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PPBE in Comparative Organizations: Case Studies of U.S. Competitors

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Naval Postgraduate School's 21st Annual Acquisition Research Symposium

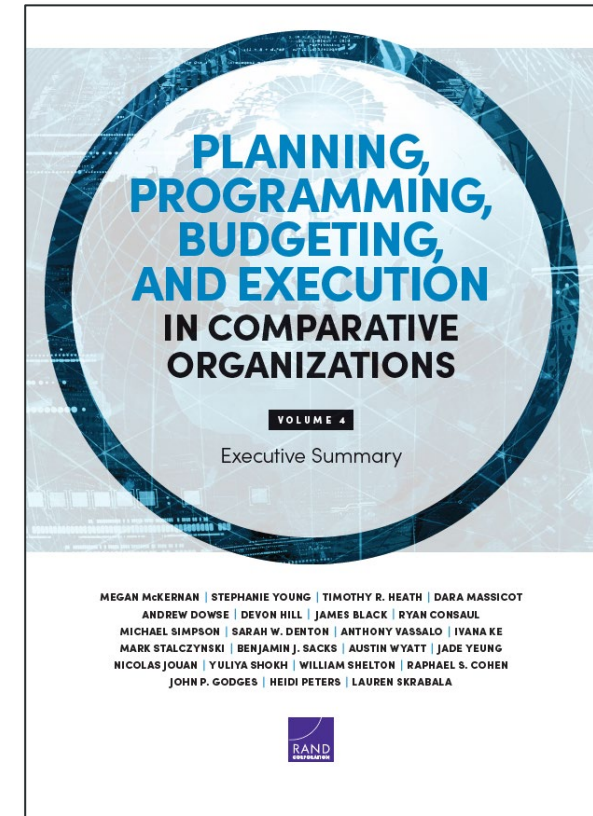
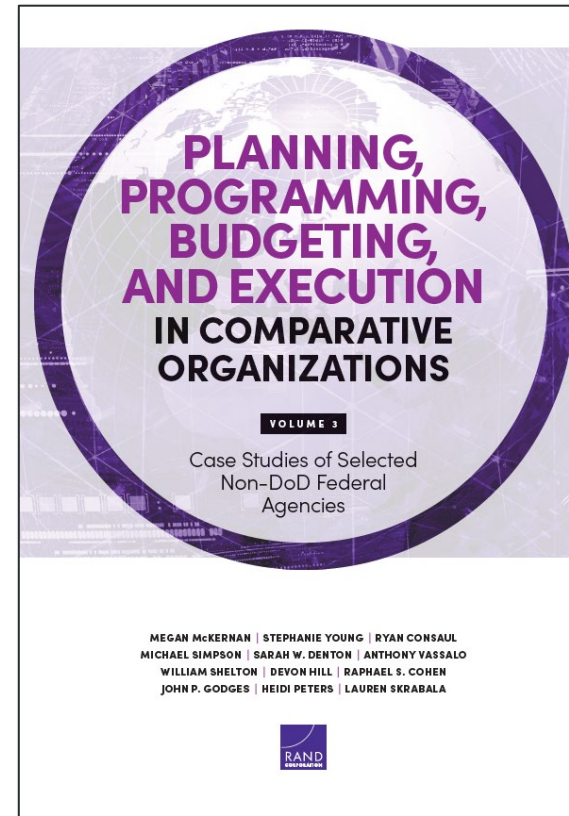
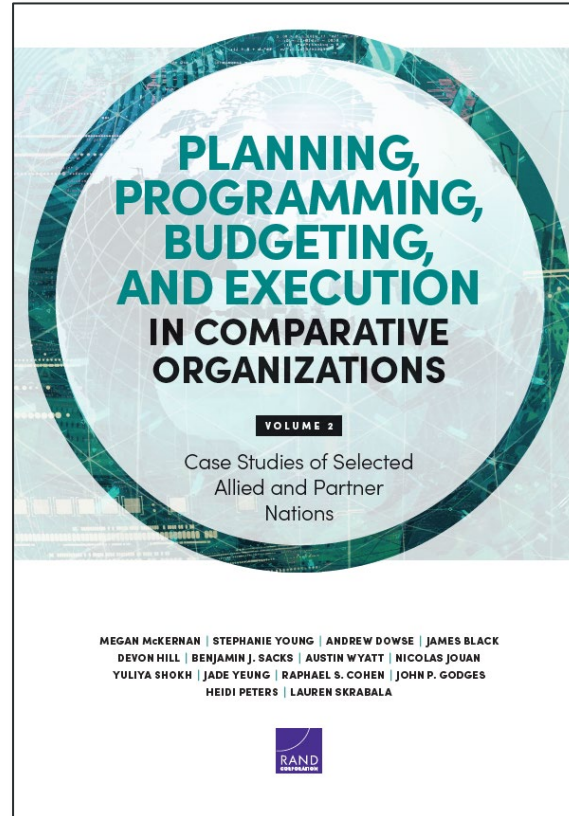
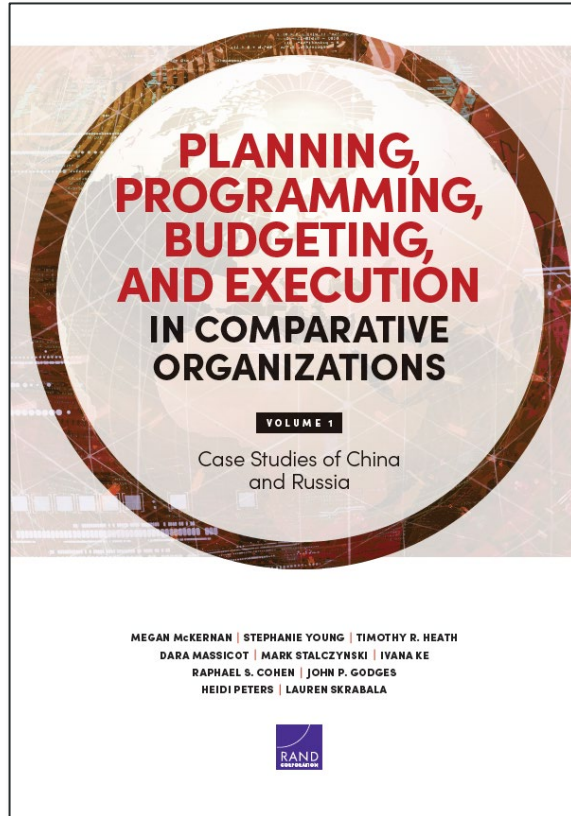
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PPBE in Comparative Organizations: Case Studies

- **Objective:** Conduct case studies of comparative organizations to support Commission on Planning, Programming, Budgeting, and Execution (PPBE) Reform
- **Sponsor of Research:** Commission on PPBE Reform
- **Background:** Commission was established by the FY 2022 NDAA to
 - examine the effectiveness of the PPBE process and adjacent DoD practices, particularly with respect to facilitating defense modernization;
 - consider potential alternatives to maximize DoD's ability to respond to potential threats; and
 - make legislative and policy recommendations for process improvements with the aim of fielding the operational capabilities necessary to outpace near-peer competitors and supporting an integrated budget that is aligned with strategic defense objectives

RAND's Input to the PPBE Commission



Phase 1 includes 9 case studies of comparative organizations in 4 volumes (published)

Phase 2 includes 7 additional case studies of comparative organizations in 3 additional volumes (published)

PPBE Reform Commission integrated results from these studies into their Interim and Final reports

RAND analysis for the PPBE Commission is located at: <https://www.rand.org/nsrd/projects/PPBE-reform.html>

Overview: Methodology

Used RAND-wide diverse interdisciplinary team, drawing on colleagues from RAND U.S., RAND Europe, and RAND Australia with direct experience in selected case studies

Built and used a case study template and interview protocol based on Commission guidance

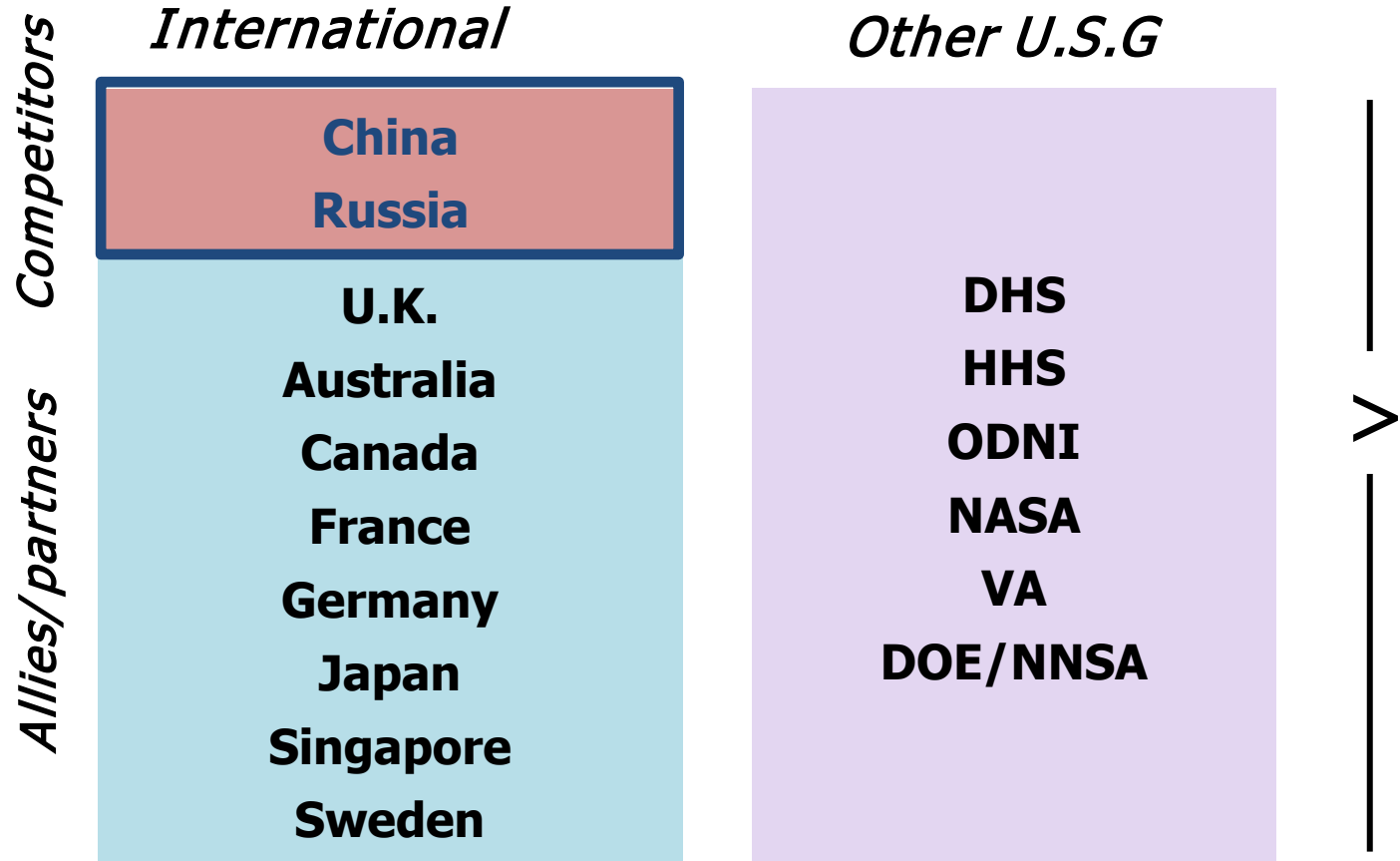
Literature reviews included government documentation outlining processes and policies, planning guidance, budget documentation; published academic and policy research; trade literature; research by international organizations

Foreign language sources used for China, Russia, France, Germany, Japan, and Sweden case studies

Structured discussions with more than 170 subject matter experts and practitioners; including CFO organizations, programmers, budget officials; researchers from academia, FFRDCs, think tanks, and trade literature

Monthly updates and vector checks with the Commission

RAND National Security Research Division Conducted Detailed Case Studies of Select International and Non-DOD USG agencies to Inform Commission's Deliberations



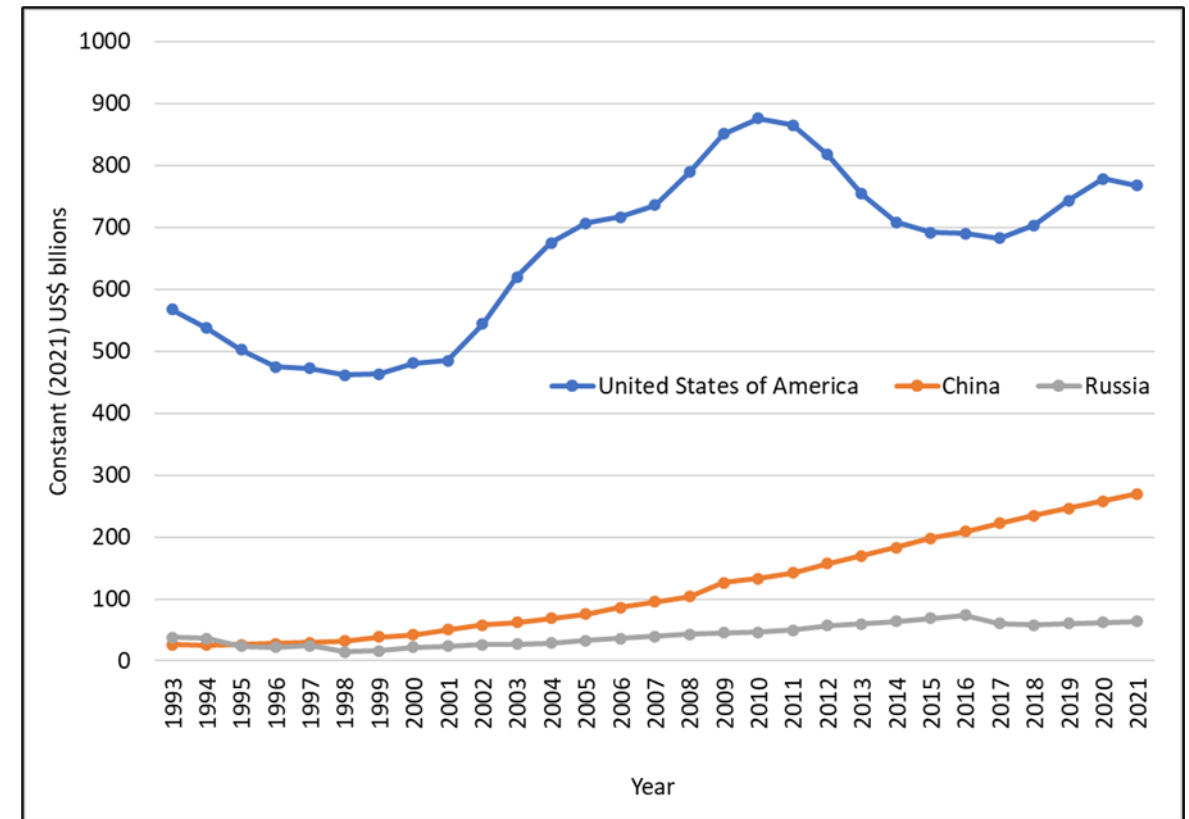
- What are key features of each resource planning process?
- What are perceived strengths and challenges of each process?
- What lessons could be drawn for DoD PPBE processes?
- How might adversary processes affect U.S. comparative advantage/disadvantage?
- Particular focus on enabling innovation, fostering agility/flexibility, and working with industry

Research effort drew on diverse capabilities across RAND, i.e., regional expertise/foreign language fluency, defense budgeting, requirements, and acquisition processes, industrial base/private sector practices, non-Defense agencies

Insights from “Near-Peer” Competitors case studies: Context

- 2022 National Defense Strategy (NDS) designates China as the “pacing challenge”; Russia as an “acute threat”
- To better understand and operate in this competitive environment, the Commission considered “budgeting methodologies and strategies of near-peer competitors”
- Focus on internal processes as key enablers of military outcomes is well aligned to the NDS’s imperative to *build enduring advantage*
- This imperative has prompted reflection on the extent to which internal DoD processes, including PPBE, are up to the challenge of enabling rapid and responsive capability development to address the emerging threats

**Military Expenditure by Country
(Constant (2021) US\$ billions, 1993-2021)**



SOURCE: SIPRI, 2023, as of March 17, 2023.

Competitor Case Studies: Key Insights

- China and Russia make top-down decisions about priorities and risks but face limitations in implementation
- China and Russia make long-term plans but have mechanisms for changing course in accordance with changing priorities
- Especially in China, political leaders provide stable and sustained long-term support for military modernization priorities
- China and Russia have weak mechanisms for avoiding graft or ensuring transparency, efficiency, effectiveness, and quality control
- Reforms in China and Russia have been designed to increase oversight of resource allocation processes

China and Russia Make Top-Down Decisions About Priorities and Risks but Face Limitations in Implementation

- Senior leaders in these countries have the authority to make top-down decisions, but realizing returns on those decisions is contingent on key social, economic, and other factors
- In China, modernization in such areas as jet engines, semiconductors, and hypersonics has not yielded consistent outcomes; other determinative factors are long-term investment stability, innovation enablers, and a workforce with relevant expertise
- Russia's invasion of Ukraine has shown that Russia can rapidly pivot to fulfill different military procurement needs, albeit under extreme pressure
 - In November 2022, Russia suspended State Armaments Program (SAP) procurement plan-2027 and announced that it would commit a significantly larger State Defense Order (SDO) to the war
 - However, Russia's new mobilization laws, which were meant to respond to wartime needs more rapidly, confronted limitations in industrial capacity, supply chain reliability, and the ability to call up required manpower even through conscription.

China and Russia Make Long-Term Plans but Have Mechanisms for Changing Course in Accordance with Changing Priorities

- In China and Russia, centralized decisionmaking can reduce the friction associated with setting requirements and changing course
- Long-term focus for modernization projects can constrain flexibility, by design
- Russia has changed course in execution of its State Armaments Program procurement plan as needed to meet emerging needs, including in Ukraine
- China's economic growth over recent decades and substantial investments in military capacity has lessened the need for hard choices about prioritization, but need for agility remains

Especially in China, Political Leaders Provide Stable and Sustained Long-Term Support for Military Modernization Priorities

- The lack of political opposition, the high degree of alignment between CMC and senior CCP leaders, and the sheer scale of military investment over decades have facilitated the stable planning and long-term investments that are essential for making progress toward complex modernization priorities
 - The synchronization of defense plans with budgets has also offered long-term benefits to China's military modernization
- Russia has a ten-year SAP supported by a three-year budget—a combination that, in theory, balances stability with flexibility for the MoD and the defense industry. But in reality, the SAP is aspirational and has been rapidly jettisoned without political or legal blowback, leaving companies in a vulnerable position over the long term

China and Russia Have Weak Mechanisms for Avoiding Graft or Ensuring Transparency, Efficiency, Effectiveness, and Quality Control

- The power dynamics and the structures of decisionmaking in these countries provide limited guardrails for ensuring efficiency, effectiveness, or oversight of investments, which is essential to control corruption and ensure proper budget execution
- However, in China, there is weak oversight and the potential for corruption, misuse of funds, and waste
 - Budgeting processes are hampered by clientelism (bribery), patronage (favoritism), and other forms of corruption that pervade the defense industries
 - Powerful state-owned enterprises (SOEs) continue to operate in a highly inefficient and wasteful manner, partly because of the political power they exert
- Similarly, in Russia, execution of defense spending is subject to corruption within the MoD, cronyism throughout the defense industrial base, and a general lack of serious anticorruption measures

Reforms in China and Russia Have Been Designed to Increase Oversight of Resource Allocation Processes

- In recent years, both countries have recognized the inefficiencies and the limited avenues for competing voices in their top-down budget processes and have looked to other international models, including that of the United States, for lessons on the development and implementation of budget reforms
- Chinese officials have sought to imitate some practices that are commonly used in Western countries to improve their government's ability to execute budgets, and in accordance with centrally directed reforms to all branches of the government, the PLA has carried out multiple rounds of reforms in its budgeting and financial system
- Chinese leaders have long recognized that the military's budget system, like that of the government overall, suffers from severe problems related to corruption and weak accountability, owing in part to the country's adherence to outdated centralized budgetary practices in which most economic decisions are made by high-level government authorities instead of market participants
- Russia's budget has been based on best practices, and the government's spending practices are fiscally conservative in that it does not engage in excessive debt spending or foreign borrowing. It maintains a sovereign wealth fund to manage shocks or unforeseen events
 - Yet, although Russia's budget process has been developed with best practices in mind, budget execution is done with few safeguards, little oversight, and meager quality control

Applicability of Insights to DoD's PPBE System

- China and Russia are also both extraordinarily different from the United States in political culture, governance structure, values, and strategic orientation
- Despite these differences, the case studies suggest several considerations that are relevant for the United States
- Societal fundamentals for building military capability are critical factors in determining the success of military modernization; therefore, it is unclear how much success can be meaningfully attributed to resource planning processes
- Strong central authority (without opposition) can provide long-term planning that aligns resources to priorities and redirects resources to meet changing needs, yet a top-down approach can hamper innovation and yield weak mechanisms for guiding budget execution
- Despite fundamental differences, exploration of analogous measures to achieve similar effects in the U.S. in select areas could be worthwhile:
 - ensure sustained, consistent funding for priority projects over many years
 - delegate more authority and grant greater flexibility to project and program managers—without compromising accountability
- Despite the frequent public discussion in the United States that oversight adds time to DoD's PPBE process, oversight is a critical element that ultimately helps lead to successful capabilities for use during operation and, therefore, should not be haphazardly traded away for speed during resource allocation

RAND Project Team

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International Case Studies

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- Singapore: Austin Wyatt, Jade Yeung
- Sweden: Mattias Eken, Charlotte Kleberg, Turner Ruggi, Erik Silfversten



Other U.S. Government Agencies

- Department of Homeland Security: Ryan Consaul, Michael Simpson
- Department of Health and Human Services: Michael Simpson, Devon Hill
- National Aeronautics and Space Administration: Sarah Denton, Bill Shelton
- Office of the Director of National Intelligence: Tony Vassalo, Sarah Denton
- Department of Energy's National Nuclear Security Administration: Lauri Rohn, Frank Klotz, Sarah Denton, Yuliya Shokh
- Department of Veterans Affairs: Ryan Consaul, Michael Simpson, Madison Williams



RAND SMES

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