

An underwater photograph showing a wooden deck chair floating in the blue water. In the background, a large iceberg is visible. The scene is dimly lit, with light filtering through the water from above.

Rearranging the Deck Chairs on the Titanic

Why Does Acquisition Reform Never Work?

Thomas H. Miller

The Weapons Systems Acquisition Reform Act of 2009 (WSARA) makes some significant changes to the defense acquisition system. However, a House Armed Services Committee press release that accompanied signing of the legislation acknowledged that the bill covers only 20 percent of the Pentagon's buying practices. The Committee intends to introduce new acquisition reform legislation this year with the intent of saving \$135 billion over five years, before the ink is even dry on the WSARA. Such legislation seems to be a rite of passage for each new administration—another attempt to wring savings out of defense acquisition by making it more efficient.

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There have been numerous high-level panels convened to look at ways to improve the system (the Hoover study of 1949, the Fitzhugh Commission of 1970, and the Packard Commission of 1986, just to name a few), yet we continue to see inherent overruns and delinquent schedules in defense acquisition systems.

With all of the analytical work put in over the years by highly qualified bodies of defense acquisition experts, why do none of these reform efforts seem to work? Is it even possible to improve defense acquisition and make it a highly efficient, effective system? Or are these efforts continual rearrangement of deck chairs on the Titanic acquisition system that never stops crashing into icebergs? I will attempt to answer some of these questions, based on a short historical recap and search for commonly found, recurring problems identified in previous acquisition reform efforts.

A Short History of Major Acquisition Reform Efforts

Secretary of Defense Gates has noted that over 130 studies on the subject of acquisition reform have been conducted over the last few decades “to no avail.” It appears that the Secretary is being conservative in his estimate—the Business Executives for National Security group recently cited 262 relevant studies, reports, and publications just since the Goldwater-Nichols legislation of 1986. I don’t intend to review all of these efforts, only provide a summary of two relatively recent major studies and legislation; but these summaries do serve to show the scope of previous acquisition reform efforts.

The Packard Commission and Goldwater-Nichols (1986)

President Reagan tasked the Packard Commission in 1986 with reducing inefficiencies in the defense acquisition system. The Commission’s report stated that there was “no rational system” governing defense acquisition, and that it was not fraud and/or abuse that led to large overruns, but an “overcomplicated organization and rigid procedure.” In order to address the systemic problems identified (cost growth, schedule delays, performance shortfalls), the commission recommended several regulatory and administrative initiatives: (1) that defense appropriations should be passed by the United States Congress in two-year budgets rather than annual appropriations bills; (2) the creation of a “procurement czar,” to be known as the under secretary of defense for acquisition, and the creation of a clear hierarchy of acquisition executives and managers in each of the Services; (3) that theater commanders should report directly to the United States secretary of defense through the chairman of the Joint Chiefs of Staff; and (4) that the powers of the chairman of the Joint Chiefs of Staff should be strengthened. Many of the recommendations from the commission were instituted in the Goldwater-Nichols Act of 1986. Studies have shown that implementation of these

reforms had no impact on program cost growth. Why? Pierre Chao, a Wall Street defense industry analyst, speculated in testimony before a House Committee that it was the result of unintended consequences, such as the “fault lines” it established between the acquisition, requirements, and budgetary processes. That, he stated, is the “primary contributor to the lack of institutional accountability in our system today.” In a 1999 study, David S. Christensen, Air Force Capt. David A. Searle, and Caisse Vickery pointed out that the act did not address some significant factors of cost growth, including congressional funding changes that account for “up to one-half of the cost growth in major weapon systems.”

Federal Acquisition Streamlining Act and Federal Acquisition Reform Act (FASA/FARA)

Whereas most of the prior acquisition reform legislation was negative in nature, intended to impose constraints, sanctions, and additional oversight often in reaction to bad news stories (such as the legendary \$500 toilet seat), FASA and FARA (1994 and 1995 respectively) were based on principles of reducing cost and acquisition lead time by freeing acquisition professionals to use good business judgment and by providing tools commonly used in the commercial marketplace. Driven by then-vice president Gore’s “Re-inventing Government” initiative, these complimentary bills emphasized efficient, timely acquisition processes and encouraged acquisition of commercially available products and technologies. Major changes included establishing streamlined rules for commercial off-the-shelf items; permitting contracting officers to limit the competitive range based on efficient competition; and allowing for limited competition after initial award of multiple-award service contracts.

These were significant process/procedural changes, and most important, they reflected a shift in approach that in theory allowed for government acquisition to operate in a more business-like fashion. Did it work? General consensus is that there were some benefits at the margins resulting from FASA/FARA, particularly in reducing process lead time for acquisition of services, but there was negligible impact on the pace or scope of cost overruns. Why? There was very little impact on major weapon system programs, as those programs require unique, developmental products and technologies that are generally nonexistent in the commercial market place. So those programs in effect continued to be governed by standard acquisition rules and processes. In addition, the concurrent push from Gore’s “National Performance Review” to reduce “overhead” government personnel through outsourcing resulted in a significant loss in key knowledge areas (such as engineering and cost analysis) over the subsequent years, which may have actually increased cost overruns in these programs by reducing effective government oversight on major system contracts even as the scope and complexity of the programs increased at an exponential rate. This concern is only

now being addressed through the Obama administration's insourcing initiative.

Common Themes and Common Results

Despite being almost opposite in philosophical underpinnings, Goldwater-Nichols and FASA/FARA were intended to positively affect the same perceived systemic problems in the defense acquisition system: overcomplicated organizations and overly rigid procedures that result in continuing cost growth, schedule delays, and performance shortfalls. The best, most experienced acquisition experts of the day were consulted in each case. The majority of recommendations the study groups presented were passed in legislation by Congress. And in each case, the expected outcomes were not achieved or only marginally so; and in some cases, the law of unintended consequences resulted in negative results, such as accelerating cost overruns. Yet efforts continue today, both within Congress and the Defense Department. Will they be any more successful than their equally well-meaning predecessors?

Why Do Acquisition Reform Efforts Never Work?

In a recent article in *Defense News*, MIT Professor Harvey Sapolsky wrote: "Let's be honest this time. Let's just skip the acquisition reform charade. The promise of reform is for rubes, those dumb taxpayers whom we want to believe, on the 85th or 86th time, we will get it right." Is he correct in his assertion that the defense acquisition system is incapable of being fixed? Linda Brandt and Francis Ahearn write that "the defense acquisition system was designed with many goals in mind, but efficiency was not one of them" (*Joint Force Quarterly*, Summer 1997).

The acquisition system is a reflection of the constitutionally based system of government within which it works. It is controlled by checks and balances, intended to allow each power base (Congress, Executive Branch, Judicial Branch, and the public itself) fair access. Congress micro-manages the system to ensure maximum dollars are spent in intended districts, seemingly without concern for impact on program stability. The Services fight each other and the administration for funding, manage highly redundant portfolios of weapon systems, and clearly incentivize performance over

cost and schedule. The Defense industry is certainly not motivated to operate more efficiently, as to do so would reduce their profits and performance for shareholders. Given these challenges, is there anything that can be done to truly, measurably improve the efficiency of defense acquisition? I believe the answer is "Yes" and recommend focus in the following areas.

Better Balance of the "Three Circles"

A Government Accountability Office report of April 2009 entitled "Defense Acquisitions: Charting a Course for Lasting Reform" stated that "DoD's key processes for setting requirements, providing funding, and managing acquisition programs have institutionalized some underlying causes for persistent problems in weapon system programs." The Defense Acquisition University depicts the defense acquisition system as three interlocking circles representing the three systems that comprise it: the requirements process, which determines what to acquire; the programming and budgeting system, which determines how many to acquire; and the acquisition management system, which determines how we acquire. Yet these systems are not balanced and co-equal (recall Pierre Chao's reference to "fault lines" between them). The acquisition process is the weakest of the three, having

little capability to influence requirements trades and/or budget decisions. After those decisions are made, acquisition organizations have to do their best to be successful, although such efforts are often doomed before they start. An example of this is the development program for the U.S. Marine Corps' next-generation amphibious personnel carrier, the expeditionary fighting vehicle. Requirements trades determined that the EFV should be capable of launch from amphibious ships 25 miles or more offshore; reach shore far more quickly than its predecessors; and once on land, maneuver across country with agility, mobility, and protection equal or greater than that of the M1 main battle tank. Budget trades resulted in significant funding and quantity reductions, which delayed the program and caused the unit price to more than double. What is a program office to do when dealt a hand like that (highly ambitious if not impossible requirements with unstable funding)? The current results should have been expected, given the history. What can be done? Congress

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should increase the power of the acquisition establishment to influence requirements and budget trades, and to ensure that acquisition risks, such as technology maturity and affordability, are considered up front.

Change Acquisition System Disincentives to Incentives

The Services and their acquisition program professionals are incentivized by the current system to increase spending rather than to reduce cost, and to oversell the capability and underestimate the costs of their programs. Program managers who reduce cost are rewarded by funding cuts, and have little latitude to use funds freed up by cost savings to seek improvements in other areas that might benefit their warfighter customers. Those PMs who seek to declare up front that their program is unexecutable given requirements, available funding, and required schedule (often established before the PM is appointed) are considered failures. The GAO report mentioned earlier states that “the business cases are compromised to reconcile the disparate pressures imposed by the requirements and funding processes.”

How do we change these perverse disincentives and replace them with incentives that reward PMs for efficient, effective performance that results in lower cost and improved performance? Rep. Robert Andrews (D-N.J.) is advocating a bill called the Improve Acquisition Act that would provide financial rewards (pay raises, bonuses, promotions, etc.) for workers who achieve program cost savings, and rewards such as increased authority for organizations that perform well. I believe that such changes—combined with the process changes discussed above that will allow (and actually encourage) PMs to effect requirements and funding trades prior to taking on a doomed, unexecutable program—will be necessary to change the culture and focus of the defense acquisition system and allow for more successful program outcomes.

Practice Portfolio Management

The GAO report states that since 2003, the total cost growth for DoD’s portfolio of major defense acquisition programs is higher than it was five years prior, with 42 percent of the programs reporting a 25 percent or higher unit cost increase and an average schedule delay of 22 months. It goes on to say that this performance is driven by older, underperforming programs, 69 percent of which report cost overruns. In the DoD, when a major program underperforms, it is given more funds and time; although quantities are often cut, which, perversely, can increase the program costs on a per unit basis. Schedule extensions often significantly increase overall cost; with the minor inconvenience of a Nunn-McCurdy breach that rarely results in program cancellation. In private industry, major corporations manage a portfolio of programs and seek to maximize their total returns by identifying and cancelling underperforming programs, freeing up scarce funding for the highest return, most effectively managed programs. Although the return objectives (maximization of warfighting capability for the DoD versus maximization of profit for a private

firm) are different, the basic models should be the same. DoD should seek an efficiently performing portfolio of programs that provide the greatest balance of warfighting capabilities within efficient, reasonable cost and schedule requirements. Cancelling underperforming programs earlier in the development cycle will provide incentives for all programs to report cost and schedule accurately up front, incentivize better overall performance, and allow DoD to channel funds to better performing programs.

Let’s Steer the Titanic

As explained above, there are structural and political reasons why defense acquisition programs continue to experience the same problems they experienced 30 or more years ago, despite ongoing scrutiny and continual reform efforts. It is equally true, as stated by Brandt and Ahearn, that “despite persistent charges that the defense acquisition system is catastrophically broken and in need of being recreated ... this system continues to produce the world’s most effective and lethal systems.” But will we be able to continue doing so in the future if we follow the same ineffective processes, given economic challenges and the rise of potential near-peers such as China? All affected parties (with perhaps the exception of the defense industry) are in general agreement that changes are needed, but how do we change the system to produce the desired outcome—a more efficient system with more predictable cost and schedule outcomes—without negatively impacting our capability to effect war when required?

The first challenge is for the key players—Congress and the Executive Branch—to identify the true root cause problems, such as an unequal distribution of power and influence and systemic disincentives; and make changes that will affect them through legislation and effective implementation of that legislation. That will be difficult to achieve, given today’s contentious political environment, but the alternative—continually eroding US defense capability at continually increasing cost—is adequate motivation to try.

DoD should be given full credit for their recent efforts to address the structural issues I described above, including emphasizing knowledge-based programs, ensuring demonstrated maturity of key technologies in early program phases, and renewing focus on the cost estimation process. However, more challenging work is still to be done. The DoD, the White House, and Congress should commit to balance the three defense acquisition systems, giving the acquisition management organization (particularly the defense acquisition executive) power to influence requirements and funding trades, and—working as the business agent for requirements and funding organizations—the authority to manage the overall defense program portfolio in order to maximize capabilities within available funding.

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