



REPORT

**REFRAMING THE DEFENSE
OUTSOURCING DEBATE:**

**MERGING GOVERNMENT
OVERSIGHT WITH
INDUSTRY PARTNERSHIP**

**PATRICK CULLEN
PETER EZRA WEINBERGER**

PEACE OPERATIONS INSTITUTE

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Reframing the Defense Outsourcing Debate: Merging Government Oversight with Industry Partnership

Patrick Cullen
Peter Ezra Weinberger

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President's Message

President of the Peace Operations Institute

This report, the first of its kind from the Peace Operations Institute, sets a new precedent in the debate over defense outsourcing. By conceiving contract oversight in terms of a public-private partnership, its authors provide practical solutions to a number of outsourcing's current challenges.

Authors Patrick Cullen and Peter Ezra Weinberger have crafted a timely, relevant and interesting study that succeeds in addressing common assumptions expressed in academic criticisms of the privatization of military affairs, while also discussing ways to improve contractor accountability, government responsibility and performance metrics for private-sector companies which assist U.S. defense activities worldwide.

The Peace Operations Institute (POI) is a nonprofit research organization established in late 2006 by staff from the International Peace Operations Association (IPOA). It is dedicated to improving education about peace and stability operations and to promoting practical solutions to peacekeeping operations. POI encourages innovative collaboration to improve practices by engaging key actors involved in the resolution of, and reconstruction following, incidents of conflict, including

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governments, regional organizations, non-governmental and private sector firms, in the search for new ideas and solutions.

A handwritten signature in blue ink, appearing to read "Doug Brooks", with a long horizontal flourish extending to the right.

Doug Brooks
October 2007

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Executive Summary

This report shifts the discussion of the government's role in defense contract oversight *away* from an exclusive focus on guarding against contractor malpractice—an important issue that has nevertheless been exaggerated in the media—*towards* an understanding of contract oversight as a process of *government-industry partnership*. Here, contract oversight is understood in terms of specific technical problems that can be resolved or ameliorated by proactive cooperation between government and industry partners. In addition to, and in accordance with this pragmatic vision of government oversight, the report seeks to achieve the following:

- Discuss the possibility for a convergence of opinion between advocates and skeptics regarding the cost savings associated with defense privatization. The report finds room for agreement on both sides of the debate that cost savings can be, and are being, achieved.
- Specify concrete examples of value-added from government-industry partnership at the various *pre* and *post* award stages of a contract. The report explains why it is not necessary to rely on altruism, but rather mutual self-interest, to facilitate a partnership that leads to cost savings.
- Deliver a basic tutorial on *fixed price* and *cost-reimbursement* contracts to explain the complexities faced by the government when choosing an appropriate contract vehicle.

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- Provide an introduction to economic theories used to either question or endorse defense outsourcing.
- Offer an explanation of metrics and how the government is able to measure contractor performance on the battlefield.
- Highlight the necessity of appropriate government contract oversight and discuss current deficiencies of government contracting personnel.
- Present several key attributes that the private sector brings to the defense outsourcing table: productivity, continuity, flexibility, and surge capacity.

Introduction

This paper attempts to shift the discussion of the government's role in defense contract oversight *away* from an exclusive focus on guarding against contractor corruption and malpractice—an important issue that has nevertheless been exaggerated in the media—*towards* an expanded understanding of oversight as a process of *industry partnership*. In this vision, contract oversight is understood in terms of specific technical problems that can be ameliorated by cooperation between government and industry.

While the government must certainly maintain its watchdog role, a partnership environment does not view the respective interests of the public and private sector as a zero-sum game. Rather, it aims to create mutually beneficial solutions to shared matters of concern. Moreover, it is not utopianism, but rather the genuine existence of mutual self-interest that makes this cooperation possible. By building long-term relationships that increase trust and by working together to find common solutions to common problems, both the government customer and its private sector partner can benefit.

Overall, the paper is divided into seven separate yet thematically linked sections—each with its own subsections—that provide insight into a number of issues surrounding defense outsourcing.

The first section provides a brief introduction to the debate on whether or not the Department of Defense (DoD) is achieving cost

savings from outsourcing, and suggests that despite the difficulties in generating precise quantitative data to resolve this question, there is still considerable evidence to suggest that real and enduring cost savings can be generated from privatization.

The second section turns to the economics of Transaction Cost and Agency theory used to underwrite much of the academic skepticism of the cost savings from defense outsourcing. The insights and critiques of these theories are then contextualized against Public Choice theory's demonstration of the value-added provided to the government by private sector competition.

The third section provides an introduction to two of the most common types of contracts used in defense outsourcing: *fixed price* and *cost reimbursement*. Special emphasis is placed on the government's need to choose the most appropriate kind of contract vehicle, as well as the different types of risks associated with each kind of contract.

Section four elaborates the discussion of the government's dual role of industry watchdog and partner. Detailed examples of the benefits derived to both the government and industry from a proactive partnership approach to contracting are illustrated at the various *pre* and *post* award stages of the contract.

Section five elaborates the importance of creating reliable and clearly communicated performance metrics at the beginning of a contract. It provides a discussion of a variety of metrics available as a counter to claims that suggest the government is unable to adequately measure a contractor's performance (especially on the battlefield).

The sixth section deals head-on with the thorny issue of insufficient government oversight of defense service contracts. A lack of numbers, training, continuity and coordination of government contracting personnel are documented, thus placing the lion's share of the responsibility to fix these oversight problems with the government itself.

REFRAMING THE DEFENSE OUTSOURCING DEBATE

The seventh and final section of the report highlights several key attributes that the private sector brings to the defense outsourcing table. Productivity, continuity, flexibility and surge capacity are discussed.

Cost Savings from Privatization and Competitive Sourcing¹

Early Proponents of Defense Outsourcing

The U.S. federal government has long recognized the advantages of turning to the private sector for the provision of goods and services. In the 1950s, the U.S. government first implemented a policy that stated it would “not start or carry on any commercial activity” that the private sector could provide.² In 1966 this policy was enshrined in the Office of Management and Budget (OMB) Circular A-76, establishing a long-held general principle that

¹For the DoD, the terms “outsourcing” and “privatization” mean two distinct things. The DoD defines *privatization* as: a federal agency decision to change a government-owned and government-operated commercial activity or enterprise to private sector control and ownership. *Outsourcing*, on the other hand, is defined as: the transfer of an activity previously performed in-house to an outside provider. Throughout this paper the terms privatization and outsourcing are used interchangeably. See Kevin Kosar, “Privatization and the Federal Government: An Introduction.” (Washington, D.C.: Congressional Research Service, December 28, 2006). Competitive Sourcing is defined as the act of exposing government activities to competition with the private sector.

² U.S. Army Installation Management Command, “Brief History and Overview of Competitive Sourcing and the Circular A-76,” <http://www.imcom.army.mil/site/plans/compsourcing.asp> (10/12/07).

government would not reproduce internally what could be readily found in the commercial sector. Today, the A-76 has been modified to embrace public/private competition, and it now functions as the public/private competitive sourcing vehicle of the DoD. Although defense outsourcing was limited in the 1980s and into the early 1990s due to legislative and administrative hurdles, this changed dramatically by the mid-1990s. As the DoD sought to modernize and streamline its operations after the Cold War, it commissioned a number of influential studies and reports that extolled the competitive advantages of the private sector. These studies sought to contextualize the importance of defense outsourcing in terms of the necessity of adopting the best practices of corporate America. In one such example, a report issued in March 1996 stated: “[I]ike the best companies and organizations in the United States, DoD has embarked on a systematic and vigorous effort to reduce the cost and improve the performance of its support activities” [through] “outsourcing, privatization and competition.”³ Similar studies projected impressive cost savings from moving large segments of the defense workload from military and DoD civilian personnel to the private sector. In 1995, the Commission on Roles and Missions (CORM) concluded that a quarter of a million jobs performed by the DoD were essentially commercial activities and estimated that competitively selecting private sector firms to perform these jobs would realize savings of 20 percent.⁴ In that same year, a report written by the Defense Science Board (DSB) concluded that the Pentagon could save up to \$12 billion annually if it contracted out all of its support functions.⁵

Former Secretary of Defense William Cohen expressed the degree to which the DoD had internalized the views expressed in these studies when he stated in the 1997 Quadrennial Defense Review:

³ “Improving the Combat Edge Through Outsourcing,” *Defense Issues*, Vol. 11, No. 30 (Washington, D.C.: U.S. Department of Defense, March 1996), pp. 2, 4.

⁴ See the Executive Summary, “Directions for Defense: Roles and Missions Commission of the Armed Forces,” Report to Congress, the Secretary of Defense and the Chairman of the Joint Chiefs of Staff. May 25 1995, <<http://www.fas.org/man/docs/corm95/di1062.html>> (10/15/07).

⁵ See Deborah Avant, *The Market for Force: The Consequence of Privatizing Security* (New York: Cambridge University Press, 2005), p.146.

Over the past decade, the American commercial sector has reorganized, restructured, and adopted revolutionary new business and management practices in order to ensure its competitive edge in the rapidly changing global marketplace. It has worked. Now the Department must adopt and adapt the lessons of the private sector if our armed forces are to maintain their competitive edge in the rapidly changing global security arena.⁶

The results of this philosophical shift are significant. From 1996 to 2005, the DoD has increased the amount it has spent on service contracts from \$82 billion to \$141 billion.

Skeptics of Outsourcing

In response to the Pentagon's earlier optimistic expectations, a number of studies came out that were critical of the projected cost savings from defense outsourcing. In 1997, the Government Accounting Office (GAO) issued a report analyzing two of the above-mentioned studies (the CORM and DSB reports) and concluded that—due to problems ranging from a less-than-competitive market for defense services to legislative hurdles limiting what the DoD could actually privatize—a more modest anticipation of cost savings from privatization was required.⁷

A decade later the GAO remains more skeptical of cost savings than the Pentagon. Yet interestingly, it has shifted much of the attention of perceived problems and shortcomings associated with defense contracting *back* towards the DoD. In recent years, the GAO has argued that the following circumstances have greatly reduced the potential for savings from outsourcing: poor DoD acquisition processes; the lack of knowledge of market conditions and industry trends; an inability to prepare clear statements of work or write the technical details of contract work requirements;

⁶ See "The Secretary's Message", Quadrennial Defense Review, May 1997, <<http://www.fas.org/man/docs/qdr/msg.html>> (10/12/07).

⁷ For an early lukewarm GAO response to DoD projections for cost-savings from outsourcing, see David R. Warren, "Defense Outsourcing: Challenges Facing DoD as It Attempts to Save Billions in Infrastructure Costs," (Washington, D.C: General Accounting Office, GAO/T-NSIAD-97-110, March 12, 1997), pp.2-4.

and a weak capacity to oversee and manage contractors.⁸ In essence, skeptics have argued that as both the complexity and the quantity of defense services contracting has increased, the defense acquisition workforce has not in turn absorbed the new business skills needed to act as competent contract managers, thereby exposing the government to more risk from potential “waste, abuse and mismanagement.”⁹

General Problems Measuring Cost Savings

Another problem faced by advocates of defense outsourcing—and, perhaps more recently, critics of defense outsourcing as well—has been the lack of academic consensus on either the magnitude or the sources of expected government cost savings from privatization.¹⁰ This lack of consensus is primarily due to a lack of quantitative comparative data on the relative costs of public versus private provision of defense services. In the words of a recent 2007 GAO study, “[s]ufficient data are not available to determine whether increased services contracting has caused DoD’s costs to be higher than they would have been had the contracted activities been performed by uniformed or DoD civilian personnel.”¹¹ Ironically, it has not been the “proprietary information” from private sector defense contractors that has been responsible for this lacuna of quantitative cost data; instead, there has been a lack of reliable *government* information. As advocates of defense outsourcing have noted, before precise cost comparisons between the public and private provision of defense services can be made, the government must take two key steps. First, it must

⁸ One pointed example of government mismanagement has been their payment of incentive fees built into contracts to motivate the contractor towards better performance irrespective of the contractor’s performance. See GAO, “Defense Acquisitions: DoD has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes”, (Washington, D.C.: GAO-06-66, December 19, 2005).

⁹ David M Walker, “Rebuilding Iraq: Reconstruction Progress Hindered by Contracting, Security and Capacity Challenges” (Washington, D.C.: GAO -07-426T, February 15 2007), p.5.

¹⁰ Paul H. Jensen and Robin E. Stonecash, “The Efficiency of Public Sector Outsourcing Contracts: A Literature review,” Melbourne Institute Working Paper No. 29/04, October 2004, p.2.

¹¹ See preface to GAO, “Defense Budget: Trends in Operations and Maintenance Costs and Support Services Contracting, (Washington, D.C: GAO-07-631, May 2007).

generate an increased level of in-house cost estimates for the defense services it undertakes. Secondly, it will have to implement up-to-date accounting mechanisms (such as Activity-Based Costing¹²) that provide full-cost transparency for these services.¹³ Until then, U.S. policymakers may actually get more reliable information on the cost of a service from private companies than from the Pentagon.

Convergence of Outsourcing Skeptics and Advocates

As discussed later in this report, advocates of defense outsourcing have acknowledged the need for a competent government customer if defense savings are to be realized. There is also agreement that government data deficiencies hinder precise cost comparisons of the same defense work performed by the private and public sector. Nevertheless, advocates of outsourcing point towards mounting evidence that savings are occurring. In a rejoinder to critics who argue that projected cost savings from privatization and competitive sourcing are inaccurate, Jacques Gansler, former Undersecretary of Defense for Acquisitions, Technology, and Logistics, has labeled these criticisms “competitive sourcing myths,” noting that “these theories are increasingly being tested, and the data are proving [critics] wrong.”¹⁴ Citing research that illustrates both short-term and long-term cost savings, Gansler has concluded that “the savings

¹² Activity-Based Costing (ABC) is a powerful tool for measuring performance and is used to identify, describe, assign costs to, and report on departmental operations. A more accurate cost management system than traditional cost accounting, ABC identifies opportunities to improve business process effectiveness and efficiency by determining the “true” cost of a product or service.

¹³ Jacques S. Gansler, “Moving Toward Market-Based Government: The Changing Role of Government as the Provider,” (IBM Endowment for the Business of Government, June 2003), p. 20.
<http://www.businessofgovernment.org/pfs/Gansler_Report.pdf> (15 August 2007). See also GAO, “Defense Budget: Trends in Operation and Maintenance Costs and Support Services Contracting” (Washington, D.C.: GAO 07-631, May 2007).

¹⁴ Jacques S. Gansler, “Six Myths of Competitive Sourcing,” *Government Executive*, 1 July 2003, <<http://www.govexec.com/features/0603/ots03s8.htm>> (10/11/07).

from [competitive sourcing] are substantial and sustained over time.”¹⁵

Indeed, some of the very reports that have been skeptical of the Pentagon’s projections of cost savings from outsourcing—and that have highlighted the potential problems of privatization—have nevertheless pointed towards real or potential cost savings and “improved economy, efficiency, and effectiveness” from exposing government service monopolies to private competition.¹⁶ In particular, numerous GAO studies have concluded that cost savings are occurring from competitive sourcing. One such study concurred with a DoD in-house estimate that it had achieved “significant savings” of \$290 million from competitive sourcing in 1999.¹⁷ Another GAO analysis of over 500 A-76 decisions made by the DoD to contract-out work to the private sector between 1995 and 2005 reported that “the decisions generally resulted in reducing the government’s costs for the work.”¹⁸

Seen from this perspective, there is more room for convergence between advocates and skeptics on the potential benefits of defense privatization and competitive sourcing than is commonly assumed. Moreover, there is broad agreement regarding some of the prerequisites necessary for the effective use of defense services privatization. First, in order for cost savings to be achieved, monopoly provision must be replaced by a competitive

¹⁵ Ibid. See also General Accounting Office, “DOD Competitive Sourcing: Savings Are Occurring, but Actions are Needed to Improve Accuracy of Savings Estimates” (Washington, D.C.: GAO/NSIAD-00-107, 8 August 2000); and General Accounting Office, “DOD Competitive Sourcing: Some Progress but Continuing Challenges Remain in Meeting Program Goals” (Washington, D.C.: GAO/NSIAD-00-106, 8 August 2000).

¹⁶ David M Walker, “Rebuilding Iraq: Reconstruction Progress Hindered by Contracting, Security and Capacity Challenges” (Washington, D.C.: GAO -07-426T, February 15 2007), p.4. It is also interesting to note that the 1997 GAO report critical of DoD projections of cost savings from outsourcing *also* predicted these cost savings, but on a more conservative scale. See David R. Warren, “Defense Outsourcing: Challenges Facing DoD as It Attempts to Save Billions in Infrastructure Costs,” (Washington, D.C.: GAO/T-NSIAD-97-110, March 12, 1997), pp.2-4.

¹⁷ GAO, “DOD Competitive Sourcing: Results of A-76 Studies Over the Past 5 Years” (Washington, D.C.: GAO-01-20), p. 4.

¹⁸ Ibid., See also preface to GAO, “Defense Budget: Trends in Operations and Maintenance Costs and Support Services Contracting.”

environment, and the serious possibility of competition must be maintained. Second, it is not privatization *per se* that drives cost savings, but rather the incentives for higher performance at lower costs stemming from public/private competition. Third, the government must act as an intelligent customer. As elaborated later in this report, implementing strong performance metrics and maintaining proper contractor oversight at every stage of the contract are crucial *yet achievable* prerequisites for realizing cost savings.

Economic Theories of Outsourcing

A wide variety of criticisms of defense outsourcing have their underpinnings in economic theory. Often, however, these same critiques ignore similarly relevant economic theory that provides arguments in favor of contracting. This section briefly discusses these alternative perspectives and other concerns derived from economic theory.

Transaction Cost Theory

Critics often make use of Transaction Cost theory, which suggests that the costs associated with managing and monitoring an outsourced task can outweigh whatever benefits defense contracting may initially offer the government. The transaction costs incurred when using an outside supplier include: initial planning and vendor source selection; contract writing and management; periodic renegotiation of contractual terms; and the ongoing monitoring of performance.¹⁹ Due to these constraints,

¹⁹ Raymond Franck, Francois Melese, and John Dillard, "A Transaction Cost Economics Approach to Optimal Contract Type," in *Proceedings from the Third Annual Acquisition Research Symposium* (Monterey, CA: Naval Postgraduate School, 2006: 373), cited in Neil J. Harris, "Contractors and the Cost of War: Research into Economic and Cost-Effectiveness Arguments" MBA Professional Report (Monterrey, California: Naval Postgraduate School, December 2006), p.41.

Transaction Cost theory suggests that it may be more efficient for a firm (or a government) to produce goods and services in-house. Moreover, this theory maintains that these costs are likely to increase when unplanned contingencies are likely, such as in a complex battlefield environment.

Agency Theory

Agency theory has also been utilized to question the value of defense outsourcing. The central dilemma examined by Agency theory deals with how to ensure that a contractor, or agent, will act in the best interest of its employer, or principal. Agency theory stipulates that a firm's goal of profit maximization may conflict with the principal's overall objectives. Furthermore, this problem can be made worse by the contractor's advantage of having superior information regarding the contracted service relative to the client. In one recent instance, the Lincoln Group, which contracted with the DoD in 2006 to place pro-American articles in the Iraqi media, was alleged to have had a policy to reveal as little as possible about its operations to the government client based on the belief that weaknesses in the company's implementation would endanger future contracts.²⁰

Limits of Transaction Cost and Agency Theory

Both Transaction Cost and Agency theory raise important concerns regarding loss of control when employing contractors instead of relying on government personnel to carry out tasks. However, the government also has control mechanisms available for contractors that are not always applicable for its in-house employees. The ability of the government to use punitive measures, such as declaring contractor default as well as an overall ability to hire and fire contractors arguably offers a greater

²⁰ Willem Marx, "Misinformation intern: my summer as a military propagandist in Iraq" *Harper's Magazine* September 2006, <<http://www.harpers.org/archive/2006/09/0081195>> (10/11/07).

degree of control over these private-sector workers than its civil-service counterparts.²¹

Moreover, many of the criticisms leveled by these economic theories may be applicable in describing the relationship between the policymaker and the bureaucrat, irrespective of whether or not these personnel are wearing public or private hats. While in theory there should be no policy “slippage” between a government executive’s directive and the bureaucracy responsible for its implementation, in actuality the potential for obstruction remains.²² Studies have pointed to the difficulty of changing processes within government bureaucracies, with a resultant limitation imposed on the policymaker’s ability to change and affect overall control over a government bureaucratic organization.²³ Indeed, it is the threat of private sector competition that in some instances drives government bureaucracies to become more responsive to policymakers.²⁴ Critics of defense outsourcing have often overlooked these issues, which are addressed by Public Choice theory.

Public Choice Theory

While many reports have made excellent use of agency theory and transaction cost theory, the absence of Public Choice theory gives an incomplete picture of the theoretical literature surrounding the outsourcing debate, and in some cases also gives unequal attention to the associated costs, as opposed to the associated benefits, at the core of the discussion.

Public Choice theory argues that bureaucracies should not be viewed as neutral agents exclusively interested in delivering the goods and services requested by government policymakers.

²¹ Gansler, “Moving Toward Market-Based Government: The Changing Role of Government as the Provider,” p.54.

²² For an example of this phenomenon, see Terry M. Moe and Scott A. Wilson, “Presidents and the Politics of Structure” *Law and Contemporary Problems* Vol. 57, No. 2, Regulating Regulation: The Political Economy of Administrative Procedures and Regulatory Instruments: [Part II]. (Spring 1994): pp. 22-3.

²³ Gansler, “Moving Toward Market-Based Government: The Changing Role of Government as the Provider,” p.54.

²⁴ *Ibid.*

Instead, bureaucracies also need to be viewed as self-interested actors. While managers of firms in competitive markets are motivated to increase profits, Public Choice theory argues that in the absence of a profit motive, the instrumental goal for public servants is to maximize the amount of money allocated to their departments. When this behavior is taken collectively, it amounts to a massive increase in the agency's budget that is neither rational nor necessarily related to achieving the goals of the policy-makers.²⁵

Moreover, government officials that maintain a monopoly of information on the costs of public service delivery can easily engage in budget maximizing strategies. The monopoly of information on national defense issues, for example, enables defense officials to lobby the government for the highest possible funding levels.²⁶ In this environment, there are few incentives to search for less expensive modes of service delivery, such as competitive tendering, since these savings could lead to overall defense budget reductions and thus diminished bureaucratic power and influence. As each bureaucrat seeks to achieve his personal goals, the collective result produces an organizational pathology leading to "government failures."²⁷

Ex-Post Rent Extraction

Critics of outsourcing have also highlighted the problem of ex-post rent extraction. In this scenario, a firm is capable of making cost overruns once a contract is won since the government has no practical alternative than to keep using the contractor hired for the service. Critics additionally claim that companies can use this strategy as a technique to win a government contract by using an artificially low bid in order to under-bid their competitors, with the anticipation of being able to recoup these costs in additional later fees.

²⁵Kosar, p.5.

²⁶ For a comprehensive discussion see, Patrick Dunleavy, *Democracy, Bureaucracy, and Public Choice* (London: Harvester Wheatsheaf, 1991).

²⁷ *Ibid*, p.159.

Both preventative and punitive measures are needed to help the government customer avoid this problem. First and foremost, the government cannot simply award the contract to the lowest bidder. Due diligence—including a requirement for successfully executed prior awards and clean performance records—needs to be undertaken. Punitive options include the ability to terminate a contractor for default. This negative classification should both remain on the contractor’s record and be disclosed when making future bids. Information on abusers can be additionally shared across government agencies. Government clampdowns on this behavior can serve as a deterrent and send a strong message of resolve to stamp out this abusive practice.

Contract Types

When choosing a contract type, the government has a number of responsibilities. In general, it must select the optimal arrangement that is most likely to produce a fair price for performing a given statement of work. This involves weighing both cost and technical risks and consciously balancing these factors between itself and the contractor. In general, the following kinds of technical risks affect the type of contract the government ought to select: the length of contract performance; the firm's financial capacity necessary for seeing a project through to its conclusion; the firm's technical proficiency in the required field; and the urgency of the work requirement. Ultimately, the government customer will select a particular type of contract vehicle depending on the measurement of these and other risk variables. As discussed below, no contract type is without its downsides.

Popular criticisms of outsourcing have argued that the government's contracting practices are wasteful. In particular, these critics have pointed to cost reimbursement contracts as an example of a gratuitously inefficient contract vehicle that exposes the government customer to vast pricing and cost abuses. However, fixed price (and even firm fixed price) contracts do not always offer the government a better alternative or cost savings. Popular criticisms of cost reimbursement contracts, while valid, have often overlooked the fact that different contract types have specific sets of advantages and disadvantages. Crucially, each type of contract allocates risk between the vendor and the government

buyer differently. This in turn has direct ramifications for the cost of the contract. The following section offers a brief discussion of the pros and cons of these two primary contract types—*fixed price* and *cost reimbursement*.

Fixed Price (FP)

Under a fixed price contract the contractor must deliver the product or perform the service for a pre-established fixed price or under a price ceiling stated in the contract. While there are multiple permutations of a fixed price contract, in general the advantages of a fixed price contract for the government include cost predictability and a strong incentive for a contractor to avoid cost overruns. In its most rigid format, known as *firm fixed price*, the contract is not subject to any adjustment on the basis of the vendor's cost experience in performing the contract. In this type of contract, the vendor is subject to maximum risk and full responsibility for all costs and resulting profit or loss. It also provides the strongest incentive for the contractor to control costs and perform effectively while imposing a minimum administrative burden upon the contracting parties.²⁸

The disadvantages of fixed price contracts relates to the relationship between risk and cost. In these circumstances, risk pertains to unforeseen contingencies that can occur during the course of the contract which increase overhead cost. As the government shifts an increased amount of this contractual risk to the vendor, the vendor is in turn motivated to increase the cost of the contract to limit its risk exposure. In the example of the *firm fixed price* (FFP) contract discussed above, a vendor will often increase the profit margin calculated into the contract in order to mitigate the increased risk of financial loss. As a result of this logic, the government could actually incur higher costs under an FFP contract rather than from an alternative, ostensibly riskier, contract type. This quote from a contractor illustrates this point:

²⁸ See Federal Acquisition Regulation (FAR) subpart 16, <http://www.acqnet.gov/far/current/html/Subpart%2016_2.html> (10/06/07).

We received a request from the [United States government] to provide a range of complex training in a host country. A proposal was required in less than a week and if awarded, we could expect to deploy our initial contingent within 2-3 days of award...[w]e were advised we would need to be self sustaining in all regards (lodging, transport, communications, program materials, translations and interpretations, etc.) but that no information was available as to what might be available locally and there was insufficient time to conduct a program reconnaissance. Offsetting at least some of this risk by more margins in a cost estimate for a FFP contract is one of the few risk mitigations available to the contractor.²⁹

Cost-Reimbursement

Generally, in this type of contract, the government pays for the total amount of the costs incurred by the vendor within a pre-determined price ceiling. Here, the firm agrees to diligently pursue the specified work requirement within the estimated amount established in the contract. While there is no scholarly consensus on the overall cost-effectiveness of cost-reimbursement contracts, nevertheless there are certain instances where the government may prefer to utilize this vehicle.³⁰ Cost-reimbursement contracts may be appropriate when the government's requirements are complex and there is a high likelihood of changes in the technical direction of the work requirements. Cost-reimbursement contracts may also be appropriate when the period of performance is extensive (over five years) and the difficulties for both the government and the contractor to establish an accurate contract value and cover all contingencies are magnified. One example of a requirement that

²⁹ Confidential interview, 09/27/07.

³⁰ See, for example, Sujoy Mukerji, "Ambiguity Aversion and Cost-Plus Procurement Contracts," Department of Economics, University of Oxford, Discussion Paper No. 171, October 2003, <<http://www.economics.ox.ac.uk/Research/wp/pdf/paper171.pdf>> (08/22/07). Despite documented problems of waste incurred from this contract type, some studies have shown evidence of cost savings. For example, a 1997 Logistics Management Study found that Kellogg Brown and Root (KBR) completed work using 6,766 employees and costing \$462 million that would have taken the U.S. Army 3,918 soldiers and \$638 million dollars. See Anthony Bianco and Stephanie Anderson Forest "Outsourcing War," *Business Week Online*, 09/15/03.

might be best suited for this type contract would be the management and operation of government facilities where the program requirements and funding fluctuate year to year.³¹ If properly executed, a cost-reimbursement contract removes that risk to the vendor and may therefore result in a lower cost to the government than that provided by a fixed price contract.

The disadvantages of the cost-reimbursement type contract are more commonly discussed in the popular and academic literature on defense outsourcing. “Gold plating” is one common criticism discussed here. In this situation, unspecified or open-ended contract requirements are met by the contractor using methods that are unnecessarily expensive or complex. Since the government must reimburse the company for all allowable, allocable and reasonable costs incurred performing a cost-reimbursement contract, there is little if any incentive for the vendor to reduce costs.³² The company may even have an incentive to *increase* costs that further both its business interests and mission accomplishment at the same time.³³ However, it is important to note that gold plating may not necessarily be the result of dishonest corporate practice. In some instances the vendor may deliver an outstanding level of service, but which is unnecessarily expensive due to a lack of incentives to reduce costs. Here, the work requirement is exceeded, resulting in waste. Over the course of the entire contract, this can lead to considerable increases in operation and maintenance costs. Finally, this type of contract creates a heavy technical administrative burden of contract monitoring and oversight for the government customer.

³¹ Department of Energy, “General Guide to Contract Types for Requirement Officials”, p.8 <[http://professionals.pr.doe.gov/ma5/MA-5Web.nsf/WebAttachments/CONTRACTTYPES-21att/\\$File/CONTRACTTYPES-21att.doc](http://professionals.pr.doe.gov/ma5/MA-5Web.nsf/WebAttachments/CONTRACTTYPES-21att/$File/CONTRACTTYPES-21att.doc)> (10/08/07).

³² Jonathan D. Heskett, “The Potential Scope for use of Private Military Companies in Military Operations: An Historical and Economical Analysis” MA Thesis, Naval Postgraduate School, December 2005, p.55

³³ Ibid.

Government Oversight: Both a Watchdog and a Partner

When the government enters into a contract, it must be sure to maintain its oversight responsibility. This is crucial throughout the pre-award, active and completion stages of the contract. With the increasing use of service contracts by the government, oversight must include overall project management and the monitoring of both performance and cost. *If this function is not undertaken properly, a significant portion of the blame for a contracted task not being carried out effectively lays with the government.* However, oversight should not simply be understood in terms of the government's responsibility to guard against contractor malfeasance. Effective oversight also involves creating an active partnership with the industry. The following section will discuss the government's watchdog role as well as the related features of partnering with industry at varying stages of the contract.

Pre-Award Partnering

When working with a contractor, the responsibility of the government to act as an informed customer must begin *prior* to awarding a contract. In its watchdog capacity, the government needs to select the appropriate type of contract and must also

strive for a maximum level of vendor competition to facilitate cost savings and overall best value. In addition, it should perform due diligence on the bidding firms, including mandatory requirements for the vendor to submit multiple prior performance forms with their bid proposal.³⁴ While this oversight role is the first and primary responsibility of the government when contracting with the private sector, this need not translate into an adversarial relationship with the hired firm. Instead, the government can gain a series of advantages by approaching its relationship with the contractor in terms of a *partnership*.

There are a number of areas where the government can gain from partnering with the private sector prior to awarding the contract. For example, the public sector's traditional lack of experience in defining and measuring its own performance standards has left military personnel generally less qualified or experienced in creating performance metrics than their counterparts in the private sector. As a result, one advantage of partnership at the pre-award stage relates to the private sector's substantial knowledge of industry best practice in creating performance metrics.³⁵

By organizing meetings with industry partners to facilitate suggestions before the request for proposal (RFP)³⁶ is written up—especially those firms that have built up a degree of trust over the course of a long business relationship—DoD personnel can avoid the costly procurement delays caused by a poorly written RFP.³⁷ Importantly, this process can also help to maintain a proper degree of competition. If the government RFP is written with unrealistic or vague criteria, companies otherwise well-suited to a task will decline to bid and submit a proposal due to the

³⁴ The government customer can and should wherever possible include in their request for proposal (RFP) that the bidder include up to five prior performance forms that describe the bidder's successful completion of similar work requirements.

³⁵ Performance metrics will be discussed in detail in a section below.

³⁶ A request for proposal (RFP) is a document that an organization posts to elicit bids from potential vendors for a product or service.

³⁷ Unclear government RFPs often result in the Contracting Officer responsible being deluged with myriad questions for clarification from contractors potentially interested in making a bid.

significant costs incurred in both money and time by the contractor.³⁸ This will result in a less than full competition. True partnership in this instance is facilitated by the mutual interest that both the government customer and the private vendor have in creating and communicating clear RFPs and performance metrics.

Partnership During a Contract

While writing clear quality assurance guidelines into the contract is a necessary prerequisite, the government must continue to actively monitor contractor performance throughout the duration of the contract. Contracting Officers should require regular meetings with a contractor program manager in order to: receive updates on the progress of the contract; pass along changes in the government's instructions; discuss programmatic issues; and provide feedback on the contractor's performance. In practice, this should and often does translate into frequent government audits relating to costs and quality assurance. For example, the military performs unannounced visits of the private facilities hired to train armed forces personnel to guarantee that curriculum, student files and instructor qualifications are up to specifications.³⁹

Maintaining quality control is also driven by the contractor's vested interest in meeting the client's expectations in order to ensure future business opportunities as well as maintain its reputation. Thus, genuine room for partnership exists. One example of creative partnership is found when the government and the contractor embed personnel into each other's respective facilities during the course of a contract. For instance, one company with extensive contracts with the DoD has allocated the Department's Defense Audit Agency a permanent office space in

³⁸ Federal Acquisition Regulations (FAR) must be adhered to and this process must remain open and fully transparent in order to be effective. Industry interviewees have suggested that government procurement personnel often pass up opportunities for pre-award meetings due to concerns over violating governmental regulations. It may be worthwhile for the U.S. Government to provide clarity on these guidelines for the benefit of both acquisition personnel and contractors. Contracting Officers may also need further instruction regarding the FAR.

³⁹ Confidential interviews with private security firm executives, 05/05/06; 05/09/06; 09/08/06.

its corporate headquarters in order to facilitate on-site audits.⁴⁰ Another firm has embedded State Department and U.S. Navy personnel at its training facilities, with both government departments retaining a permanent office on site for the duration of the contract. This arrangement has in some cases lasted over six years.⁴¹ This same company has a team of 15 people embedded into a federal government agency in order to streamline and coordinate effective communication, responsiveness, and oversight.⁴²

Post-Contract Partnering

Identifying problems and creating preventative safeguards for future implementation is the last component of effective government contract oversight. However, both the government *and* the contractor have a substantial interest in compiling lessons learned after the completion of a contract. Ideally, this should be a collaborative process, with both the government customer and the contractor providing input into each other's conclusions. In one example of industry best practice, a senior executive stated "[e]very instructional and mentoring program we execute includes numerous opportunities for participant/student feedback and evaluation, in person, in writing, and anonymously. This feeds our review and revision process."⁴³

⁴⁰ Confidential interview, 09/27/07.

⁴¹ Confidential interview, 09/20/07.

⁴² Ibid.

⁴³ Ibid.

Performance Metrics

Detailed performance metrics are a crucial component of contracting and are required for cost savings to be achieved. In order to be successful, measurements of performance and cost must be specified at the beginning of the contract and agreed upon by both the government and the vendor. Long term measures of program success should be complimented by short-term metrics which are used to continuously assess progress. Metrics can also be compared to historical data of best practice standards from similar past projects.

Contrary to the beliefs of some critics, it is not difficult to create set metrics within a contract to measure success. While complicated by the uncertainties of the battlefield, both the contractor and the government client have an interest in clear and measurable standards of evaluation. Moreover, firms often implement internal “quality assurance” systems and engage the government client beforehand on the means used to assess performance.

Metrics of contract performance include a scale of binary, quantitative and qualitative measurements. Binary metrics offer simple pass/fail contract measurements. For example, one very clear performance indicator of a bodyguard service is whether or not the client is kept alive. Also, while quantitative measurements regarding the avoidance of deadly incidents from a hostile third party are difficult to write into a contract, the successful performance of these tasks can be checked against a simple, binary

pass/fail test. In turn, a number of things can easily be quantifiably measured, such as the amount of materiel or personnel delivered to a work site. Speed is also a quantifiable variable and the government may specify strict timelines for the provision of goods and services. More sophisticated quantitative metrics exist and can be used to measure the provision of specialized skill sets. For example, the government client can request that the vendor provides helicopter pilots capable of flying with night vision goggles based upon predetermined rating criteria of this ability. Other complex tasks may be measured by a combination of quantitative and qualitative metrics. A military training contract may contain quantitative metrics, such as the number of students trained, and also contain qualitative measurements, like the ability of a commander and staff to resolve a tactical situation in a logical and timely manner. Another example is the frequency and the quality of regular log reports of work performed delivered by the contractor to the government client. Finally, qualitative variables, such as “soft skills” like leader mentoring, can also be measured, though not with the same level of precision.

Problems with Government Oversight

Insufficient numbers, training, continuity and coordination of government contract oversight personnel constitute the “Achilles’ Heel” of successful defense outsourcing. One basic and major dilemma for the government has been the lack of sufficient numbers of Contracting Officers—the individuals empowered to execute contracts and obligate funds as agents of the federal government. Over 50 percent of Contracting Officers are retirement-eligible and there has been little hiring or significant recruitment for these positions since the late 1980s.⁴⁴ This has led to a number of problems, including overburdened personnel sidestepping government procurement procedures intended to promote competition and transparency. This in turn has resulted in a “race to the bottom,” where overworked Contracting Officers simply select the cheapest or easiest solution, leading to a serious degradation of standards. For example, as a result of the massive increase in awarded contracts due to the war in Iraq, the Army Contracting Agency was forced to entrust nearly \$4 billion in contracts to “a B team of civilians and military officers with

⁴⁴ PBS Frontline, “Interview with Steven Schooner,” (PBS, originally aired 21 June 2005).

<<http://www.pbs.org/wgbh/pages/frontline/shows/warriors/interviews/schooner.html>> (07/20/07).

limited contracting experience.”⁴⁵ In another, worst-case scenario, contract oversight was grossly mismanaged when one federal agency delegated away its oversight responsibilities to a separate, less prepared government counterpart.⁴⁶ Such situations highlight the need to strengthen depleted oversight organizations such as the Defense Contract Management Agency and the Defense Contract Audit Agency.⁴⁷

Due to insufficient training for Contracting Officers, these personnel have been unsure of their duties and how to carry them out in “real world” scenarios.⁴⁸ In one particularly distressing example, an artillery officer with no contracting background was tasked with duties that included coordinating a contractor maintenance program.⁴⁹ This problem has been exacerbated by a lack of streamlined guidance for Contracting Officers. For instance, studies published as recently as 2005 indicate that within the DoD acquisition community, there are no established and set criteria, processes, procedures, contract clauses or contract formats when acquiring the services of contractors operating on the forward edge of the battlefield.⁵⁰

A lack of Contracting Officer continuity on a single project is another common disruption to the government oversight process. Contracting Officers have complained that as soon as they have completed a steep learning curve on a complex contract, they are rotated away (i.e. removed and replaced) from the project. In the

⁴⁵ Ginger Thompson and Eric Schmitt, “Graft in U.S. Army Contracts Spread from Kuwait Base,” *New York Times*, 09/24/07, <http://www.nytimes.com/2007/09/24/world/middleeast/24contractor.html?pagewanted=1&_r=1&hp> (09/24/07).

⁴⁶ For a telling example of this phenomenon, see Steven L. Schooner, “Contractor Atrocities at Abu Ghraib: Compromised Accountability in a Streamlined, Outsourced Government,” *Stanford Law and Policy Review*, Vol. 16, 2005, pp.549-572.

⁴⁷ *Ibid.*, p.572.

⁴⁸ GAO, “Contingency Operations: Army Should Do More to Control Cost in the Balkans” (Washington, D.C.: GAO/NSAID-00-225, 2000), p.5.

⁴⁹ *Ibid.* p.23.

⁵⁰ Lt Col P. Steven T. Mitchell, “Targetable Logistics: Contractors in Zones of Conflict-Backbone or Underbelly?” U.S. Army War College Strategy Research Project (US Army War College: Carlisle Barracks, PA, March 18 2005): p.1 <<http://www.strategicstudiesinstitute.army.mil/pdffiles/ksil167.pdf>> (09/04/07).

Balkans and in Iraq, the U.S. government has rotated Contracting Officers out of the region or away from the contract every six months.⁵¹ One firm interviewed for this report witnessed a turnover of seven U.S. government Contracting Officers in three and a half years during a contract that ranged into the hundreds of millions of dollars.⁵² This problem is aggravated when the simultaneous rotation of contract oversight personnel eliminates the “institutional memory” of the government on the life of a particular contract.

Poor coordination between Contracting Officers and other key government personnel responsible for the successful implementation of the contract is another danger. Some coordination problems are institutional. For example, while Program Officers are responsible for overseeing the successful implementation of the contract on the ground, the Contracting Officer’s primary responsibilities lay with the legal, financial, and administrative aspects of the contract. As a result, both officers have conflicting priorities regarding oversight and thus have different criteria for success. Regular communication between the requisite government personnel and the vendor is crucial in resolving these coordination issues and ensures that all parties have a shared understanding of the work requirements. Contractor best practice should include an automated mechanism to facilitate this exchange of contractor and government personnel tasked with contract oversight at the organizational level. In one instance where this occurred, a company interviewed for this study permanently embedded its personnel into a Reserve Officer Training Corps office for the duration of the contract.⁵³

⁵¹ GAO, “Contingency Operations: Army Should Do More to Control Cost in the Balkans,” p.5; Confidential interview with Defense industry executive, 09/27/2007.

⁵² Confidential interview, 09/13/07.

⁵³ Confidential interview, 09/27/07.

Private Sector Value Added

When properly managed by the government, the private sector can make unique contributions to quality of service in several areas: productivity, continuity, flexibility, and surge capacity.

Productivity

One avenue for value-added in defense outsourcing comes from possible productivity increases. One RAND study of three Defense contracts found that projected personnel cost savings ranging from 34 percent to 59 percent were both real and enduring. RAND concluded that the labor savings came from a number of factors, including: using fewer workers (due to increased work intensity, using multi-skilled employees and combining jobs); paying lower wages for less-skilled positions.⁵⁴ In effect, more work was performed by each employee per unit of time. The private sector does this in a number of ways. First, lower skilled labor is utilized for appropriate and occasionally menial work (i.e. lesser trained local or third country personnel can

⁵⁴ Susan Gates and Albert Robert, "Personnel Savings in Competitively Sourced Activities: Are They Real? Will They Last?" National Defense Research Institute, Rand, 2000.

perform “static” or first-line security at installations, etc.)⁵⁵ Second, substantially higher salaries are additionally paid to individuals with unique skill sets. Paying premium rates to experts serving as program managers can lead to considerable efficiency gains, a “skill multiplier” that reduces the overall number of employees or time needed to fulfill a certain task. Third, managers are held more accountable for the work of their subordinates. Private sector managers are more easily able than their public sector counterparts to hire, fire and reward with incentive systems, such as completion bonuses, to encourage productivity. Professor Deborah Avant underscores the importance of private sector productivity gains with following anecdote:

One contractor tells the story of taking over a base from U.S. soldiers. The base was being run by more than 150 military personnel, but the contractor claims to have provided the same service with only 26. Even if each of the 26 were making four times the salary of military personnel, there would still be cost savings.⁵⁶

Private sector firms can also solve problems in ways that cross organizational boundaries. They can more easily circumvent functional or structural issues, which are common in government bureaucracies and act to inhibit rapid, creative solutions. For example, one firm interviewed for this study was able to air-drop ammunition and supplies to U.S. forces in the midst of combat while USAF units could not do so because regulations required the airfields to be surveyed beforehand.⁵⁷ The private sector also has access to cutting edge technology that serves as an important value-added input to advanced productivity. In one example, a contractor discovered that the cause of poor marksmanship and fire control discipline in a developing nation’s armed forces stemmed from a lack of training ammunition. The contractor’s cost-effective remedy for this shortcoming was to use company-

⁵⁵ It is the application of this philosophy of “freeing up” expensively trained U.S. military personnel from such under-skilled tasks as guard duty that has in part opened the door to the private sector in performing these tasks.

⁵⁶ Deborah Avant, “The Privatization of Security: Lessons from Iraq” *Orbis*, Spring 2006, p.334.

⁵⁷ Confidential interview, 09/13/07.

owned specialized equipment, advanced marksmanship training devices that did not require live ammunition.⁵⁸

Continuity

Contractors also provide continuity, a critical component in long-term programs that may last for many years. One beneficial aspect of private sector continuity is that it does not disrupt troop rotation patterns. It also obviates the need to pull troops from other concurrently running operations in order to staff another mission. Contractor teams can be put together at the onset of the program and dissolved upon completion, while key personnel can be kept for the duration.

Continuity of service is also imperative when building trust and relationships with other countries. One interviewee reported that “We have team members who have worked with their foreign counterparts and provided continuity to U.S. operations in combat zones for two or three years...and exceeding five years or more in non-conflict areas.”⁵⁹ Another potential benefit of private sector continuity relates to skill retention. For decades, U.S. Special Operations Forces have understood the value of private shooting facilities and other training centers. By maintaining a cadre of weapons instructors that shoot year-round, a requirement for keeping skills sharp, these private facilities offer a higher level of training than some U.S. military shooting instructors who are often rotated to a different assignment.⁶⁰

Flexibility

Critics of defense outsourcing have been particularly wary of the problems associated with contracting for services in the much more fluid environment of the battlefield. In particular, they have argued that the inability of a commanding officer to issue direct orders to a contractor or to spontaneously change the terms and

⁵⁸ Confidential interview, 09/20/07.

⁵⁹ Confidential interview, 09/13/07.

⁶⁰ See Patrick Cullen, “The Transformation of Private Military Training” in Donald Stoker ed., *Military Advising and Assistance, 1815-2007: From Mercenaries to Privatization* (London: Routledge, 2007 [forthcoming]).

conditions of a contracted battlefield service is a serious if not fatal contractor shortcoming. This is a valid concern; however, it is imperative that the government client—including the commanders in the field—take responsibility for any problems that occur when they wish to change various task orders within a contract in midstream. Under these conditions, technically the government is responsible for the inability of the contractor to successfully complete its work. Ironically, it is under these types of government imposed constraints that contractor flexibility may become most evident. In extreme cases, a firm may take on the added risk of performing an immediate program requirement after seeking assurances from the government that the contract process can be rationalized once the immediate crisis is over. The importance of trust, establishing long-term business relationships, and a sense of government-contractor partnership are crucial when dealing with this issue.

Another area where the private sector has delivered added value to the government has been in the ability to create flexible and innovative accounting methodologies under difficult circumstances that hold up to the scrutiny of government auditors. In one example where contractor personnel were deployed to an area in the Balkans without adequate banking facilities and thus no means to electronically transfer funds, one firm sent a representative to Germany on a monthly basis to retrieve one million dollars worth of deutschmarks in cash, which was then physically delivered to its employees for local expenditures. The money would be delivered by hand, and a receipt was given which was kept for the company's records.⁶¹

Surge Capacity

The private sector has a comparative advantage in surge capacity, i.e. the rapid mobilization of resources to a conflict area. Additional personnel can be placed in the field without the bureaucratic lead time that is needed to mobilize military forces.⁶² Another asset of the private sector relates to speed of delivery of

⁶¹ Confidential interview, 09/13/07. Note: this example occurred before the Euro conversion in 2002.

⁶² Avant, "The Privatization of Security: Lessons from Iraq," p.331.

complex services such as aviation, training and security. In this regard, an anecdote from a company executive is especially revealing:

I have literally lost track of the number of times wherein the government requests that we provide training, starting with an assessment and coordination visit within 30 days, often within 10 days, sometimes within a week. For deployments, we routinely deploy within thirty days of award, and have on more than one occasion deployed within 48 hours at [US government] request.⁶³

It should also be noted that once there is relative stability or local forces have been trained and deployed, these personnel can be quickly *demobilized*. Large firms maintain databases of thousands of potential employees that they can quickly draw upon when awarded a government contract. Consistent with the best practice of public-private partnership, contractors play an important role in supplementing government capabilities during a crisis or emergency situation.

⁶³ Confidential interview, 09/27/07.

Conclusion

Overall, and in addition to the various non-cost related benefits of defense privatization described in the previous section, this report agrees with recent studies that indicate real and enduring cost savings can be achieved by exposing government defense service monopolies to private sector competition. However, these savings will not be generated automatically, and the government must overcome significant shortcomings if the full benefits of privatization and competitive sourcing are to be realized. First and foremost, the government must focus on becoming an intelligent customer of defense services. It must take care in selecting an appropriate contract type, and ensure the highest degree of competition possible. Clear and viable performance metrics need to be created and properly communicated to the vendor at the earliest stages of the award process, and the government must continuously perform diligent oversight of the contractor's performance throughout the duration of the contract.

As this report illustrates, current shortcomings with government contract oversight personnel suggest that achieving the appropriate level of government customer competence will not come overnight. Massive increases in defense service contracting have outpaced the government's ability to adequately conduct oversight of defense contracts. Yet, this problem is located within the government itself, and *not* the industry. Moreover, the solution is simple. The government must adjust from being a mere provider of services to a more versatile *manager of service providers*.

In practical terms, this means creating a larger, better trained and coordinated cadre of Contract Officers and other contract oversight personnel. Finally, this report has also sought to emphasize in concrete terms how the concept of a *partnership* between the government and the defense service industry can lead to increases in both overall performance and cost savings. This notion of partnership is no mere hollow platitude. By focusing on areas of mutual self-interest—such as the creation of clear government RFP and performance metrics—the government and its industry partners can find genuine possibilities for teamwork, replacing a paradigm of zero-sum competition with one of mutually beneficial cooperation.



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