



Acquisition Research Program: Creating Synergy for Informed Change

A Model for Determining Optimal Governance Structure in DOD Acquisition Projects in a Performance-Based Environment



Berkowitz, Simpson, Kallam, Gundlach, & Jones

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Legacy Contracting

- Formal Contracts
 - A legally-binding agreement that defines the roles, rules, and outcomes that are to be achieved and how they are to be achieved.
 - Several scholars have differing views as to the degree of impact formal contracts have on the relationship as well as the overall level of success one could achieve as a result of having formal contracts. (Child, 1972; Aldrich, 1979; Ghoshal and Moran, 1996; Fehr and Gächter, 2000; Cannon et al., 2000; Poppo and Zenger, 2002; etc.)
- Theoretical Framework
 - Transaction Cost Economics (TCE): Original
 - Two basic principles: (1) human beings are *bounded rationally*, and (2), as a result of being rationally bound, will always choose to further their own self-interest (i.e., *opportunism*).
 - Williamson (1985) argues that formal contracts are the primary solution for combating opportunistic behavior.
 - Potential culprits for TCE in the defense industry could be the following: budget cycle, rapidly evolving technology, a bimodal distribution in the age and knowledge of government employees, and the gap that exists between first and third-tier suppliers (Chao, 2005).



Performance-Based Contracting

- Preferred performance-based contracting approach is long-term contracts; therefore, DoD is not only investing in the acquisition of a product but also in a relationship.
 - This represents a significant paradigm shift with regards to product acquisition and sustainment.
- Theoretical Framework
 - TCE: Revised
 - “Modern Institutional Economics focuses on the institution of property, and on the systems of norms governing the acquisition or transfer of property rights” (Furubotn & Richter, 1991).
 - Relational Exchange Theory
 - Cooperative norms as being the relational norms that exist outside of the formal contract and we consider cooperative norms to be complementary to formal contracts.
 - Relational norms are the means by which the legal conditions described in a formal contract are satisfied.
 - Network Theory
 - Emphasizes the normative and social structure in which exchanges are embedded as the primary determinant of behavior (Baron & Hannan, 1994). Concepts such as trust play a prominent role in network explanations (Achrol & Kotler, 1999).

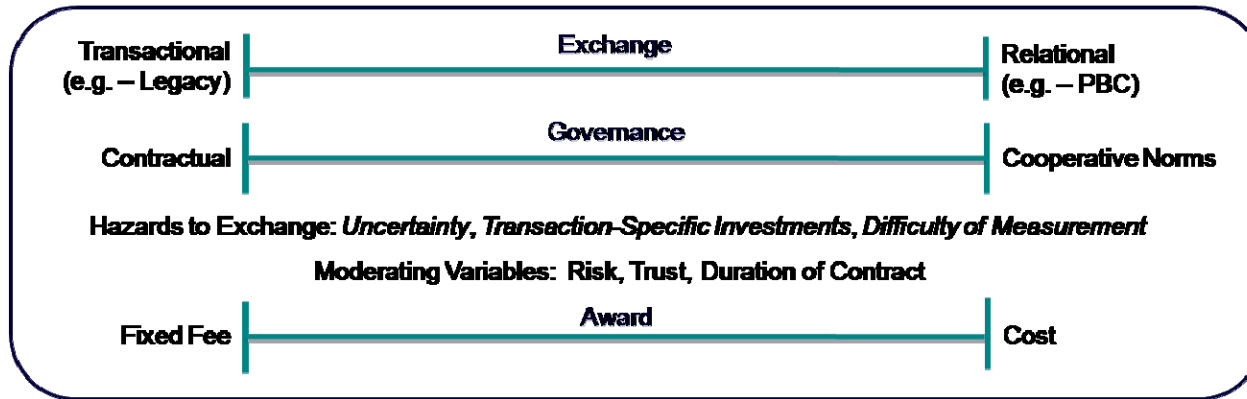
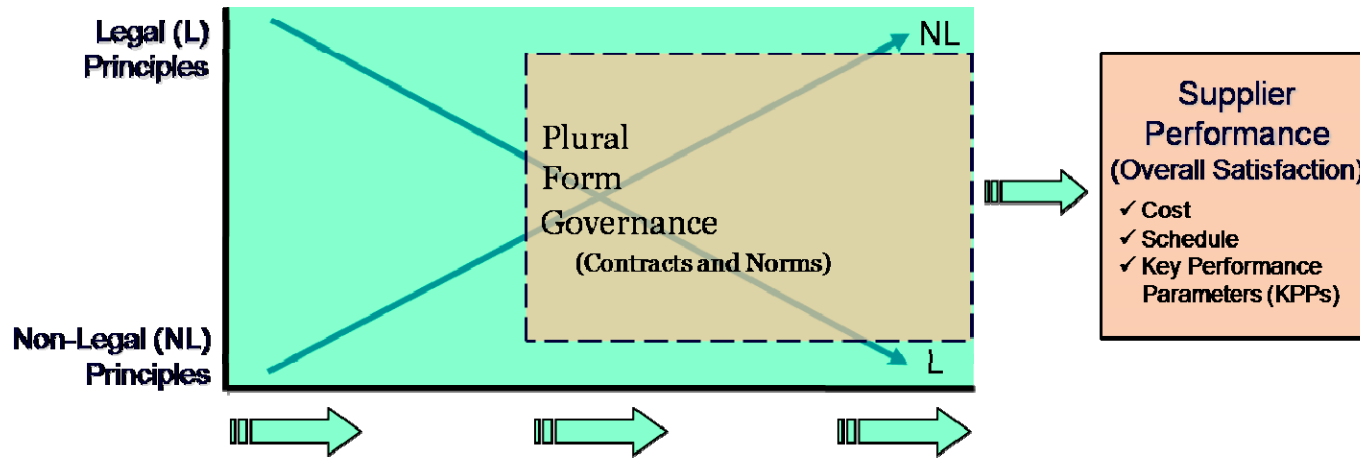


Latest Thinking — “Plural Form” Governance

- Difficulty of infusing economic with relational perspectives have led to the joining of these frameworks.
- According to Bradach and Eccles (1989), exchange is best understood as embedded in a complex matrix of economic, social, and political structures and that *governance* relies on combinations of market, social, and/or authority-based mechanisms more than any one of these exclusively.
- In a generic sense, *plural form governance* is the combination of legal and non-legal (i.e., social) conventions against the backdrop of the market.



Conceptual Model



Proposition

Theory and practice suggest that incorporating both legal (i.e., contractual) and non-legal (e.g., social norms) conventions into the acquisition and sustainment process, will enhance the Major Defense Acquisition Programs (MDAPs) contractors' ability to satisfy Key Performance Parameters (KPPs).



Data

- **Sources**

- **Federal Procurement Data System (FPDS)**
 - Contract Data
- **Defense Acquisition Management Information Retrieval (DAMIR) System**
 - Performance Data
- **Defense.gov**
 - Contract Description



cont.

- **Composition**

- **ACAT 1C & 1D Programs**

- Functional Capability Areas: Battlespace Awareness (1), Command & Control (1), Focused Logistics (3), Force Application (9), Force Protection (1), Net Centric (1)

- **Timeline:** Based upon a combination of FPDS and DAMIR data (roughly 1992-Present)

- **Services:** Army (3), Air Force (3), Navy/Marine (5), Joint Service Products (5)



cont.

- **Programs**

| Weapon System | Service Branch | ACAT | Functional Capability Area | Years of Observation |
|---------------------------|----------------|------|----------------------------|----------------------|
| CH-47F Chinook | Army | 1C | Focused Logistics | 1998-Present |
| Patriot PAC-3 | Army | 1C | Force Protection | 1994-Present |
| FBCB2 | Army | 1C | Command & Control | 1995-Present |
| F-22A Raptor | Air Force | 1D | Force Application | 1996-Present |
| C-5M Super Galaxy | Air Force | 1C | Focused Logistics | 1999-Present |
| C-17A Globemaster III | Air Force | 1C | Focused Logistics | 1995-Present |
| V-22 Osprey | Navy | 1D | Force Application | 1992-Present |
| F/A-18E/F Super Hornet | Navy | 1C | Force Application | 1997-Present |
| EA-18G Growler | Navy | 1D | Force Application | 2002-Present |
| EFV | Navy | 1D | Force Application | 1997-Present |
| AH-1Z & UH-1Y | Navy | 1D | Force Application | 1997-Present |
| F-35 Joint Strike Fighter | Joint Service | 1D | Force Application | 2001-Present |
| JSOW | Joint Service | 1C | Force Application | 1997-Present |
| RQ-4A/B Global Hawk | Joint Service | 1D | Battlespace Awareness | 2001-Present |
| AMRAAM | Joint Service | 1C | Force Application | 1997-Present |
| Navstar GPS | Joint Service | 1D | Net Centric | 1997-Present |



C-5 Galaxy

- Prime Contractor: Lockheed Martin, since 1965.
- C-5 History
 - The C-5 is a heavy-cargo transport designed to provide strategic airlift for deployment and supply of combat and support forces.
- Issues
 - Technical Issues
 - Production Slippage
 - Cost Overruns
 - Reliability Rates
- Contracts
 - Performance-Based requirements
 - Joint effort with Lockheed, GE and Honeywell
- Relevance to Research
 - CREP
 - Commercial based approach



C-17A Globemaster III

- Prime Contractor: McDonnell Douglas (Boeing), since 1981.
- C-17A History
 - The C-17 is a four engine turbofan aircraft capable of airlifting large payloads over intercontinental ranges without refueling.
 - Biggest contribution to the present airlift system is long range direct delivery.
- Issues
 - Technology was not well-defined
 - Technologies were not new but used in new ways
- Contracts
 - Performance-Based requirements
- Relevance to Research
 - TSSR



Conclusions

- Traditional modes of governance and contracting have changed.
- Current modes such as PBC create unsustainable contracts in an environment that funds year to year.
- Thus, new thinking implies that plural forms of governance are required to better manage programs for mutually agreed to performance metrics.

