] (NMAT-08F), who tasks the appropriate systems commands. The systems commands communicate with industry, Navy supply managers, and the Chief of Naval Education and Training organization to develop the information necessary to build a Price and Availability (P&A) response to the foreign nation concerned. This statement is forwarded via ADCNM to OP63 for final review and coordination with ASN (MRA&L) for an evaluation of impact on Navy resources. After ASN clearance, OP-63 prepares a Letter of Offer and Acceptance (LOA: the FMS contract, DD form 1513) which, once approved, is processed through DSAA, the Department of State or Congress, in accordance with current directives, after which OP-63 transmits its LOA to the foreign government.

Upon acceptance of the LOA and signature by the foreign government, the Commandant of the Marine Corp (CMC), Chief of Naval Material (CNM), or Chief of Naval Education and Training (CNET) as appropriate, implement the contractual agreement. Appropriate systems commands enter into contracts with the industries concerned and manage the case until completion. ADCNM (SA) coordinates the projects between various systems commands, monitors the progress of the projects and implements policy guidance provided by CNO. Finally, the Navy International Logistics Office (NAVILCO, to be discussed in the next chapter) provides financial accounting management and the data for Security Assistance Accounting Center (SAAC) used in billing to the foreign government.

The final organizational level (at least in Washington) is the program office (See Figure 4, showing NAVSEASYSCOM). Those program offices associated with foreign sales are normally

designated as a result of their relationship with the system to be purchased. If for example, torpedo tubes are to be manufactured, a matrix type organization would be used to accomplish the function coordination.

As stated earlier, the organization in the Navy established for FMS is essentially structured to dovetail into existing acquisition and logistic organizations. There are some proponents who would suggest that the Navy establish a separate system to focus on the myraid of problems inherent in Foreign Military Sales. Several attempts for addition civilian manpower ceiling points to accomplish the FMS mission, have not met with success. In addition, the thrust has been to reduce all ceiling points thus making it more difficult to accommodate the FMS mission. This subject will be discussed in later chapters.

The Program offices coordinate with private industry or field activities for implementation and completion of the FMS Case.

IV. Financial Management and Control Systems

The purpose of this chapter is to examine the Financial Management and Control Systems that work to realize the "objectives" of the FMS program. Once a FMS case has been approved for implementation the responsibility (in this case, for the U.S. Navy) for the specific data on pricing, contracting, production, delivery and the manufacturing/industrial community becomes that of the military departments. The essential management and control rest in implementation, and it is because of this unique aspect of the U.S. governmental system, that it is necessary to explore the financial management and control systems utilized.

The Department of Defense follows a policy of uniform application of pricing and cost criteria for sales of Defense products and services to eligible governments and international organizations, such as NATO. Essentially, the policy provides that all costs incurred in FMS transactions will be recovered. Provisions within the structure of the DD Form 1513 (Letter of Offer and Acceptance) include final after delivery adjustments of all direct and indirect costs. It further stipulates the charging of all accessorial charges, administrative fees and other chargeable miscellaneous cost. The price quotations that accompany the final agreement (that is the contract, DD Form 1513) are estimates only and subject to changes principally resulting from U.S. legal requirements (DOD Instruction 5105.38-M).

Directing our attention to new procurements, prices of defense articles and services procured for eligible foreign governments must include recovery of full DOD contract cost, including the cost of government materials (GAO Report, 1978). In addition, the purchaser is required to pay any damages or costs that may accrue from the purchaser's cancellation of the contract. Authorized surcharges are added to the contract cost and included in the billing.

In general, defense articles are priced on the same basis as the cost principle used in pricing defense contracts of items for DOD use. However, recognition is given to reasonable and allocable contractor costs that are justified in connection with a particular sale.

The costs of deviations from U.S. system configuration and special technical data desired by a foreign government are included as a charge to the foreign government. This is in addition to the average units standard price or other normal U.S. charges.

Prices of defense articles and services sold to eligible foreign governments include assessorial cost and administrative charges. The assessorial cost represent certain expenses incident to issues, sales, and transfers of material that are not included in the standard price or contract cost of material, such as packing, crating and handling cost, transportation cost, port loading and unloading cost, and prepositioning costs.

Administrative charges for the use of the DOD logistics system are added to prices of contractual services and nonexcess material sold to eligible foreign governments in order to recover the DOD costs. Such charges are made in lieu of separate computations of charges for the cost of general management and administrative expenses pertaining to supply and procurement, services and other DOD costs that are difficult to isolate.

The rate charged for administrative costs is prescribed in DOD Instruction 2140.1, of 9 March 1977. Supply Support arrangements will include an administrative charge of 5-percent added to the basic sales price of contractual services and/or material to be provided. FMS, other than Supply Support arrangements, include an administrative charge of 3 percent added to the cost of contractual services, new procurements, or material from stock to be provided.

Rates for assessorial and administrative costs are subject to review at least every two years. Requests for exception (in the case of unresolved disputes, or deviations when it can be shown that such deviations are in the best interest of the U.S. government) can be submitted through the Director, DSAA, and to the Assistant Secretary of Defense (Comptroller) for resolution or approval. These requests must contain the basis or justification and supporting data for the exception.

Defense policy indicates that the purchase price to a foreign government includes DOD nonrecurring costs associated with the research, development and production of major defense equipment offered to foreign governments. The calculated equitable share of such costs to be borne by the foreign buyer is included in the sales price, unless waived. The waiver, in part or whole, can only be made in accordance with the conditions set forth in DOD Directive 2140.2 and submitted to the Director, DSAA.

Sales of defense articles that involve the use of government owned facilities are priced to include a 4-percent asset use charge, in accordance with DOD Directive 2140.1. Sales of defense articles that involve the use of government-owned tooling are priced to include a rental charge for the use of the equipment. Waiver of these charges, can be made only in accordance with the provisions of DOD Directive 2140.1 for the asset use charge, and Defense Acquisition Regulation 13-406 for the rental of government-owned tooling and equipment.

The goal of FMS financial management is to conduct the FMS program at no cost to the U.S. government, while insuring prompt and complete service to the customer nation. The DD Form 1573 Offer and Acceptance contract makes it mandatory for the foreign government to pay for the full value of the transaction, regardless of terms of sale specified for the individual case, thus insuring cost recovery.

The rapid growth of FMS and the different financial systems of the respective military departments, led to the establishment of the Joint Financial Management Office (JFMO) to perform the accounting for FMS trust funds, billing for amounts due under the various FMS cases, and the collection of FMS cost receipts.

The initial proposal was modified by the Deputy Secretary of Defense on 9 September 1976, and implementing instructions to phase in the accomplishment of the FMS financial centralization were issued by ASD (ISA) in October 1976. The consolidation of FMS accounting records and monies has been coordinated by DSAA/JFMO and all three military departments. Initially the responsibility for centralized control was fragmented between DSAA and the Air Force Accounting Finance Center (AFAFC). On 6 March 1977, the DSAA/JFMO and the Security Assistance Accounting Center (SAAC) (formerly AFAFC) organizations were merged to eliminate the manager/operator dichotomy. The consolidated office, nominally now known as SAAC, is commanded by a Major General, USAF. On 6 May 1977, the SAAC released the first billing statement to all FMS purchasers.

The function of SAAC is to serve essentially as the DOD financial executive for the FMS program. It will validate and report FMS performance, operate the FMS accounting and billing systems, and manage the delivery and financial accounting systems.

SAAC and the military departments interface on all FMS financial matters. The Letter of Offer, as well as related price and availability data, are prepared within the military departments themselves. Letters of Offer are then processed to the SAAC at the time they are provided to prospective purchasers to insure the proposed sale is properly reported to Congress. When the customer nation signs the Letter of Acceptance, a copy of the acceptance (together with any required initial deposit) is forwarded to the SAAC. Assuming the Letter of Acceptance is in order, and required initial deposits have been received, the SAAC issues obligation authority to the military department.

After the military departments receives obligation authority, implementing directives are prepared and sent to performing activities such as systems commands. The systems commands (NAVSEA) prepare requisitions and purchase orders that request shipment or procurement of the material/service from DOD depots or contractor facilities, as required. When the depots receive material release orders, they determine whether the material is on hand and, if so, ship the material directly to the customer nation. Simultaneously, they provide systems commands with mutual release confirmations indicating that material has been delivered. When the systems commands receive advice of delivery, they report the delivery to the SAAC which, in turn, posts the delivery to the country's billing statement. The military department is then reimbursed for its cost. A billing statement, DD Form 645, is then sent to the customer nation, which makes payment into the FMS Trust Fund. The SAAC must have deposits on hand and in advance of deliveries or progress payments. This is a requirement stemming from the Arms Export Control Act. The methodology used to insure compliance with the law and to have funds on hand in advance is accomplished through the financial forecast prepared by contracting officers and supply managers and forwarded to the SAAC.

Simply put, the flow of funds is as follows: The customer nation makes deposits into SAAC Trust Fund, and if a FMS case is financed under the reimbursable method, the SAAC pays the military department when a delivery is reported to SAAC. The military department in turn pays production contractors or deposits the collection into its direct appropriations. If, however, the direct-cite method of financing is used, the FMS Trust Fund is cited directly and payments go, in effect, directly from the trust fund account to production contractors.

To improve the existing system and to be more responsive to Congress, OMB, OSD, and the military departments, the SAAC currently has in operation the Defense Integrated Financial System (DIFS) for FMS. The new system encompasses a 2.5 billion character data base and interfaces all aspects of the FMS financial management operation as directed by OSD (Comptroller).

The DIFS system is capable of providing a data base of verifiable accuracy, sufficiently interactive to fulfill mechanized general ledger, double entry accrual accounting. Further, it can furnish a comprehensive data base that is accessible to selected FMS managers throughout DOD on a real-time basis, enhancing control of each FMS case from start to finish and ensuring full compliance with the Arms Export Control Act.

Separate trust funds are established for each military department to account for payment received from customer nations and for disbursement to suppliers for FMS cash sales. Those funds can either be cited directly by DOD on contracts for FMS items for that customer, can be used to reimburse military department appropriations for deliveries of items initially procured by those appropriations, or to make progress payments.

Cash payments often will be received for an individual FMS case, that are in excess of the final value of that particular case. With customer nation approval, these funds can be retained in the customer's trust fund and applied against his other FMS cases. Upon customer demand, however, these overpayments will be refunded at the time the FMS case is closed, provided there are no collection delinquencies for other FMS cases for that customer.

As stated earlier, preparation and implementation of DD Form 1573 Letter of Offer are the responsibility of the military department. They, too, must establish estimated prices and availabilities of products and services for sale. In addition, they are responsible for negotiating the terms of sale for cash sales in accordance with policy guidance provided by DSAA. They are responsible for establishing the management systems required to finance, account and report accomplishment for each individual case.

The U.S. Navy International Logistics Control Office (NAVILCO) has as its mission the operation of the Requisition and Navy Financial Accounting Control Center for FMS, as well as grants of supplies and equipment. Within the NAVILCO organization, the comptroller is the focal point regarding interface with SAAC.

The implementing agency, such as NAVSEA, sends to NAVILCO its financial requirements. Receiving obligational authority from the SAAC via the Navy comptroller, and acting as a synthesizer, NAVILCO loads all this data onto its computer files by case, setting up certain controls. In addition, it passes obligational authority to the respective implementing activity, which permits such activity to initiate supply action.

The computer system is geared to reject requisitions when a pre-determined percentage of the obligational authority is attained. At that time, the country program manager will manually review the requisition. He can overrule the controls or redistribute the funding authority within the case. If obligations are anticipated to exceed the authorization, NAVILCO will prepare a request for additional funding. Periodic reports to SAAC provide updated information reflecting the status of obligational authority and the actual obligations incurred during the period.

In an effort to manage the expenditure control, NAVILCO directs its attention to protecting the dollar value that has been provided to the U.S. for payment of obligations incurred in support of individual cases. The funds are held by SAAC and are not provided to anyone except upon request. NAVILCO, via NAVCOMPT, makes a request to SAAC on a quarterly basis with an estimate of the expenditure authority that is anticipated for the following quarter. When notified of the expenditure authority, manual country ledger controls are established. There is a separate ledger for each individual country. The funds are held, pending a request by a paying office to make an expenditure against a particular country's fund. The request is usually made by telephone. If funds are available, NAVILCO will release them to the paying office which accomplishes the disbursement, and then notifies NAVILCO via a paid public voucher.

If for example, funds are not available for a particular country for which a paying office is requesting authorization, the request is refused, and immediate transactions with NAVCOMPT and SAAC are begun to determine if funding is to be available. If so, it is obtained. If not, the actual disbursement is held, pending clearance or direction from SAAC. Control of the system is via reports made monthly to NAVCOMPT and SAAC.

V. FIELD ACTIVITY VIEW AND PERSPECTIVE OF FOREIGN MILITARY SALES IN A BUREAUCRATIC FRAMEWORK

This chapter analyses the field activity's perception of the FMS program process and the problems involved in execution of taskings provided by the implementing command. At first glance, the FMS program can best be described as bewildering in its effort to both conduct business with international customers and to coordinate the efforts of field activities in support of those business efforts. The inherent nature of the U.S. government is best described as confusing; the purposes, functions, responsibilities and interrelationships are often vaguely understood. As a result of efforts to accommodate each case separately, published manuals, directives and instructions frequently appear confusing and contradictory. The process from beginning, (a country request) to the end, (the delivery of the product or service) seems light years long, stymied by reviews, impact statements, policy changes and poor quality pricing and availability data. Goals and objectives seem neither very well defined nor permanent, thereby causing great confusion and the over expenditure of energy and resources.

In an effort to analyze and understand the views of the field activities, it is helpful to review the nature of the naval organization. The Navy, as the other services, has chosen not to establish a separate, accountable organization to implement the FMS program, but rather incorporates the entire effort within its current organizational structure. The realization that the Navy was structured to conduct war and to acquire implements of war and not to conduct a FMS program has not been fully appreciated by those who direct the Navy. This lack of appreciation causes conflicting signals to be promulgated within the chain of command concerning ways of conducting FMS.

The Navy is a classic hierarchial bureaucracy. Nevertheless, many personnel, particularly those in uniform, who profess to be antithetical to the traditional "bureaucrat," find that the structure inherently identified with bureaucracy affects dramatically the fields activities perception of the FMS program. A review of the characteristics of bureaucracy (Weber, 1946), will establish the relevance of the bureaucratic organizational definition to the U.S. Navy:

1. The sphere of influence of each individual is clearly defined.
2. The authority associated with each office or position in the organization is hierarchical; that is, every office is subordinate to some higher office.
3. The rules for operating the organization are rational and intentional, and there is an orderly system of files established for maintenance of the organization's history.
4. Each individual receives thorough training for a new position before he assumes the job.
5. There is obedience to the position or to rank, but it is not related to the personal relationship with the individual. One is not required to like or to associate with a superior in other than a professional manner.
6. Promotion is based on seniority within the organization or on particularly noteworthy achievement. The superiors judge the qualifications of the individual for advancement and increased responsibility within the organization.
7. Individual behavior and discipline are based on the position held within the organization and not on ownership of a part of the operation.

The management system in the bureaucratic organization is equally structured (Burns, 1953):

1. There is a differentiation of the various functional tasks, as in job specialization.
2. There is an extensive use of advanced technology to improve the processes with the organization. As the means are developed, however, there is a marked tendency to ignore the ends of the concern. This is sometimes referred to as "means-ends inversion."
3. Success within the organization is highly dependent on recognition of an individual's task by his superiors.
4. Both the rights and the obligations of the individual and of the organization are precisely defined.
5. Responsibilities within the organization are applied to the various functional positions and not to the individuals themselves.
6. Control, authority and communication are hierarchical. This means that information and power are passed vertically, and there usually is no mechanism for lateral transfer of either one.
7. The knowledge of the real nature of situations (the "big picture"), the reconciliation of task assignments and information mismatches, and the assessment of relevance to both task and information is exclusively a function of top management. The higher in the hierarchy, the greater the knowledge and the greater the relevance of the various inputs to that level.
8. Because of the vertical power and information passing, and because of the superiority of knowledge possessed by the upper levels, nearly all interactions will be vertical. This ensures that one of the parties will have more of the valuable commodities of power or information to share with the subordinates. Lateral interactions have a reduced benefit as well as a reduced visibility factor.

9. Membership in the organization is conditional upon obedience to the superior and loyalty to the organization.

10. There is more importance attached to local knowledge than to general knowledge. This breeds an organization composed of highly specialized "resident experts" with only the highest levels aware of or interested in the overall strategy of the organization.

The institution of bureaucracy in the United States, began to flourish in the late 1800's as the industrial world became able to support the larger and larger organizations necessary to accomplish the multiplying tasks facing it. Although the scientific and manufacturing worlds were undergoing rapid and drastic changes, the great social movements had not yet begun, nor had technological progress found its way into the everyday lives of the common man. Exploitation of the masses was tolerated, and the government had not yet begun to exert its regulatory might. Thus the environment was relatively calm, and bureaucracy was able to develop unmolested and unchallenged by other organizational forms. This adaption of bureaucracy to a benign environment is well recognized.

"Bureaucracy thrives in a highly competitive, undifferentiated and stable environment, such as the climate of its youth, the Industrial Revolution. A pyramidal structure of authority, with power concentrated in the hands of a few with the knowledge and resources to control an entire enterprise was, and is, an eminently suitable social arrangement for routinized tasks." (Bennis, 1965)

In attempting to evaluate the effectiveness of bureaucratic organizations, one must recognize that there are several distinct advantages to this organizational form. One category has come to be called the technical advantages of bureaucracy (Weber, 1946). These are precision, speed, unambiguity, continuity, and the reduction of material and personnel costs. Other advantages, that could be called non-technical, are the predictability of the bureaucratic organizational response under various conditions, well defined and written success criteria, and the existence of a widespread, highly refined "corporate knowledge" that usually resides in the informal organization.

These advantages, however, may not be sufficient to enable the bureaucratic organization to operate effectively in today's world. By reviewing briefly the current nature of the environmental forces that impact on the organization (technical, human, regulatory, economic), it can be determined that the environment is, in fact, far from the stable situation to which bureaucracy is adapted.

1. **Technical Forces.** There is nearly an exponential growth in these forces in recent years. The advances are so rapid that the ability to produce state-of-the-art weapons and sensors lags well behind discoveries. The sheer mass of scientific and technological information that must be digested by today's Naval officer or DOD executive is staggering, yet survival may very well depend upon it. The task of gathering and synthesizing useful information becomes extremely time consuming, impacting on the ability of the unit to act effectively.

2. **Human Forces.** There are many social variations that impact upon the organization. Some of these within the Navy are the non-economic matters that are becoming increasingly important to the individual, the shift in behavior related to the increased importance of individual values in the place of organizational values, and the muniscule changes in managerial techniques over the decades that cause increased organizational dissatisfaction (Bower, 1975).

3. **Regulatory Forces.** These are continually changing and increasing, both from within and from outside the Navy. The significance of this factor was repeatedly pointed out by the respondents to CDR Mumford's article (Mumford, 1977). Three factors that were considered to be overwhelming by Navy Unit Commanders were: the extensive follow-up reporting that seniors required, the additional instructions that were showered upon them and that so confused the issue that required actions were often contradictory, and a feeling of emphasis on the procedures and a discrediting of the effectiveness of the results. In addition, congressional actions are increasingly influencing the management of the Navy and the FMS program.

4. **Economic Forces.** Cuts in military budgets, the increasing share of the budget that must go to support the personnel areas, and decreasing material reliability all contribute to the constant state of fiscal fluctuation that must be faced.

In the above brief analysis of the Navy's environment, it is quite evident that this environment cannot be classified as stable. The conditions are further complicated by the fluctuating world tensions and corresponding Navy commitments that are an integral part of any military organization's existence. The disadvantages of the bureaucratic structure becomes even more severe when the organization is enmeshed inextricably in an unstable environment. A review of some of those disadvantages follows.

A common bureaucratic tendency when faced with instability is a firm reliance on the boundaries of responsibility (Burn, 1963). This is marked by the passing of problems to a point in the organization where responsibility is known and accepted, or barring that, passing the problems to a superior for resolution. The result is nearly always an overloading of the superiors. They are required by the organization to be involved in most decisions and are responsible for almost all coordination. The appropriate level for the decision or for the coordination may be several levels below that where the action is finally taken. Such overloading of the superior creates multiple goal conflicts on an individual vice an organizational level. This results in a strong tendency for suboptimal accomplishment of the simultaneous requirements.

A second tendency for the bureaucracy is to continue to differentiate in order to meet the needs of the environment as it continually changes. We are reminded of the Saudi Arabia and Iran programs in the Chief of Naval Operations Security Assistance Division that were segregated out to meet the specific needs of those countries. As new needs are generated by the environment, the organization creates a new specialist to handle it. This may involve the creation of whole new groups or staffs within the hierarchy. And, as the specialists multiply, the organization finds that the various elements are at best marginally capable of communicating with each other, so internal interpreters and intermediaries are created for the purpose of "liaison" (Burns and Stalker, 1961). Of course, as previously stated, the responsibility for the relevance of all of this lies with the superior, but it will probably be accepted as a natural outgrowth of his coordination and decision-making duties.

Another tendency of bureaucracies in environment of change is evidenced by the decision-making habits of the leaders. Because of their limited exposure to the many refined decisions models and management techniques available today, there is a marked tendency for bureaucratic managers to categorize both their decision-making aids and the problems that they face (March and Simon, 1958). In most cases they do match the categories somewhat so that the selected solution is in the same general area as the problem, but the exact fit may not be right. This also results in a greatly reduced search for new and better alternative solutions.

The individuals within the bureaucracy are subject to numerous forces that produce a dispersion of their commitments. By virtue of their membership in the organization, they are required to be committed to the organization itself. But this is diluted by the individual's commitment to his superior (both in the forms of hero-worship and of having to support the superior in order to survive), by a commitment to himself (especially if his self-image is one of the "comer" in the organization), by a commitment to his work group as an ascendent system within the organization, and finally by a commitment to the informal organization because it meets his social and psychological needs. The end result of this dispersion of commitment is that the organization receives the pauper's share of the individual's concerns.

The final disadvantageous tendency of bureaucracy that is to be considered is the political maneuvering that goes on within the organization. This is operant at several levels. The first is the internal system -vs- system level. Here the established subgroups in the bureaucracy unite to reject the newer groups and insure that they (the original ones) will not be replaced. This is summarized in the following:

"When changes are manifested not only by the intrusion of new kinds of tasks and new kinds of resources, or even by the recruitment of 'new kinds of people,' but by clothing them in new institutional forms, they take on the appearance of a threat to the other parts of the existing order, instead of a source of life. . . . In brief, what happens is that a plan revised in terms of changing the working organization fails to materialize because factors of status and politics play a determining role, and nobody realizes, or rather, admits, that these are real problems to be dealt with. When these factors intervene, as they must, they are regarded as illegitimate if they are recognized at all, and the person who is thought to be advancing (or resisting) claims for increased power or status is condemned as more concerned for himself than for the job." (Burns and Stalker, 1961)

Political maneuvering also takes place at the individual level. This may be rather subtle, but it can be recognized as an outgrowth of the regulations and increased rigidity of behavior of individuals as they rely on the limits of their responsibilities. The defensibility of the individual's behavior is greatly increased, even when his legitimate refusal to act causes widespread problems elsewhere. The recent examples of organizational distress caused by employees utilizing "working to the rule" as a coercive technique indicate the potential danger to large organizations. A proliferation of "book men" is a symptom of organizations that are preceeding down a somewhat pathological path.

The above brief description of some of the characteristics of bureaucratic structure of the Navy will permit an examination of the relationships between field activities and their involvement in the FMS process. To reiterate several points made earlier, it should be noted that the U.S. Navy has a primary mission of war (whether the control of sea lanes, the projection of sea power, or accomplishing strategic objective denoted by the Commander in Chief) and acquisition of all the implements to support the war objective. Another point is that the U.S. Navy is not a business in the sense of providing goods and services for consideration. The U.S. Navy receives "considerations" in the form of operating revenues allocated from general revenue streams that are not tied to what it performs as a mission, but from taxes and reimbursables.

The United States, under President Carter's present foreign policy is in a dilemma and somewhat uncomfortable, in attempting both to control arms sales and to sell them simultaneously. The mixed signals have flowed down the chain of command to the field activities. Recognizing the operational structure of the U.S. FMS program as it flows from Washington to the field activity, the field activity is in a reactionary position. It receives taskings and fundings from the systems commands. The tasks are accomplished by the field activity and reported back to the systems commands. The field activities consulted expressed the belief that the international customer should be treated much the same as the U.S. customer.

There is some difficulty in treating international customers the same as the U.S. Navy. The international customer is paying for goods or service and has expectations as to the value to be received for his dollars. The Navy customer is motivated by a need and does not have the option of going elsewhere to acquire. The Navy customer has neither a standard of expectation nor does his complaint carry the same clout as does that of the international customer. The international customer has more leverage and therefore can not be treated in the same way. He should be provided the kind of attention appropriate for the monetary consideration the U.S. will gain by the sales transaction.

In concert with the question of treatment and monetary consideration is the determination of cost for services rendered, government furnished equipment, or government furnished facilities. In discussion with RADM Engels of NAVSEA, it was determined that at present there is no

logical, rational means of determining the cost to charge international customers in the FMS program. At the Naval Ordnance Station in Louisville, estimators use a "Class F" estimation for all the Price and Availabilities that they provide to NAVSEA. There are several factors that cause this basic difficulty in the FMS program. Perhaps one of the fundamental reasons is the type of organization that characterizes the Navy. As stated earlier, it is operated on a budget allocation basis that is not tied to the mission nor to a definitive cost objective. Budget allocation based institutions respond to a different concept of "performance" or "results." Result in the budget-based institution means a larger budget. Performance is the ability to maintain or to increase one's budget. In both cases, neither objective serves the best interest of the customer, who is attempting to acquire the best product for the least cost. It does not seem logical that a budget-base mentality would serve the best interest of a cost conscious customer.

Another fundamental reason for the non-existence of a reasonable costing system is the availability of manpower to accomplish good estimating. Less than half of the cases approved for Pricing and Availability data are finally accepted for implementation. That is, out of more than three thousand cases requiring Pricing and Availability data, less than fifteen hundred have actually become FMS cases for NAVSEA. If the field activities are currently suffering from manpower shortages as a result of congressional actions, there is little incentive to be accurate and correct in an estimate for Price and Availability data that may not produce a case. In addition, once a contract is signed (Letter of Offer and Acceptance), one of the stipulations of the contract is for the international customer to pay all costs resulting from the subject transaction. Hence there is no real incentive to be extremely accurate. The Letter of Offer and Acceptance becomes essentially a cost plus fixed fee contracting device. A number of the international customers have complained. In addition, the General Accounting Office has done studies in this area (GAO Report Sept 1978). The available evidence suggests that there is no strong incentive on the part of the Systems command or the field activity to respond with accurate costing data.

Another dimension in the treatment of the international customer is the meeting of schedules. Given that the international customer is paying for a product, it should be delivered on

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Another dimension in the treatment of the international customer is the meeting of schedules. Given that the international customer is paying for a product, it should be delivered on

time. In discussions with NAVSEA and Naval Ordnance Station, Louisville, it was found that rarely are products delivered on time. There are many reasons for the delays, but fundamentally, the management system is reaction rather than initiative-oriented. Each government control system reviewed indicated a "plan of action and milestones" to review programs, whether they be contracts with industry or follow ups on other segments within the organization. There seems to be very little effort spent developing anticipatory systems or contingency planning efforts to manage problems before they occur. FMS management cases, whether computerized or manual, were managed on an exceptions basis. If a problem arose, usually discovered too late to result in timely delivery, schedules were adjusted. This was particularly true when dealing with industrial type effort. Technical difficulties would delay a project, causing the schedule not to be met.

Reactionary management seemed more characteristic than exceptional. Each case in the FMS world is handled separately from inception to completion; with each set of problems being "unique" to the setting of the case. The tendency seemed to be to accomplish or complete each case separately and proceed to the next one without analyzing a large number of cases to attempt a systems approach.

Another dimension to the treatment of the international customer is the provision of a quality product. To some extent, quality is probably the most subjective parameter in the determination of the effectiveness of a FMS transaction. Historically, the international customer has accepted the U.S. government products or services as being "the best" in the world. A good reason for such acceptance has been the status of U.S. industry coupled with the fact that the U.S. enjoys superpower status in the world. A principal difficulty with assuring a high standard of "quality" is the attainment of an agreement between the U.S. government specifications and the idiosyncratic desires of the "paying" international customer. Technicians in the two countries must correspond via the entire length of the FMS chain of command, making it difficult to communicate specific interpretations and settle technical difficulties. Much of the time, the final product is not the product envisioned by the international customer. Unofficial and informal negotiations must be conducted in order to resolve the differences. These negotiations

are often accomplished without official consent. Although differences are normally worked out to "customer satisfaction," the preconceived standards initially negotiated by the international customer are not obtained during negotiations.

The dilemma in FMS management can be reviewed from another perspective, perplexing to the field activities. There is some difficulty in the proper placement of the FMS program in the organizational structure where it can be most effective. At the highest levels of government, particularly as FMS relates to foreign policy, there seems to be no apparent conflicts. However, when reviewing the NAVSEA organization and down through to field activities, the position in the organization became more nebulous and illogical.

A concern of most career naval officers, is survival coupled with demonstrated accomplishments in order to be promoted to the highest possible rank during their career. There is, therefore, a tendency to seek those "battlefields" where "medals" can be won. Outstanding dramatic achievement off the main battlefield does not enhance ones chances of making grade. The program of FMS has tacitly been labelled as such an "off battlefield" program. Even though the Deputy Secretary of Defense, W.P. Clements, Jr. had instituted the precedence-setting breakfast meetings in 1975 to dramatize the importance of FMS, and Admiral F. H. Michaelis, Chief of Naval Material to Admiral J. L. Holloway, Chief of Naval Operations, had continued to dramatize its significance and importance, the program lacked manpower to execute the FMS mission. Tantamount to the lack of manpower was a genuine lack of concern and sufficient appreciation among Defense Department managers for the size and complexities of the FMS program and of the serious impact the program has on ongoing weapon systems acquisitions programs. Personnel in the Defense Department do not recognize FMS as part of the real mission of the Navy. Observing the type of personnel normally found in the FMS programs, particularly in Washington, one finds not the "shining stars," but the middle of the road types or those seeking twilight tours. There is very little competition to obtain a tour in FMS.

In Argyris' discussion of bureaucratic behavior (Argyris, 1967) the issue of dependency upon superiors particularly for rewards (grade) and survival is addressed. This is a result of the

superior being the source of resolution of polarizations and conflicts and the superior having to set or rearrange the priorities of the subordinates. This is done in an effort to reduce risk too high for the subordinate to accept. In the FMS program superiors, although paying lipservice to FMS really do not want to address the issue and subordinates are left to develop their own priorities. Confronted with such a situation, the subordinates, including field activities, quickly move to disassociate from the Foreign Military Sales program.

In the NAVSEA organization, the division director for FMS reports to the Principal Deputy Commander for Logistics. The director is a retiring Navy Captain having to work through several Rear Admirals whose principal jobs and problems are acquisition and support of all major U.S. Navy surface weapon systems and support implements. These personnel are accountable for the operations of the sea going surface Navy. Their promotions are contingent on their success in this primary mission. In some field commands, the FMS division or branch is located within the supply or logistic operation. The commanding officer of these facilities, however, have made it clear that their priorities do not include FMS. The management of FMS receives the signals that although the President is very keen on the program, the boss (facilities commander) will have no part of it. The General Accounting Office continues to provide studies for Congress on the resultant mismanagement and the financial waste and ineptitude demonstrated by the Defense Department regarding FMS. The fundamental reasons are quite clear; there are no medals to be won on that battlefield.

Permeating the total FMS program, particularly in addressing the prime concern of the Navy is the feeling that our Navy comes first. Personnel throughout the entire chain of command continue to voice this concern. Particularly those in the activities who do not have actual contact with the international customer. In the context of bureaucratic theory, this is the strong "nationalistic" identification with the organization; the strong, prevalent desire to make the Navy the best in the face of competition of another navy. Although statutes and directives state that international customers will be accorded the "best service and products" in terms of quality, schedule, performance, and cost, the personnel of the system carry the attitude of U.S. Navy first, and it is that attitude that is reflected in their work. Upon discussion with workers

and managers the message was the same. The frequently asked question was, "are you doing the best for the international and can you demonstrate so?" The most frequent response was, "I can show you for the U.S. Navy; I am not sure regarding the foreign navy.

The management organization at the field activity level in the current era of FMS is operating in a *laissez-faire* type environment. This is due in part to the confusing and often conflicting directives, statutes, and instructions governing the performance of FMS procedures. The field activities reviewed were not closely monitored except on an exceptional basis, particularly on politically sensitive cases. The specific codes in the NAVSEA organization were more concerned with insuring that costs were absorbed by the specific cases as opposed to analyzing a cost to performance variance. Shortages of manpower at the NAVSEA headquarters precluded close monitoring of each case. Some cases were valued as little as a few hundred dollars to some over several million dollars.

The FMS program appears to have grown with time and has never been reviewed from a system perspective. As experts entered into the field, establishing positions of advocacy, and as the policies from the President and Congress evolved, the FMS program took on the characteristics of an entrenched bureaucracy. The Military Assistance and Sales Manual, the Bible of the FMS program provides the "best conceptual" source of information on the system, but does not provide objectives or goals upon which to build an organization. It states in chapter B paragraph C.1 and C.2 "... Department of Defense sales will support the foreign policy interest of the United States...and... will be responsive to foreign requests for sales proposals..." It is interesting that organizations required to meet these guidelines are neither a subject of the chapter nor are they discussed at length anywhere in the manual.

A text book definition of Planning is, "... reasoning about how an organization will get where it wants to go. Its essence is to see opportunities and threats in the future and to exploit or combat them by decisions taken in the present..." (Starling, 1977). To fully grasp the dynamics of this process, it is necessary to understand its components. What is a plan; how does a plan differ from a "policy" or program? A policy is a statement of goals and of the relative

importance attached to each goal. It is translated into a plan by specifying the objectives to be attained. A proposed set of specific actions intended to implement a plan is called a program.

Field activities are provided many polices by higher command and FMS is only one of many. The relative importance changes as the crisis of the day is realized and transmitted. Very few if any specific guidelines regarding specific actions are mandated other than the final product and funds. The difficulties involve the limited human resources and the conflicts of priorities in a given time period. The Navy continues to advocate the theory of doing more with less. The existence of the can-do spirit and appearance of "shining star" individuals at the top of the organization seem to further complicate the matter in the internal workings of the organizations.

The field activities have attempted to rise to the expectations of the systems managers with varying degrees of success. The measures of success are not standard; hence, individual command assessments have been used to determine success or failure. The delivery of the product as the fulfillment of an obligation has been touted as a measure of success. However, success as to whether a good job is being done has not been effectively measured. Field activities can tell how much money they have received, what they have procured, produced, and delivered. There are systems that report the final cost charged, and whether the customer received the product or service. However, there is no real measure of how well the activities have performed. The incidence and intensity of protest can act as a negative indicator, but positive indicators are not present in the current system. However, the fact that no protests are voiced does not mean that a good job has been accomplished!

Aside from the question of a good job, the basic question still remains, is it logical to expect a good job from a budget-based, non-business, organization such as the Navy? The updates from the General Accounting Office would lead one to believe that it is logical. Yet, in examining the policies promulgated by President Carter it seems somewhat conflicting. Constraint is the prime order of the day, yet sales to allies (who may be unfriendly tomorrow) in the forms of hardware, research and development and logistic support are also order of the day. The type of policy makes strange bedfellows for the organizations seeking identity to goals and objectives in order to realize a sense of accomplishment.

VI. CONCLUSION AND DISCUSSION

This thesis started by posing several questions aimed towards gaining an understanding of the FMS process. Those questions were:

1. What is the nature and scope of FMS business?
2. What are the criteria for determining effective FMS management?
3. What are the major problems associated with FMS that effects its management?
4. What are some of the possible alternatives available to improve existing management?

The preceeding pages attempted to discuss these questions at some length. Some of the information was gathered from the literature and some from observations by the author.

The problems confronting the field activities in performing their task in the FMS program are largely characterized by a budget-based bureaucratic structure that is characterizes the Navy. There are additional dimensions that complicates the problems, for example, the fact that FMS does support specific foreign policy and security interests of the U.S. In addition, the U.S. Navy is not primarily in the business of selling, but is an acquistioner in the mission of war. The President and the Congress have throughout history utilized FMS to serve their perceptions of the country's best interest, causing the management within the FMS program to reflect, often dramatic changes in philosophy. For example, the Kennedy, Johnson and Nixon Administrations promoted sales; the Carter administration wants constraint, with sales on requests that have been carefully reviewed. The FMS program is very much reflective of the slow, differentiated behavior of a bureaucratic organization.

The current policies in the FMS program interposition the U.S. government between industry and the international customer. The field activities often appear in the perspective of industry. They are not close to the customer in terms of communications and access. The responsiveness of the FMS chain of command down through the systems command is often confusing and conflicting, and no clear cut avenue is available for solving problems that occur during the execution of a case.

The field activities view FMS as an additional mission with political sensitivities, unlike their primary mission. They recognize the political volatility of the program yet they are not always aware of the reasons for what appears to be haphazard management from the systems commands and the higher chain of command. The result of this perception is a toleration of FMS vice an energetic drive to pursue the program with a winning enthusiasm.

The field activities find themselves in a dilemma regarding FMS. The amount of FMS business is not predictable enough to accomplish long range planning and, therefore, they cannot respond in the most effective manner. For example, when the revolt erupted in Iran, a potential multi-billion dollar sales program evaporated. Many governments that are the international customers are not as stable as perhaps initially perceived, thereby causing uncertainty in the FMS markets. The field activities committing significant numbers of resources to the FMS mission, may not be able to support such a venture. However, because the U.S. government is always seeking to conserve resources, it interprets large numbers of human resources engaged in FMS as expendable. The reasoning appears to be that if the effort is not contributing to the U.S. Navy effort, it is eligible for elimination.

The FMS program lacks clear, concise objectives with measureable parameters to determine its effectiveness and efficiency. Such a broad brush conclusion could be leveled at any bureaucratic structure. If, for example, objectives were clear and effectiveness could be measured, the general view of FMS would be more in tune with a commercial approach to the problems. The political realities of FMS will not allow such a situation to become a reality. Each country wants to be treated a bit different from the next. Each desires to have products built to their specifications subject to that idiosyncrasies. Because the international customers are paying the fare, they expect special treatment which can not always be accommodated by a standard system. Thus, differentiation emerges a means of contending with the exceptions.

In the overall management efforts at the field activity level, there have been several attempts to organize in a particular manner in an attempt to accommodate the FMS effort. There have been three major organizational structures. These are the functional, central and contractual.

Perhaps the most controversial structure was the contractual organization. The Air Force negotiated a contract with the Northrop Corporation for management functions that government personnel normally performed. The Air Force maintained that due to the growth of FMS and the attendant growth in the administrative burden associated with such sales, strains were caused throughout its organization. The GAO, however, surmised that such an agreement was characterized by organizational conflict of interest; Northrop was also a major supplier of FMS items and would be in an unfair competitive position to obtain other contracts or be in a position to influence the work to be performed on other contracts. The GAO, therefore, recommended that such sensitive functions be returned to the Air Force personnel (GAO Report, Oct 1978).

The Air Force effort seemed to be an attempt to reduce the total systems involvement in FMS. The Navy has continued to integrate the FMS effort within its existing organization. The difficulty is that the FMS Program does not fit comfortably into the existing organization. Those field operations that are organized functionally have difficulty focusing in on the program within their organization. The political volatility of FMS requires a system that can provide top management with information rapidly in response to outside influences. However, the vast fluctuation in workload and the constant shortage of human resources reduces the overall effectiveness of the system.

Those field activities that are organized centrally seem to enjoy a better reputation as being responsive and establishing a local advocate posture for FMS. Information can be quickly transmitted to top management when required, as well as a low profile assumed when the priorities are shifted. In addition, an educational mission can be executed during slow periods to increase the general awareness of FMS throughout the command facility.

The centrally managed operation commit resources to an effort that is not productive on behalf of the U.S. Navy. They are therefore prime targets for any budget cuts that are always subjects of discussion. There are many times at the field activity level when these personnel are viewed as non-productive. The production of the actual product or service will be carried out by those segments of the operation that accomplish such tasks for the U.S. Navy. The principal

functions of the personnel in the centrally managed operation will largely be planning, monitoring and follow-up on behalf of the systems manager for an international customer. In the over-all bureaucratic sense, another layer of management has been added to ensure the task is accomplished at the lower level. Yet in the final analysis, the existence of the field activity exist to accomplish all tasks assigned and to provide the necessary management reports to the top. What is the amount and quality of management required to accomplish such a mission within the field activity?

The commanding officer must organize his command in such a manner as will provide him with the kind of organization that will make him most effective. The level of effectiveness will be judged by his superiors as will be the priorities. The difficulty with FMS is the nonexistence of stability in the priorities. The results have been mixed, as a function of the uncertainty in the program. FMS because of its sophistication and complexity, is not a program that a commanding officer would be wise to attempt to influence from below. It is a program that requires reactive behavior in order to be aligned with the whims of the current administration.

It should be concluded that the FMS program will always be a stepchild with inherent defects that are nearly impossible to cure. The military is not in business to conduct commercial ventures, it is in business to conduct war and that mentality prevails. The military would prefer to share or give away equipment to allies rather than negotiate and involve itself in the particulars of commercialism. The fact that the State Department has a tendency to formulate foreign policy dynamically means implementation will also be dynamic within the Defense Department. This will mean a continuing shift in the way FMS is conducted, and the field activities will have to rise to the occasion. When administrations undergo change and personalities are replaced, further changes will take place in the FMS program. Short horizons of view by management at all levels preclude a systems approach to the the FMS program. The volatility of the program, coupled with the survival syndrome on the part of top management in the bureaucracy, precludes significant changes from taking place. FMS is here to stay; it will neither go away nor will it get well!

There have been many attacks on the FMS program, particularly in concert with the bureaucratic management structure that oversees its functioning. There is an ever-growing belief that other forms of management would be more responsive and flexible to the needs of the programs operated by the U.S. government. In particular, the concept of Management by Objectives is beginning to become acceptable in Governmental circles and more realistically applied to programs such as the FMS area. The heart of Management by Objectives is that it challenges existing management to state, categorically, what it is going to do, how it expects to accomplish it and to establish measures that are quantifiable, containing indices of validity and reliability. Such a concept is viewed as a threat to the very existence of bureaucracy, and the resistance is fierce regarding change.

The concept of Management by Objectives implies and, indeed, advocates that superior and subordinate sit down and create the goals and objectives for some designated period. The goals and objectives are reviewed and negotiated to insure mutual commitment. There are follow-on sessions to review progress accomplished, and corrective action is taken where required. The process is dynamic yet clear and concise; all hands participate, allowing a sense of personal achievement. The concept seems logical at the commanding officer - systems command manager level. The commanding officer of field activities must be provided a concise view of the objectives. Once these are established, then depending upon management style and philosophy implementation of Management by Objectives is possible.

The assumptions inherent in the Management by Objectives concept are very optimistic. For example, most people possess needs for power, autonomy, competence, and achievement and they will respond to opportunities to satisfy these needs on the job. In addition, people want to know how they are performing on the basis of specific criteria, not vague subjective judgments or suspicion. While these assumptions may not be applicable to all members of the Naval organization, certainly most commanding officers would fit this category.

Perhaps a subtlety in the Management by Objectives discussion is a suggestion that the chain of command is too long and overwhelming. Typically the time required from initial request to the signing of a Letter of Offer and Acceptance ranges from six to nine months.

The product or service varies also. With the number of personnel involved, the magnitude of considerations provided seem excessive. The value added or the value of return to the U.S. government seems marginal at best. It does not require all the players that seem to be involved.

Several assumptions regarding the FMS program were made at the outset of this thesis. It seems appropriate to discuss these in light of the discussions held in preceeding chapters. Assumption 1 referred to the adequacy of the Defense Security Assistance Agency and the operation of an efficient, effective organization for FMS borne out of an evolutionary process. There is today no genuine method of measuring the effectiveness or efficiency of the Defense Security Assistance Agency. It continues to perform its mission; cases are negotiated, implemented, and completed and products and services are transferred for consideration. The ability to estimate cost, effectively still eludes the system. There are many attempts being made, but without a free, open, unrestrained market the concept of cost is lost. There are no standards in the international marketplace to determine if efficiency exists. Does the U.S. produce goods and services at a reasonable price? How can comparisons be made? Who sets the standards? The Defense Security Assistance Agency continues to expound that they are operating respectably, but they do have problems. It might be added that the Agency is not evaluated on how well it does, but on the volume processes does from year to year.

Assumption 2 referred to the clarity and the conciseness of goals and objectives in the FMS program. The condition simply does not exist and probably cannot exist under the current philosophy that FMS is a tool of the U.S. foreign policy. As stated in Chapter One, the debate as to whether or not FMS should exist is not subject of this thesis. Foreign policy is very volatile, fluid and political! In essence it must be flexible enough to exploit opportunities as they come to pass, hence, clarity need only be at the level of foreign policy. FMS as a tool may be purposely designed to remain nebulous in order to be available for the shapers of foreign policy.

Assumption 3 referred to the existence of FMS in a public sector environment and the subsequent requirement for a buffer type mechanism to allow the sales to be conducted in a manner characteristic of the private sector. This assumption is unfounded. The FMS program does not

operate as does the private sector, although many features of the private sector are present (e.g., contracts, price and availability data, delivery schedules). The inherent difference is that the organizations that implement the FMS programs are not private sector oriented; they are public sector (budget-based from taxes) bureaucracies. The behavior is significantly different, resulting in responses that do not typify the private sector. The FMS program has to be responsive to the President and the Congress as mandated in the Arms Export Control Act of 1979.

Assumption 4 referred to the political winds that influence the government. The FMS program will support the foreign policy interests of the United States regardless of its direction, sales or constraints. As stated in Chapter Two, the sense of the Congress will prevail in the FMS program. The FMS program will be preserved as a vital tool of the U.S. foreign policy.

Assumption 5 referred to the need for a positive climate of unlimited opportunity for achievement by the military personnel involved in FMS. Current observations do not seem to support the position that opportunities for success exist in a career where FMS is the center of expertise. There seem to be no medals to earn on that battlefield.

The FMS program is big business, in excess of \$10 billion. The United States could improve significantly its balance of payments as well as provide a quality product on time at a "reasonable" cost. Field activities will play a significant role in the business. There are many problems, most without easy solutions. One major problem that continues to plague the entire program is the role the U.S. government wants to play in arms exportation for sale. The current system, and subsequently the cause of many problems experienced by field activities, relates to the general level of uncertainty permeating the system direction.

If the U.S. decides to sell military equipment, then conceptually the free enterprise system can take over. This would allow the existence of a separate corporation, much as the Canadian system. The Canadian Commercial Corporation was established as a government-owned organization for the purpose of assisting international governments in procuring goods and services from Canadian sources. It handles the procurement on behalf of the international customer, soliciting bids from firms (in the U.S. the field activities would be competitive by submitting bids, thereby allowing the cost concept to prevail) and establishing contracts for the desired items (Kaine and Wilhite, 1969).

The Canadian system has the advantages of releasing the Defense Department resources from the administrative entanglements and the idea of selling rather than acquiring. It further places the success or failure of the program as the central objective of the management and thereby eliminate the problem of conflicting priorities currently present in the U.S. Navy.

The view of the government attempting to control a program with which it has vested interest is difficult to conceptualize without recognizing that such a situation will always have problems. If on the one hand, Egypt wants to buy F-5 fighters and wants to support the Palestine Liberation Organization objectives, the U.S. is in a difficult position if the balance of payments and Northrop Corporation very much want the sale, but the State Department finds reasons to object in view of commitments to Israel. When conflicting signals flow down from the top the organization is very uncomfortable in response.

The problems, the character, and the conceptual relationship that describe the FMS program from the field activity view are really no different from any superior-subordinate relationship in existence for a product, service, or survival. What we have attempted to accomplish is an in-depth view of the relationships to identify some of the problems, thus providing some assistance in relieving some of the current difficulties in the FMS program. In all the discussions and all the literature and in reflection, very little can be done until some fundamental changes occur in organizational structure.

The objectives of future studies in this area should be directed not at finding new methods of management, but rather at new methods of implementation. How does one secure a change in top management so as to be definitive in the goals and objectives in the FMS program? How does the Congress become more responsive to the needs of the international customer in the legislative process? There has to be some clarity and decisiveness regarding selling and controlling of arms exportation, if the program is to achieve any degree of efficiency. What are the conceptual inadequacies of the current "pricing and availability" policy that cause cost overruns and missed schedules?

Research questions of the nature discussed above require in-depth research and review. They further require an openness and willingness on the part of the leadership of the Foreign

Military Sales program to want to address these issues. There was little evidence in the literature or during the interviews that suggested that there were efforts underway to address issues raised. As the cost of defense continues to rise and as greater acceptance is gained for Standardization, Rationalization, and Interoperability with our allies, the program of Foreign Military Sales will grow. If the program is to meet future demands imposed upon it, fundamental concepts of implementation within a military structural framework may very well have to change.

Appendix A

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Appendix B

List of Interviewees (Alphabetically)

Primary Interviews occurred in January and May, 1979

Bergman, R. Commander, SC, USN, Supply Officer, Naval Ship Weapon Systems Engineering Station NSWSES, Port Hueneme, CA

Betz, G.E. GS-13, Planning and Control, Naval Ordnance Station NOSL, Louisville, KY

Blackburn, D. Special Assistant to the Commanding Officer, NOSL, Louisville, KY

Burnette, D.J. Production Engineering, NOSL, Louisville, KY

Cullin, W. LT Professor Engineering Management Defense Systems Management College, Fort Belvoir, VA

De Jarnette, H.M. Captain, USN, Commanding Officer, NOSL, Louisville, KY

Drexler, D. C. Country Manager, (FMS) NSWSES, Port Hueneme, CA

Edwards, D.D., USN, Comptroller, NOSL, Louisville, KY

Engel, P.H., Rear Admiral, Director, Plans, Programs and Financial Management/Comptroller Directorate, NAVSEA, Washington, D.C.

Florio, M. T. Foreign Military Sales Division Head, NSWSES, Port Hueneme, CA

Frye, T.H. Foreign Military Sales Division Head NSWSES, Port Hueneme, CA

Gallardo, T.S. Country Manager, (FMS) NSWSES, Port Hueneme, CA

Gavin, V.M. Commander, USN, Field Assistance Office, NAVILCO, Philidelphia, PA

Griffith, W.B., Security Assistance Division, NAVSEA, Washington, D.C.

Herring, E.L. Captain, Security Assistance Division Director, NAVSEA, Washington, D.C.

Jones, H.L. Project Planning, NOSL, Louisville, KY

Lovell, I.W. GS-15, Logistic Division, NOSL, Louisville, KY

McKenna, C.E. Special Foreign Programs Coordinator, Security Assistance NAVMAT, Washington, D.C.

Owens, J.F. Commander, SC, USN, Director, Programs Systems Policy, Procedures and Resources Branch; International Logistics Division, Naval Supply Systems Command, Washington, D.C.

Prince, C. Foreign Military Sales Ordnance Alteration Acquisition Manager, NOSL, Louisville, KY

Rodolico, R. Head Security Assistance Branch, Accounting Procedures and Operations Division, NAVSEA, Washington, D. C.

Romana, A. Deputy Director, Gun Systems Support, NAVSEA, Washington, D.C.

Rowe, B. Security Assistance Division, Military Sales Specialist, OPNAV, Washington, D.C.

Synder, G. General Engineer, Gun Systems Support Division, NAVSEA, Washington, D.C.

Thomas, D. Security Assistance Division, NAVSEA, Washington, D.C.

Wells, P.D., Commander, SC, USN, Supply Officer, NOSL, Louisville, KY.

White, J. Special Program Coordinator, Security Assistance, OPNAV, Washington, D.C.

Witt, J.W., GS-12, Management Analyst, NOSL, Louisville, KY.

Wolper, I. Head Programs Support Section (0421C), NAVSEA, Washington, D.C.

Wood, W.W. Gun Systems Engineering Department Head, NOSL, Louisville, KY

Appendix C

QUESTIONS TO BE ASKED IN A MANAGEMENT STUDY — (From Wiren and Heyel - PRACTICAL MANAGEMENT RESEARCH)

1. Are all the functions performed really necessary?
2. Can the same results be obtained in some easier or simpler manner?
3. Are functions performed in the most logical order?
4. Has an effort been made to see whether combining, changing, or splitting up of functions and assignments would be of advantage?
5. Are functions and responsibilities of all employees clearly defined?
6. Is the incoming work reviewed by a person competent to distribute it, so that it reaches those who are supposed to handle it? Is it distributed promptly?
7. Are employees properly trained to understand the purpose of their work, as well as the actual operations they perform? Are they fully aware of the ultimate effects of error?
8. Are individual employees competent to handle their regular work without guidance?
9. Are check sheets used where feasible, to make certain that every necessary point has been covered?
10. Are standard methods and procedures down in writing?
11. Are there delays in getting necessary approvals?
12. Is checking done promptly? Are there standard methods for checking quality and completeness? Are there unnecessary duplications in checking?
13. When errors occur, are the reasons for them studied as case material for training or for change procedure?
14. Is there a record of production by individual workers as well as for the unit? Are there wide variations in the work of employees doing similar work?
15. Are there definite standards of quality and tolerance? Are these reviewed periodically?
16. If there is considerable fluctuation in the flow of work, is the personnel arrangement flexible enough to permit handling without bottlenecks?
17. Are records and other reference material kept in such a way as to permit looking up information with a minimum loss of time? Is material taken from files returned promptly?
18. Are inquiries regarding status of the work handled in such a way as to keep interruptions at a minimum?
19. Are there enough people trained for adequate performance to permit normal functioning when employees are absent for any reason?

20. Is there an adequate system of follow-up?
21. When operations or requirements are changed, are they reviewed to see whether improvements are possible?
22. When general instructions are issued, is there a procedure to make certain that all employees, including those ill or on vacation, are notified?
23. When individual employees have a problem, can they get an answer or advice promptly?
24. Are unusual problems taken out of the flow of regular work for immediate attention of the supervisor?
25. When an employee is absent, is his pending work reviewed to pick up items which need immediate action?
26. Does work come into the department in a way which causes unnecessary delay or handling?
27. Are instructions given in the simplest and clearest way, to avoid misunderstanding? Are there points of procedure or policy on which there is a difference in interpretation, and on which clarification is needed?
28. Are employees encouraged to make suggestions? Can employees submit suggestions without disclosing their names until later?
29. Are there any improvements which were supposed to have been made, but on which no action has been taken?
30. Are there definite deadlines by which some phases of the work are supposed to be completed? Are there adequate methods to make sure that certain jobs are not permitted to drift until it is impossible to meet their deadlines?
31. Are errors found by employees themselves reported, or is there a tendency to cover up?
32. Where computations can be made with the aid of a table, are such tables used instead of having employees make individual computations?
33. Is there a definite procedure for noting changes on forms, so that at the time of reordering, all of these would come up for considerations?
34. Is all necessary equipment readily available? Should some manual operations obviously be done by machine?
35. Are requisitions for materials, equipment, or repairs taken care of promptly enough to avoid holdup of work?
36. Does physical layout keep waste motions to a minimum? Are problems of light, air, space, and noise kept in mind?
37. Is there a system of giving credit for temporary transfer of personnel from one unit to another, reflecting decreased personnel costs to the first unit?
38. Is the performance of a unit evaluated, at least partially, from the point of view of total personnel cost and unit cost?

39. Is employee knowledge of work tested in some systematic manner, in addition to discussing errors?
40. Is employee training on a systematic basis, rather than one of "picking up" information by experience on the job?
41. Are new employees introduced to their work and to fellow employees in a way that makes them feel at home?
42. Is there a simple, effective procedure which permits employees to air their grievances with their superiors, rather than merely discuss them with fellow employees?
43. Are there signs of personal friction?
44. When there is a possibility of competitive production performance between separate units doing similar work, is this used as an encouragement of the best possible effort?
45. Are there wide variations in pay of employees performing similar work?
46. Do complaints, both external and internal, reach the appropriate executive promptly?
47. Are performance and salary discussed with each employee at least once a year, at which time suggestions for further improvement in performance are made?
48. When transfer of personnel is contemplated, is the true evaluation of an employee revealed to the unit asking for him, or are unsatisfactory employees given a higher record than they deserve, simply to get rid of them?
49. When an employee does not do as well as is expected, is the problem faced promptly? Is he put on probation or even asked to resign, or is the situation allowed to drag on?
50. Is each supervisor encouraged to train someone as his successor, as a prerequisite to his own advancement to a more responsible position?
51. Are supervisors expected to obey general regulations, or are they allowed to disregard rules applicable to other employees?
52. When conferences or discussions are called, are those asked to attend informed in advance as to the topic and purpose, so that they can prepare themselves for discussion?

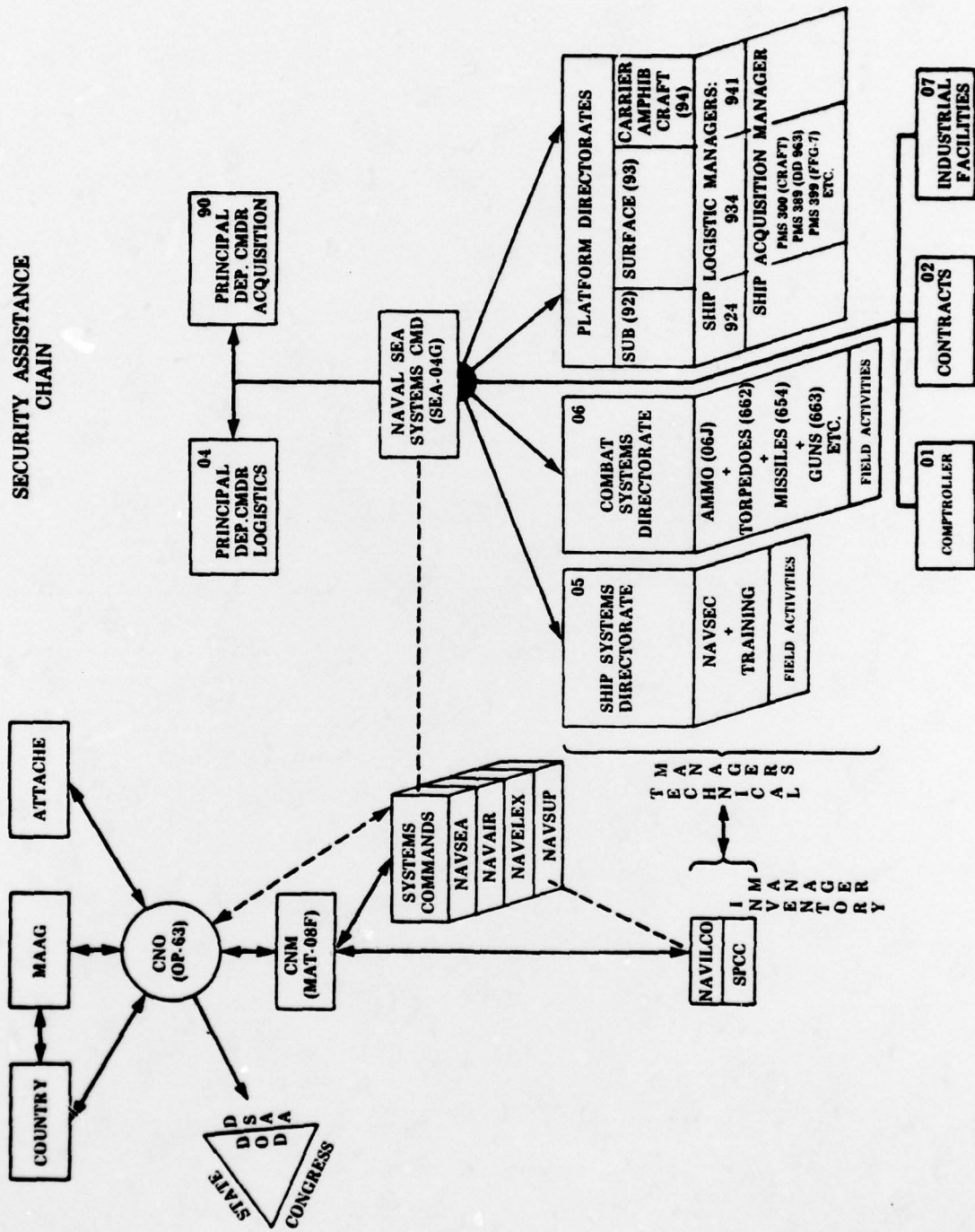


Figure 1: Department of the Navy Security Assistance Organization FMS Management

NAVY
FMS CASE PROCESSING

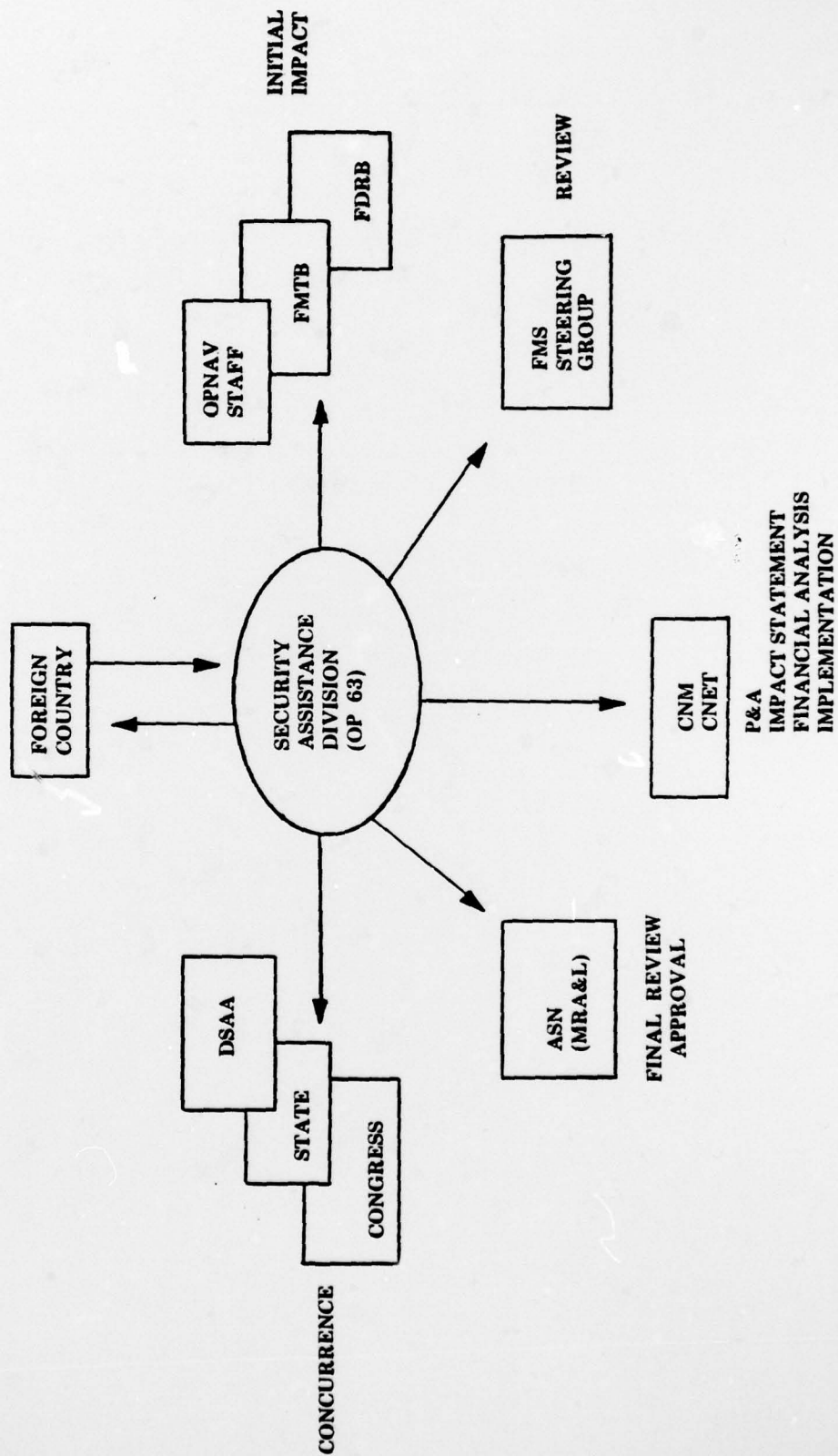


Figure 2: Navy FMS Case Processing

DEPARTMENT OF THE NAVY
SECURITY ASSISTANCE ORGANIZATION

FMS MANAGEMENT

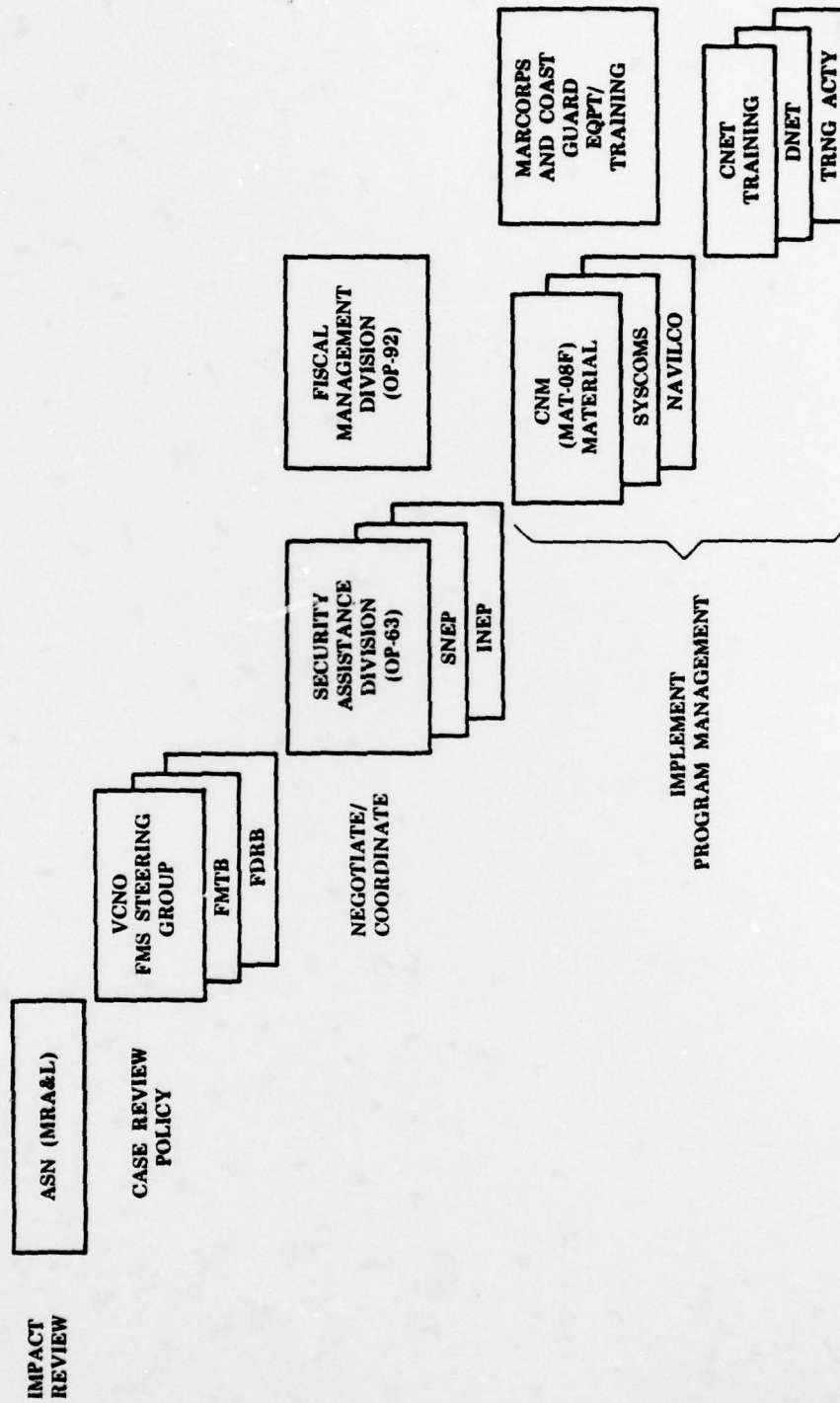


Figure 3: Security Assistance Chain

NAVSEA ORGANIZATION

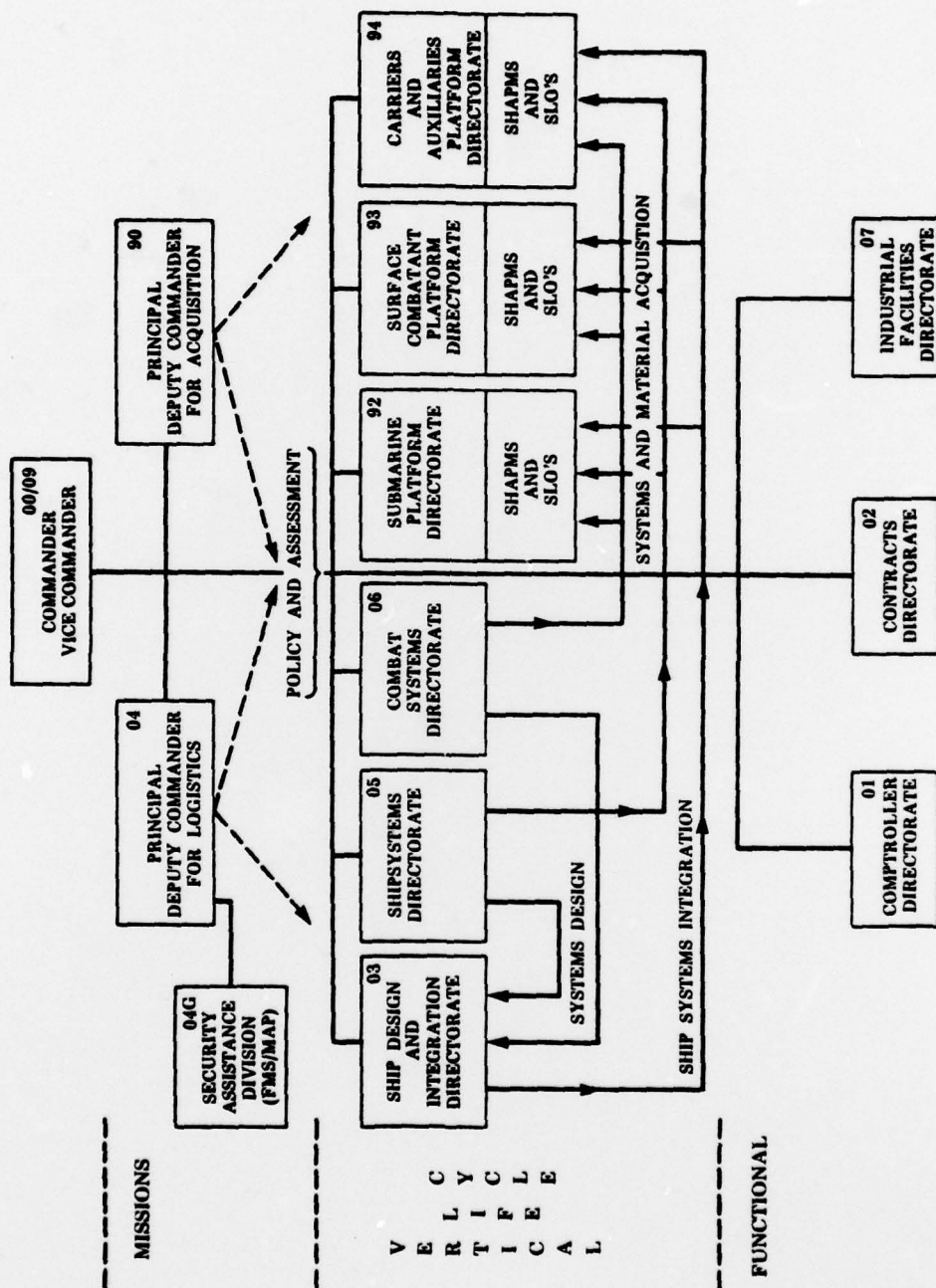


Figure 4: Naval Sea Systems Command Organization

FOREIGN MILITARY SALES DIVISION
WITHIN NSWES ORGANIZATION

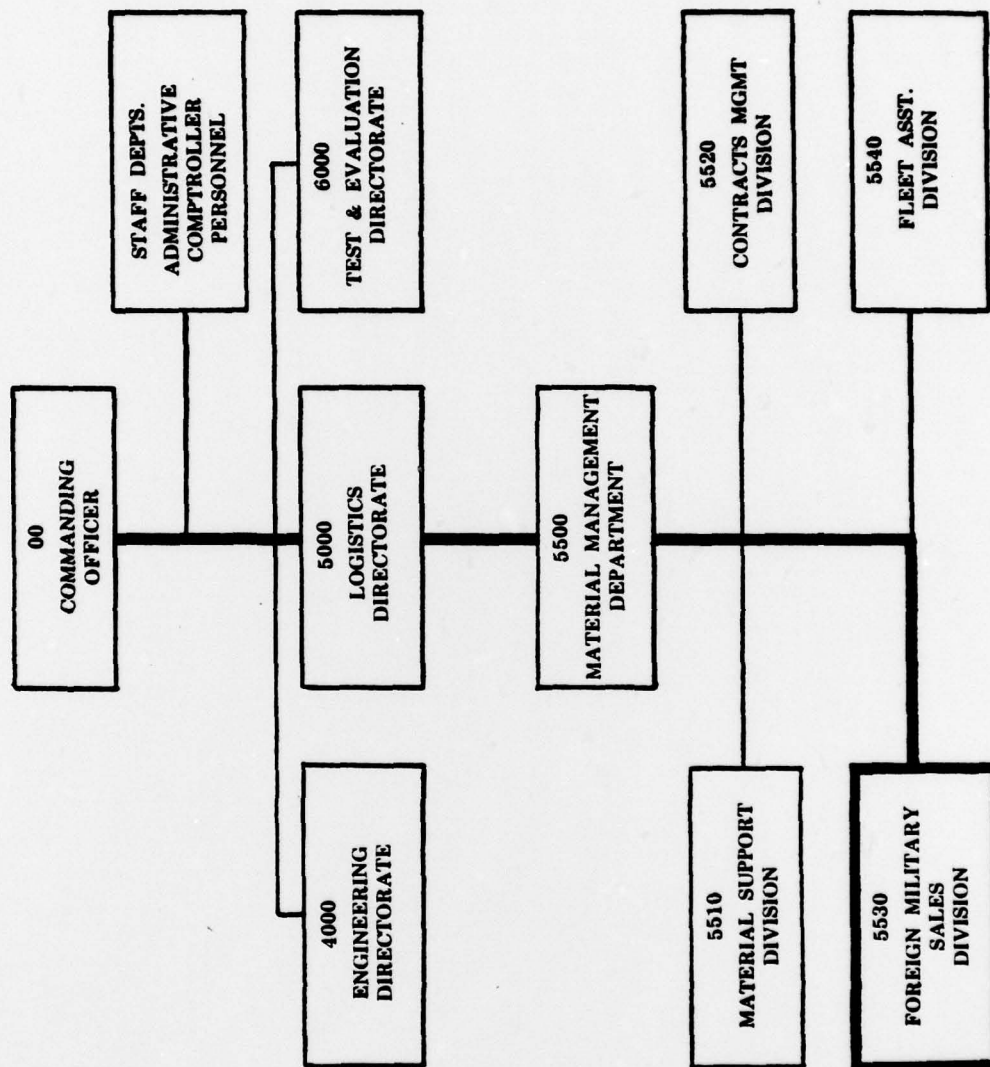


Figure 5: Foreign Military Sales Division within
Naval Ship Weapon Systems Engineering Station Organization

ORGANIZATION OF FOREIGN MILITARY SALES DIVISION

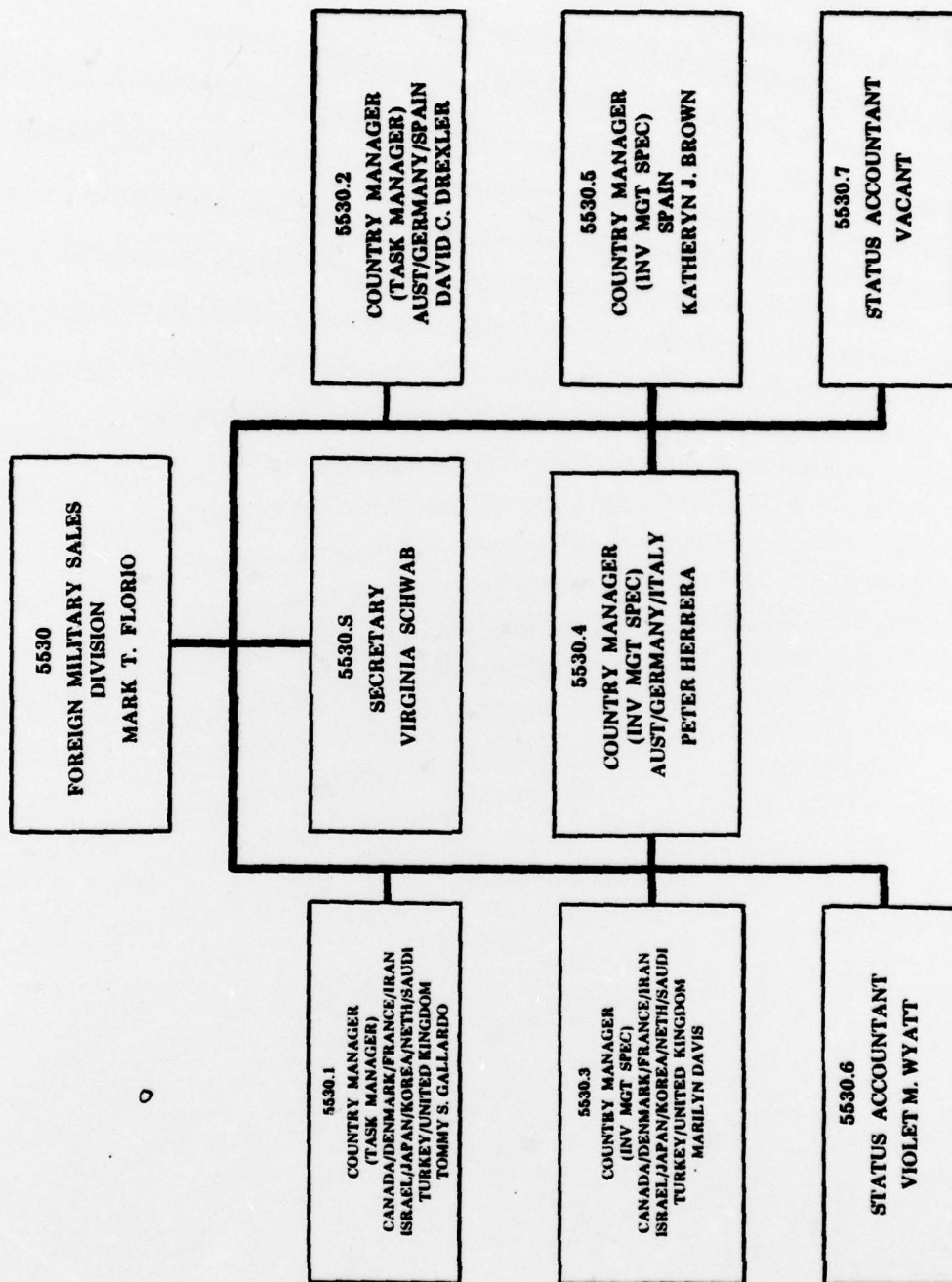


Figure 6: Organization of Foreign Military Sales Division of Naval Ship Weapon Systems Engineering Station

PRICE AND AVAILABILITY REQUESTS AND TECHNICAL INQUIRIES ROUTE

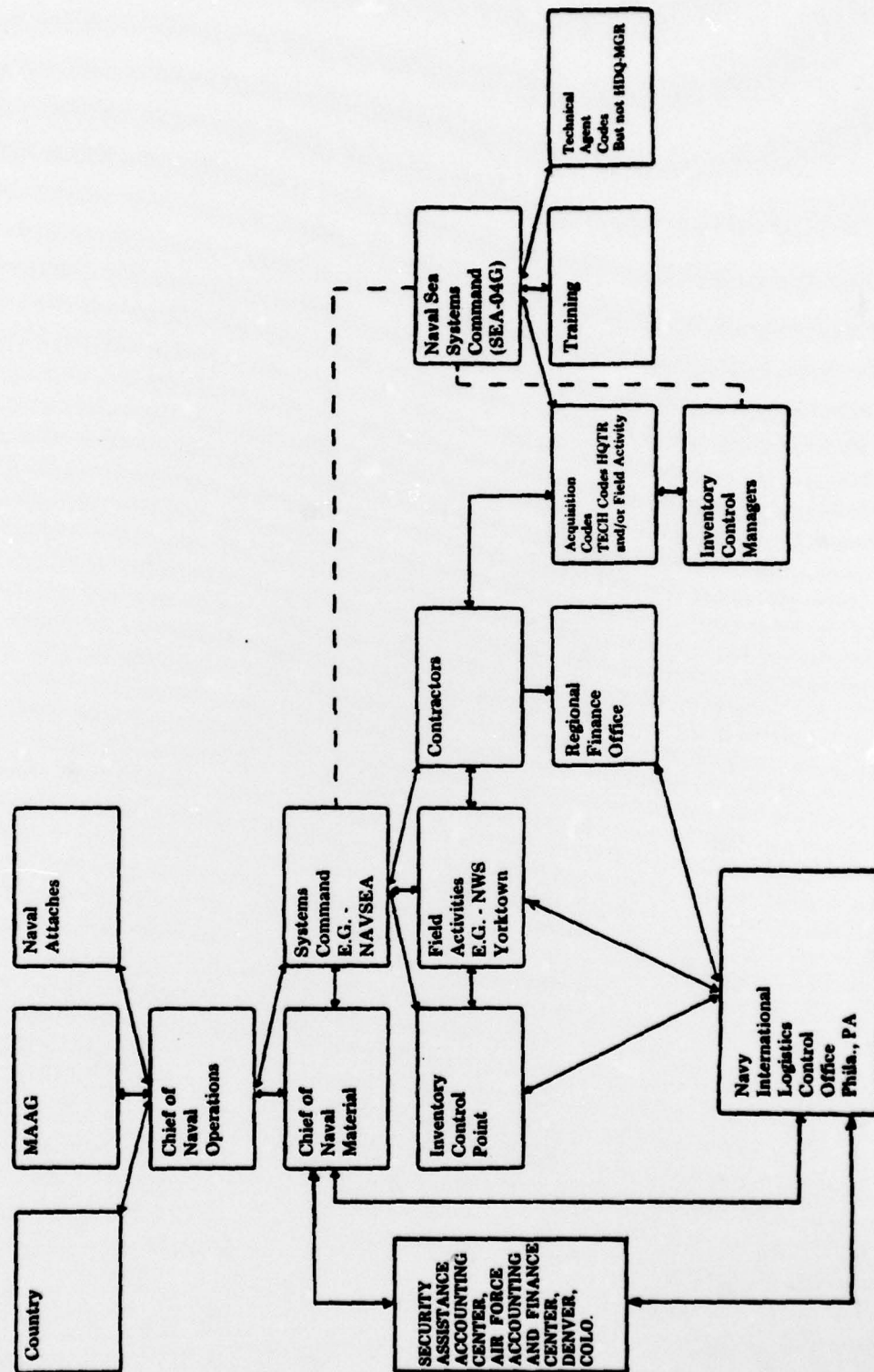


Figure 7: Price and Availability Requests and Technical Inquiries Route

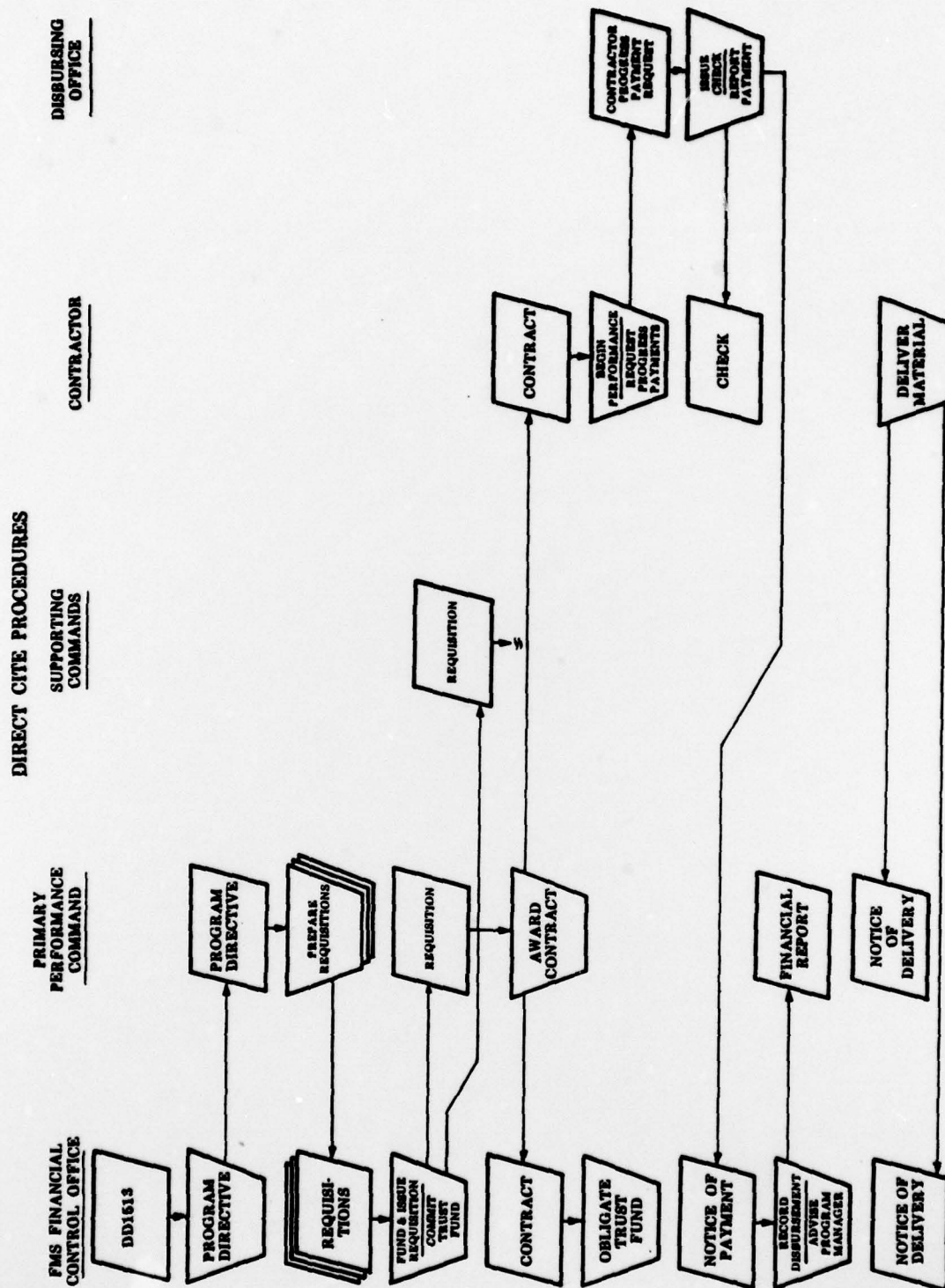


Figure 8: Direct Cite Procedures

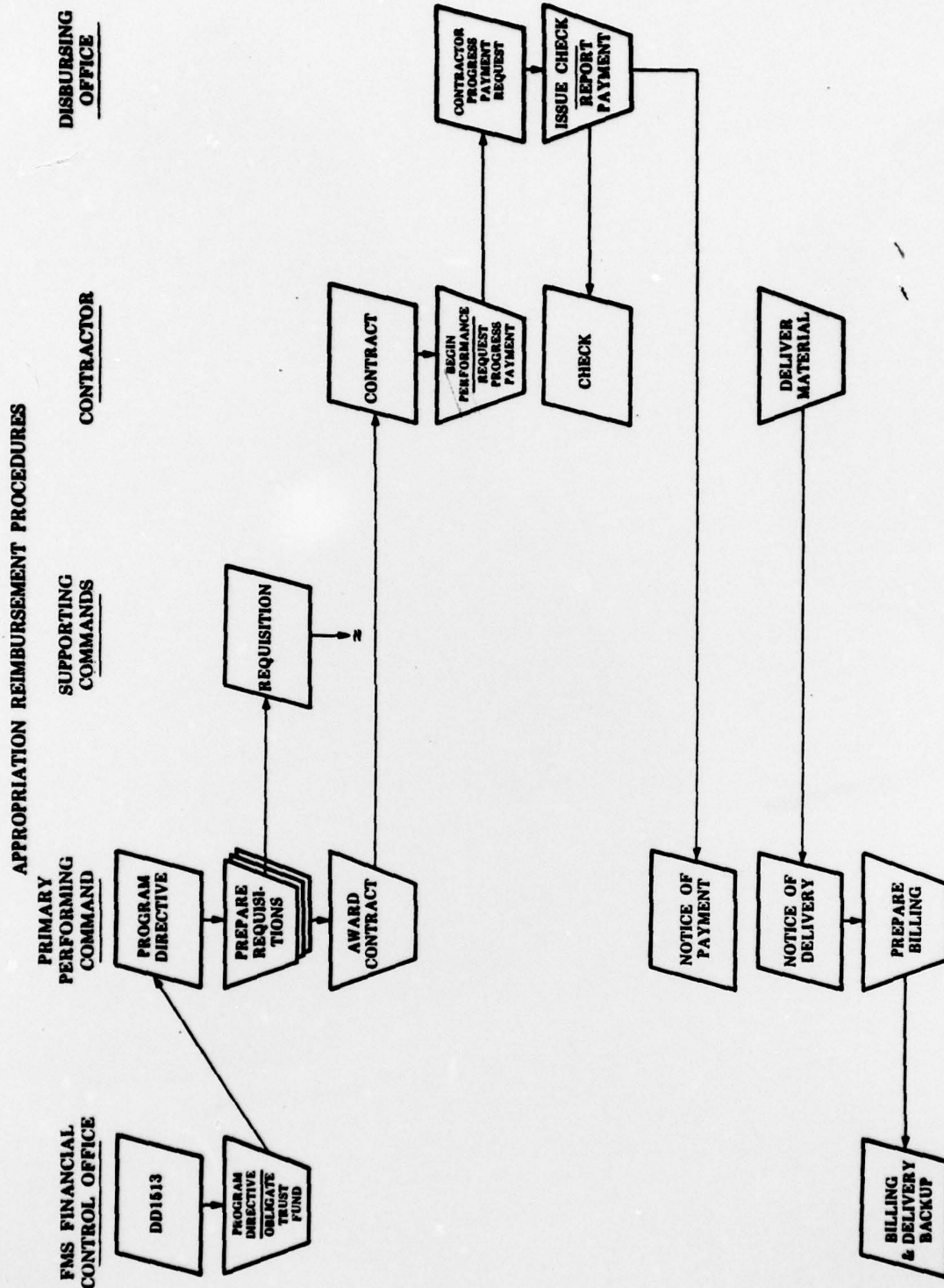


Figure 9: Appropriation Reimbursement Procedure

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