



Acquisition Research Program: Creating Synergy for Informed Change

Budget Uncertainty And Business Management
Reform In The Department Of Defense:
Some Considerations For Acquisition Management

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The sentiment within DoD is that...

- (a) resources are becoming more constrained, regardless of the defense topline, and that impacts the ability to recapitalize the force (e.g., aging aircraft in the USAF, transformation of the USA, and a 313-ship USN).
- (b) management reform efforts (e.g., Navy Enterprise) are a source of budgetary relief – DoD should create efficiencies, harvest the savings, and use those savings for recapitalization.



Outline

- Review management during retrenchment
- Identify Budgetary trends and sources of current and near-term future fiscal stress
- Explore current management reform initiatives which seek efficiencies to provide funds for recapitalization
- Discuss the interaction between budgets and management reforms and the implications for acquisition



Management during Retrenchment

- A contingency for stakeholders, a problem for managers
- Organizations' reactions to budget retrenchment:
 - Stakeholder pluralism increases in the face of increased conflict over competition for resources
 - Managers take a decremental view, reinforcing the status quo:
 - Suboptimal across-the-board cuts are made to ameliorate conflict
 - Attention shifts to short-term crises and planning is reduced in the cutback
 - Innovation is deferred or forsaken as an extravagance
 - Decision-making is centralized; morale falls at lower levels
 - Leaders are marked as scapegoats, lessening credibility and increasing turnover



Defense Spending – Looking ahead

External Factors

- Federal budget pressures
- Federal budget deficits
- Democratization of defense spending

Internal Factors

- Unrealized plans
- Hyper-inflation in sub-accounts

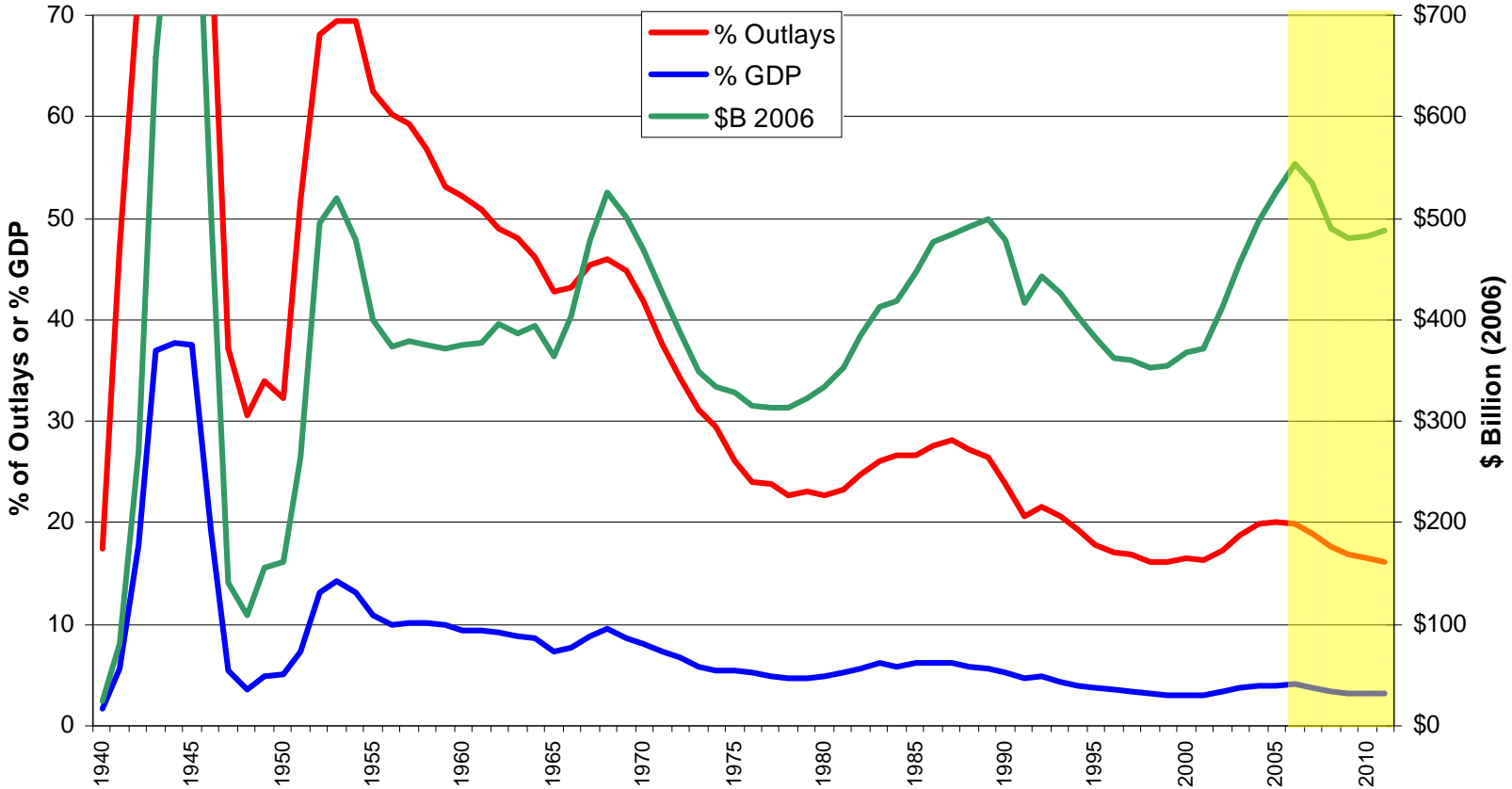


Defense Spending Trends

Defense Spending 1940-2011

Source: OMB, 2007

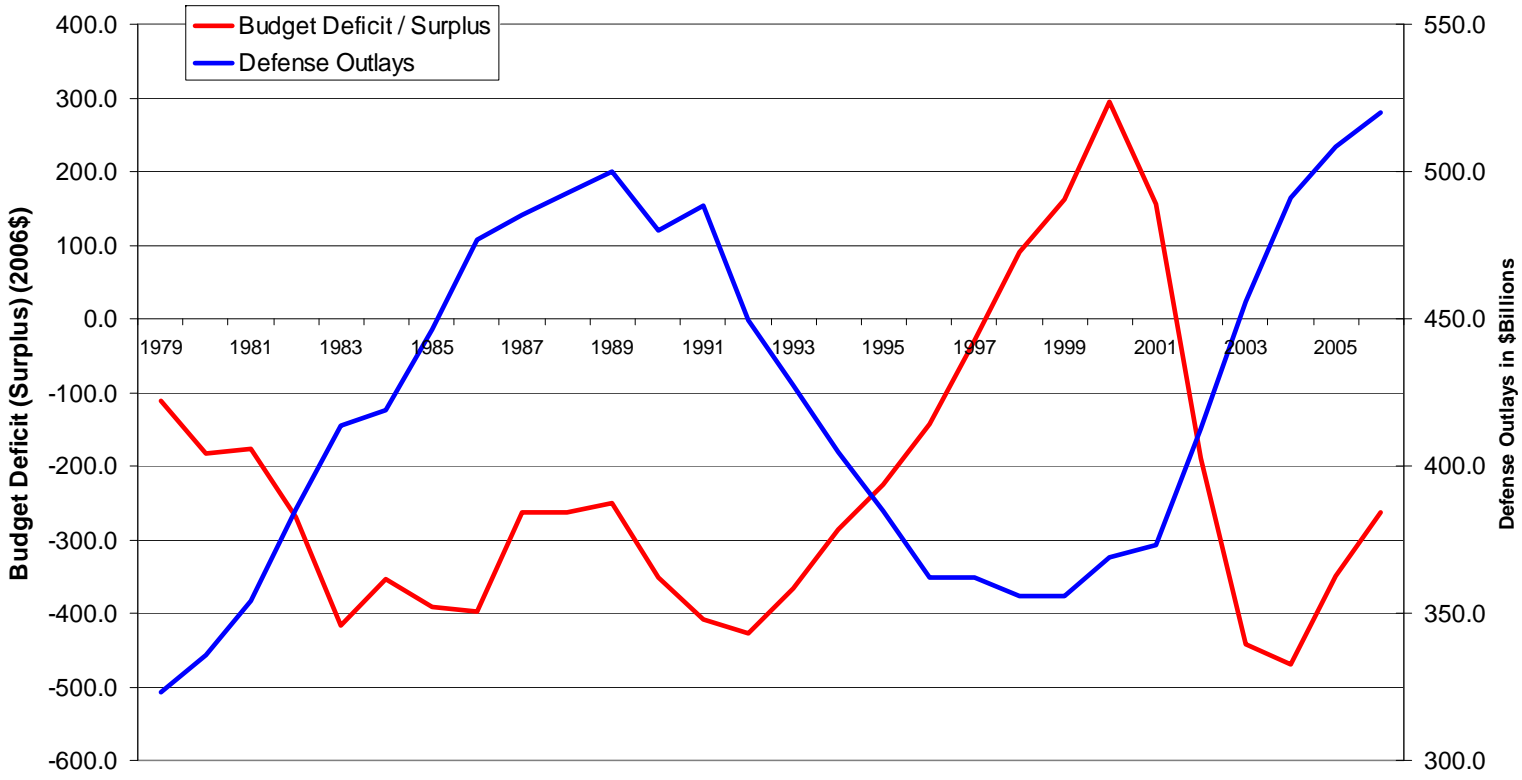
Source: OMB, Historical Tables, Budget of the Federal Government for Fiscal Year 2008



Defense Spending and Deficits

Source: OMB, Historical Tables, Budget of the Federal Government for Fiscal Year 2008

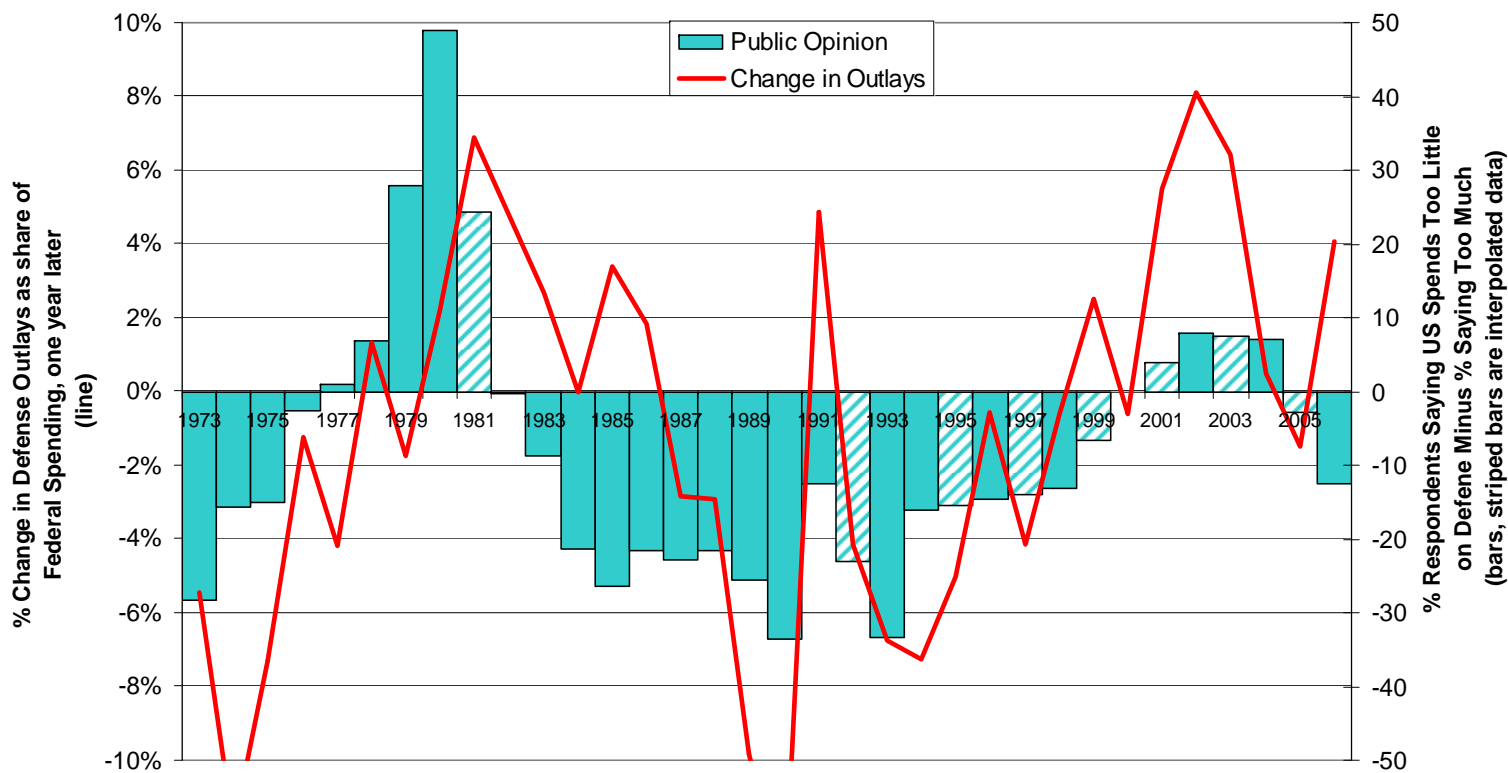
Defense Spending vs Budget Deficit (Surplus), 1979-2006
 in constant 2006 dollars
 Correlation coefficient = -0.64, significant at 0.001
 Source: OMB, 2006



Public Opinion and Defense Spending

Democratization of Defense Spending, 1973-2006

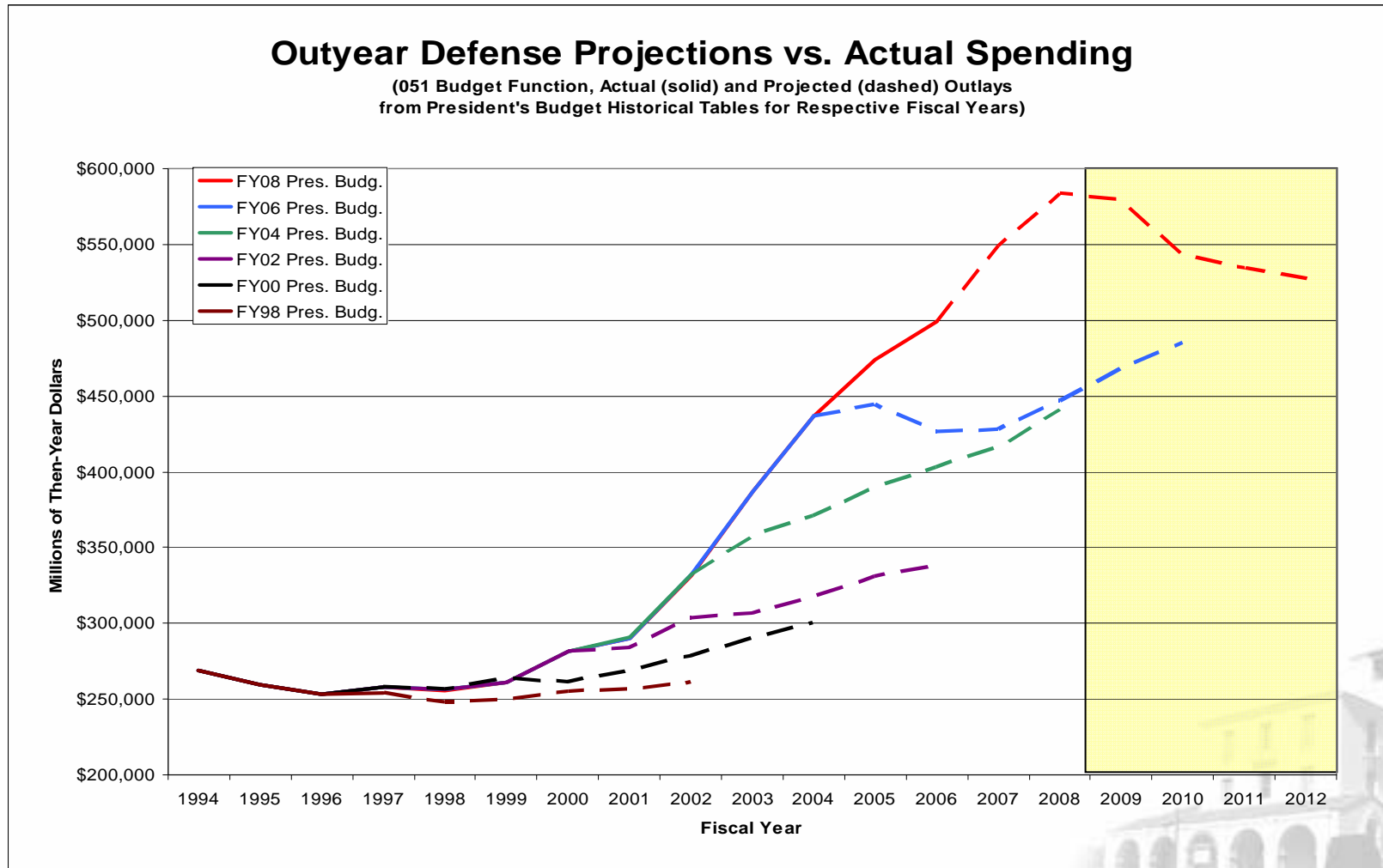
Direction and strength of public opinion vs change in defense outlays one year later
 correlation coefficient = 0.57, significant at 0.001

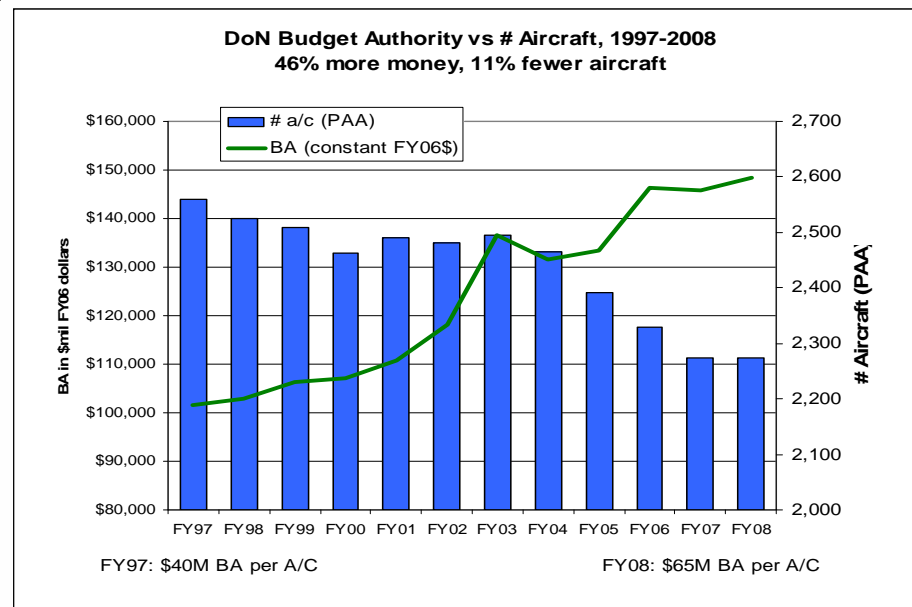
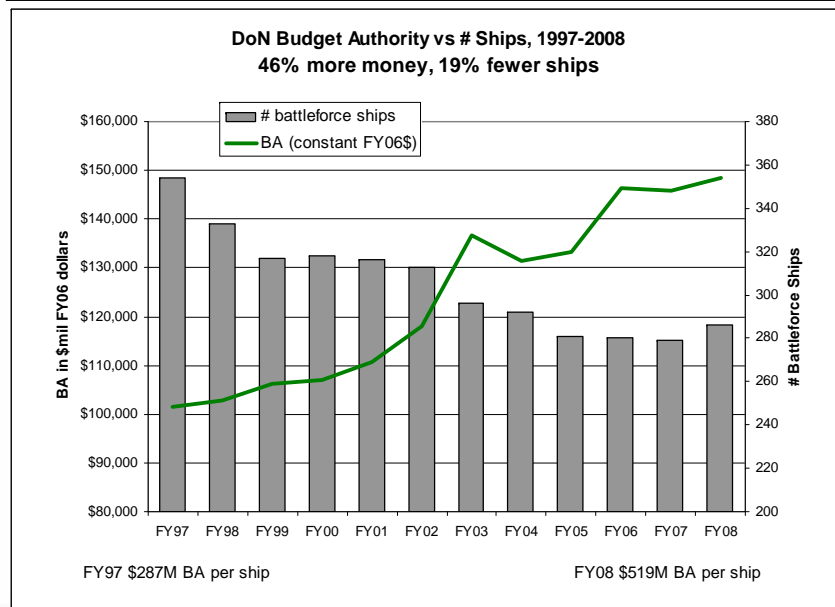
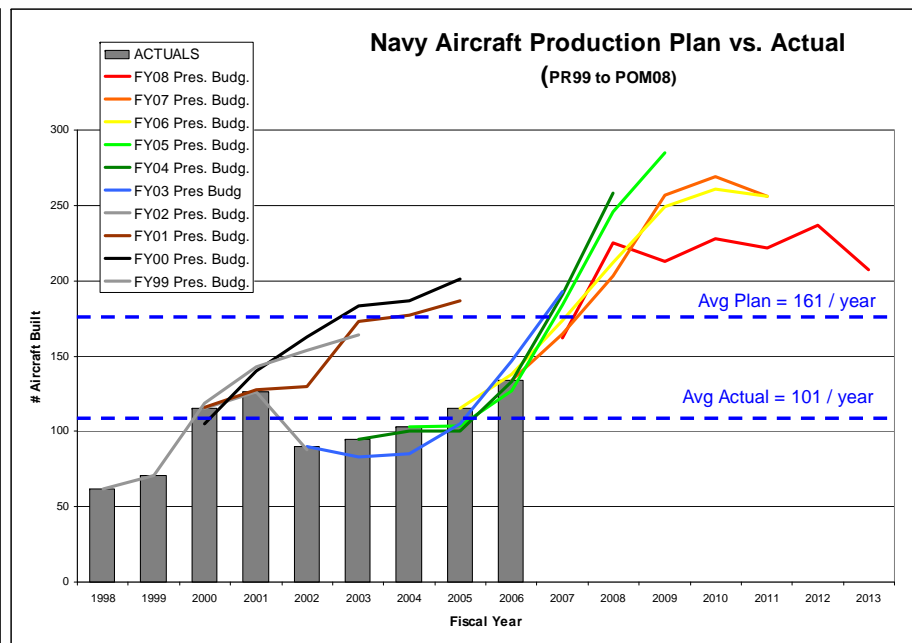
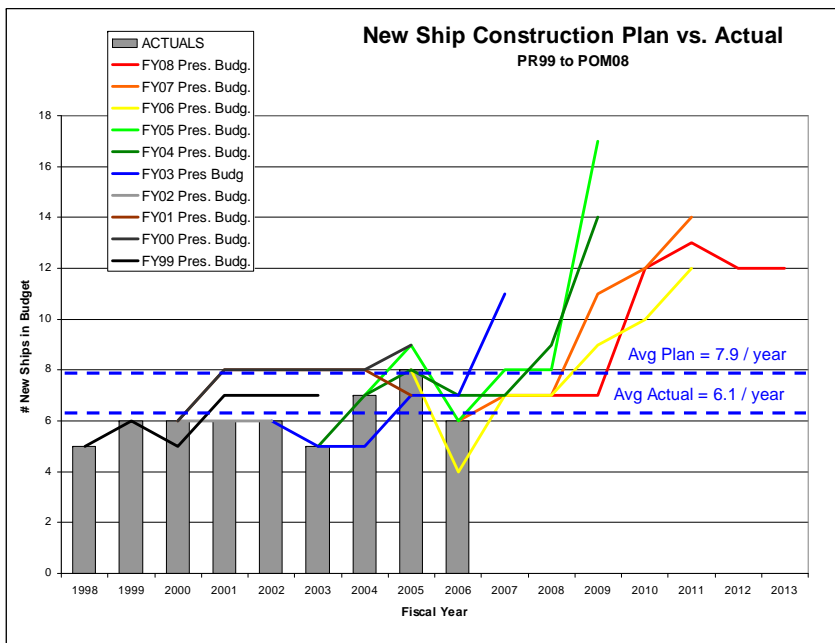


Sources: Smith (2007) and OMB (2007)

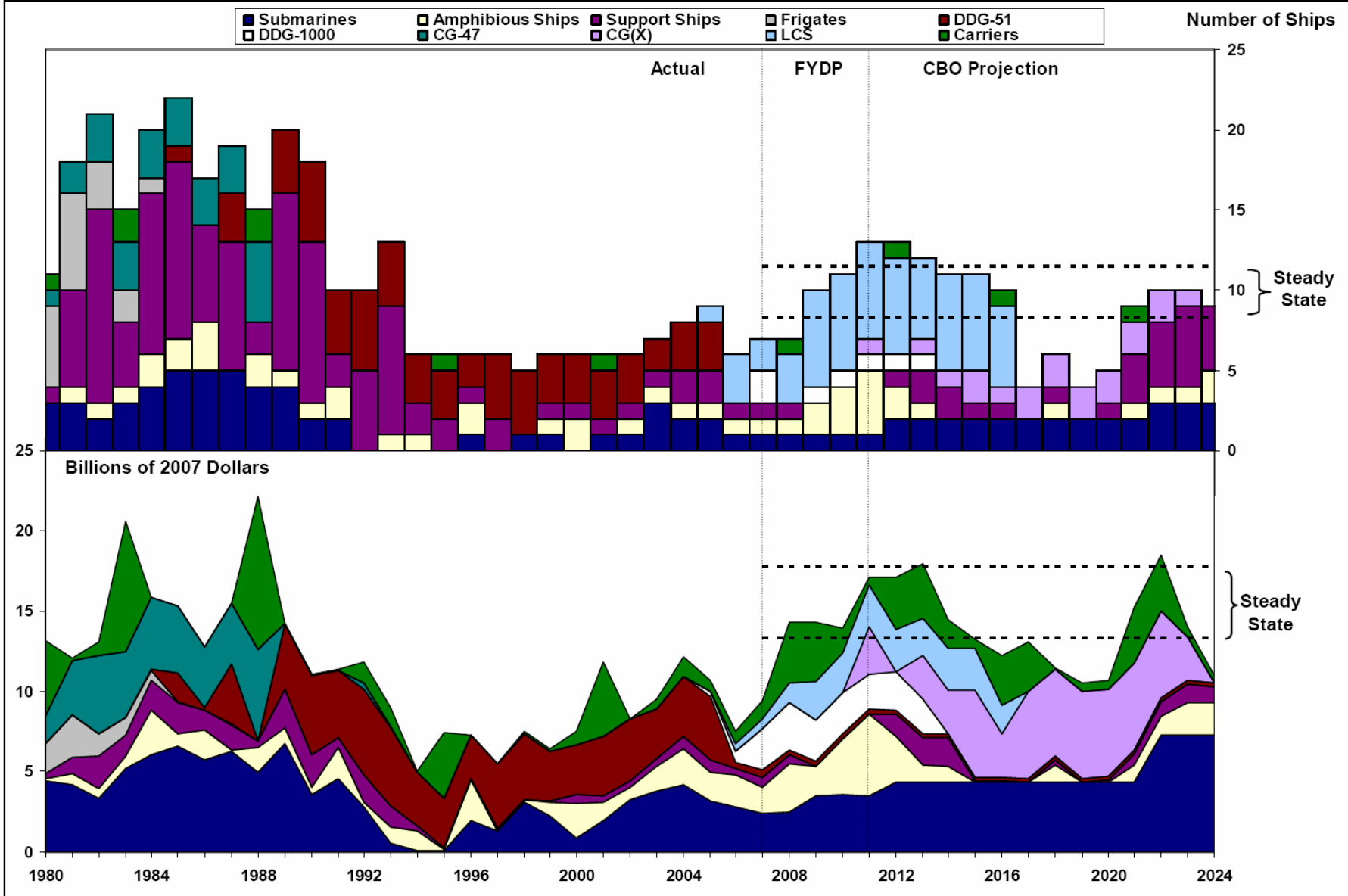


Received more than planned...

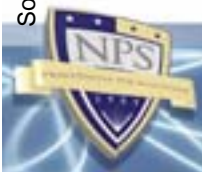
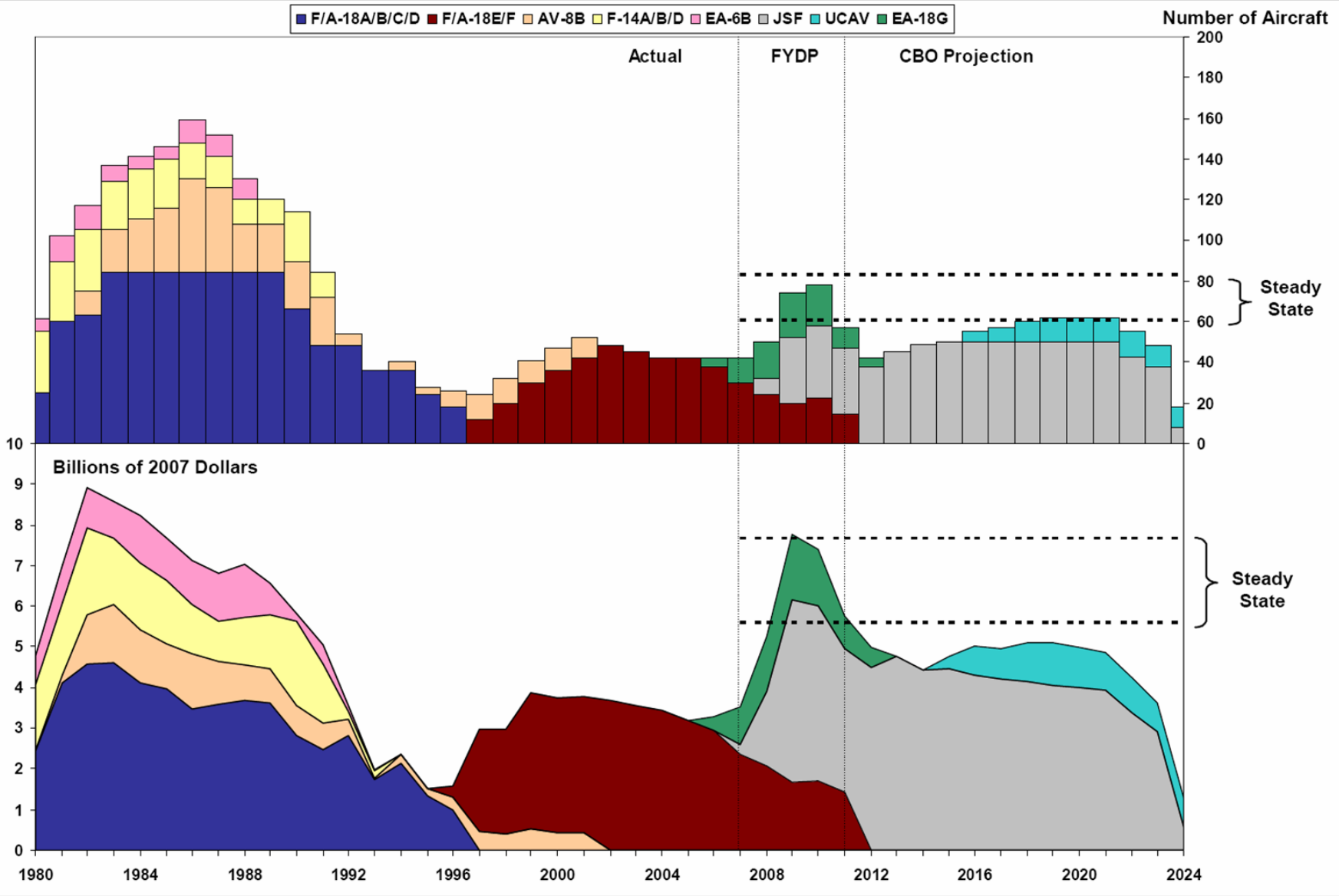




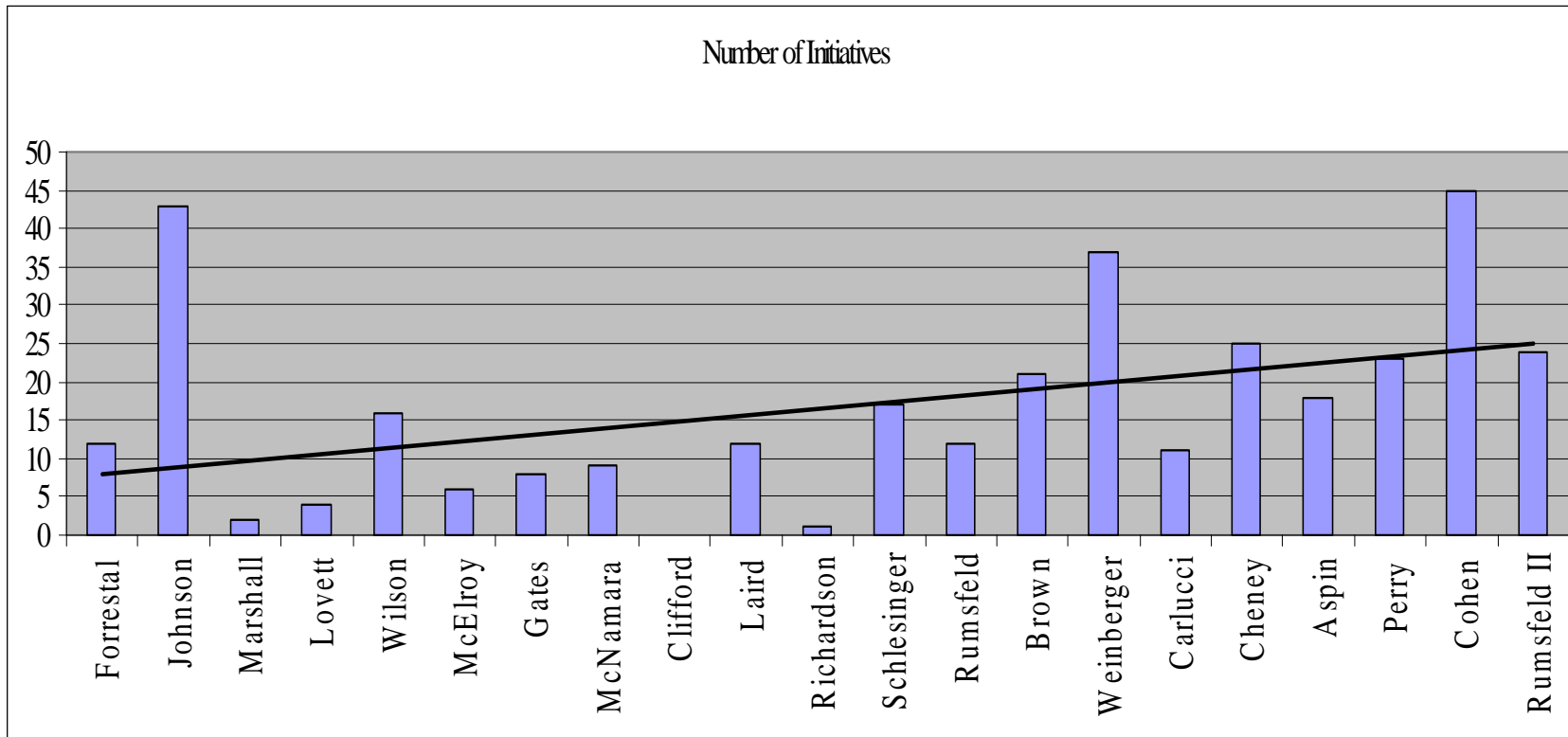
Procurement of Battle Force Ships



Procurement of Navy Fighter and Attack Aircraft



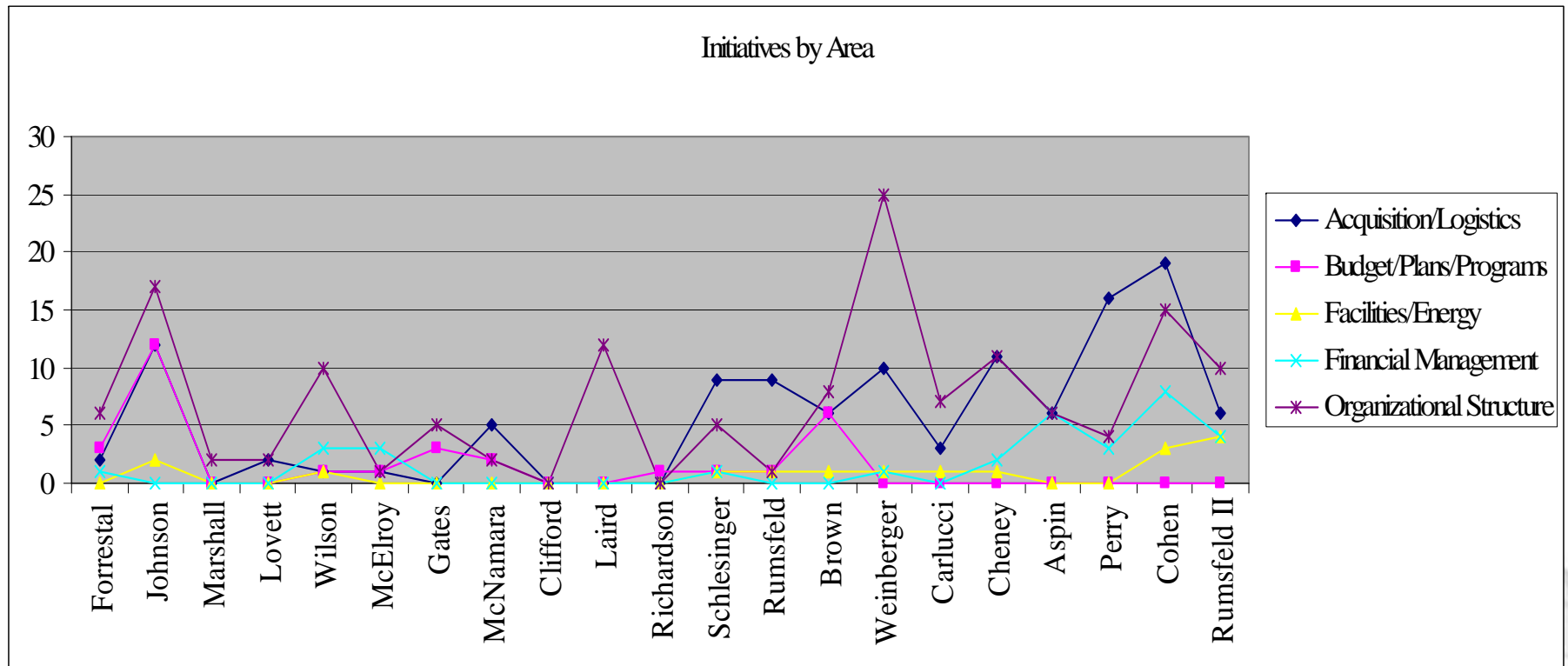
History of Continuous Reform: SECDEF Management Reforms



Source: Robin Walther and Dan Francis



History of Continuous Reform: Areas of SECDEF Reform Initiatives



Source: Robin Walther and Dan Francis

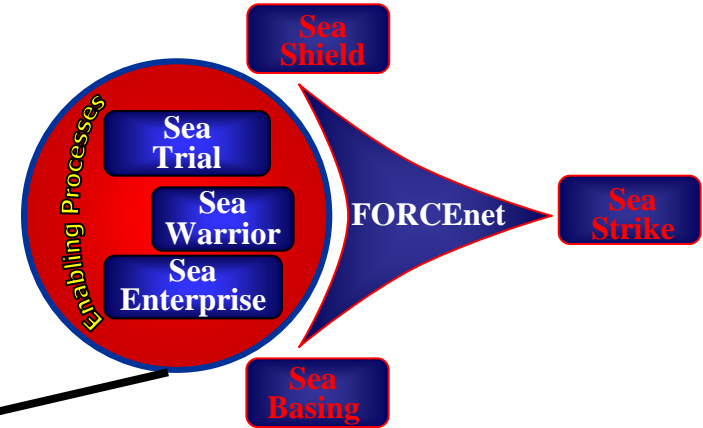


What is Sea Enterprise?

Sea Power 21

SEA ENTERPRISE
Resourcing Tomorrow's Fleet...optimum resource allocation, increased productivity, enhanced procurement

- **Identify & harvest efficiencies**
 - **Divest non-core functions**
 - **Organizational streamlining**
 - **Manpower reduction through technology insertion and process alignment**
- **Fund future readiness**
 - **Enhanced investment in warfighting capability**
 - **Accelerate transformation**
- **Inculcate culture of productivity**



Threats to Sustaining Management Reform

1. War Budgeting
2. Losing the Vision
3. Change Fatigue
4. Leadership Change



Three Propositions

Proposition 1: Efficiency-seeking management reforms will be insufficient to make up the budget shortfall

Proposition 2: Good management does not attract resources

Proposition 3: Continuous efficiency-seeking management improvement in defense should be understood as driven by stewardship concerns and the requirements of the operating forces.



Two Conclusions

- Large budget reductions, if they occur, should be met with truly transformational responses rather than defensive ones.
- The acquisition community must view itself as a partner in cost-focused management reform.



Two Questions

- What are the best budget policy decisions regarding resource levels and allocation considering both internal and external sources of fiscal stress?
- How much and what kind of management reform is needed to meet the standards of stewardship and to support the requirements of the operating forces?

