

**NATIONAL DEFENSE BUSINESS INSTITUTE**<sup>SM</sup>  
THE UNIVERSITY OF TENNESSEE COLLEGE OF BUSINESS ADMINISTRATION

*Good Government Solutions  
For Acquisition Business Leaders Now*

# Acquisition Improvement Challenges: First Principles

*Prepared for:*  
**8th Annual Acquisition Research  
Panel #15: Analysis for Enhanced  
Acquisition Decision Making**

*Date: May 12, 2011*



# Discussion Points

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- **Putting the Acquisition Challenge in Context**
- **Introduction to Incentives: A First Principles Point of View**

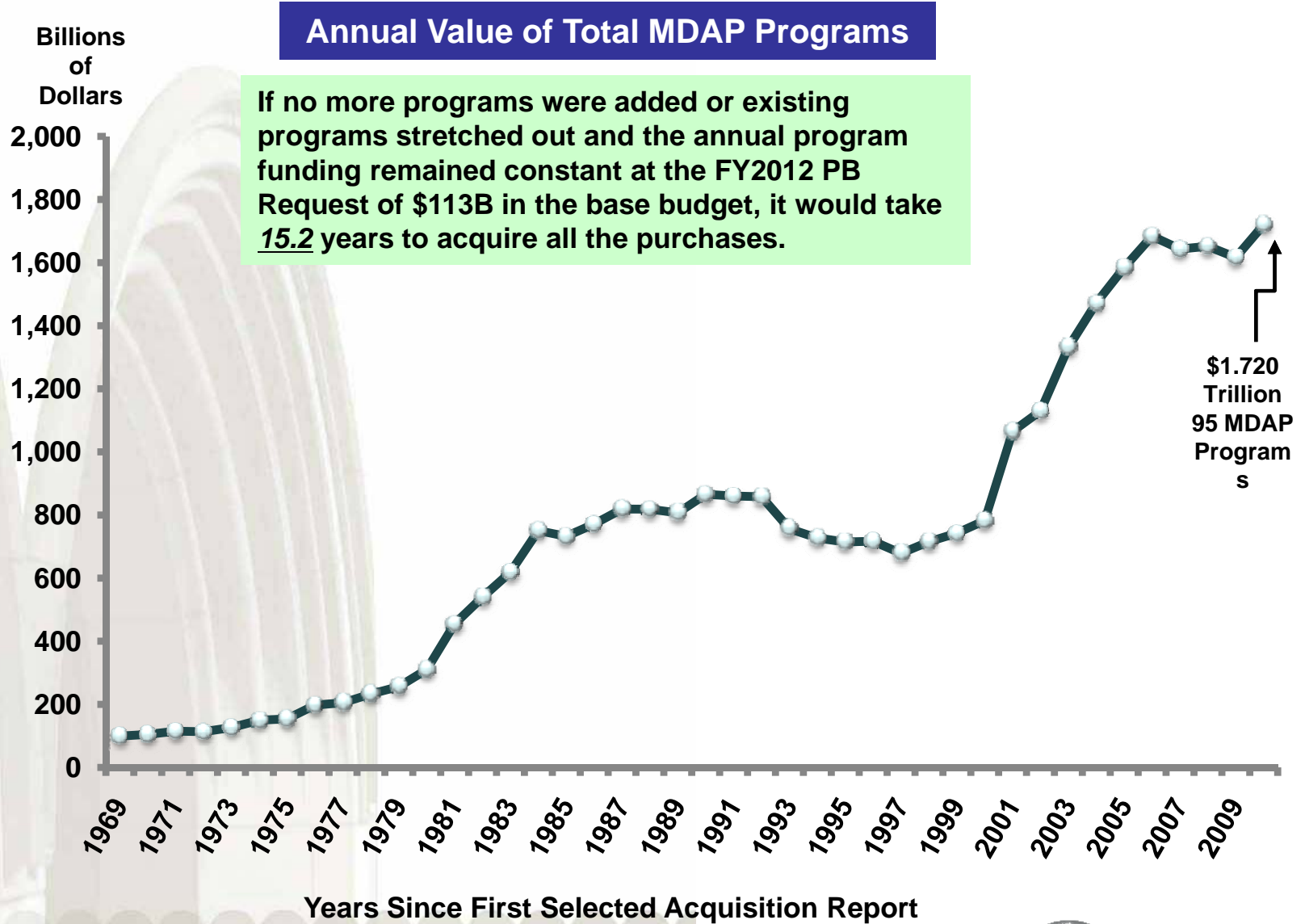
# The Challenge In Context: The Partnership

- Single, most significant market risk consistently identified by the big six contractors in annual reports: “only one customer – Government”
- Government and industry are in a partnership, but the definition of “partnership” is different for each
  - Government: industry understands its obligation to deliver, precisely the required warfighter capabilities, if necessary, at the expense of profit or stockholder value
  - Industry: partnership is a collegial arrangement with both industry and government objectives possible and achievable with a fair negotiated value including profit for services or products delivered
- Loudest, most vocal *silent* partner - **CONGRESS**

**Remember: “After all, the chief business of the American people is business. They are profoundly concerned with buying, selling, investing and prospering in the world.”**

*President Calvin Coolidge's address to the American Society of Newspaper Editors, Washington D.C., January 25, 1925.*

# The Challenge In Context: Magnitude Of The Problem



# Contractor Incentives: First Principles

**Government Attempts to Influence Program Contract Outcomes over Which It Has Limited Direct Control**



- **Desired Contractor behavior must achieve program contract objectives and contractor incentives depended upon to do that**
- **Achieving program contract objectives is measured by**
  - Being on cost or better;
  - On schedule or better;
  - Performing as called for in the contract terms and conditions or better
- **Key Question: Why does government incentivize the agreed to contract terms and conditions**
  - Incentives allow government to exercise control; even on what is the standard
  - At a minimum the government desires to stimulate unobservable effort consistent with its program goals
- **But, desired behavior on both the part of government and contractor face hurdles that must be addressed**

# Contractor Incentives: First Principles

## Contractor Incentives in the Context of the Defense Department Realities

- **Contract and programmatic incentives, when properly done, may promote recognition of non-executability of a program early by both parties – could prevent wasted effort and money**
  - But will not fix non-executable programs
- **For an otherwise properly configured program, contract incentives can be used to:**
  - Improve performance (cost, schedule, technical)
  - Achieve goals for production and operational performance
  - Improve resilience of a program when faced with unanticipated issues
  - Create a vehicle to maintain communications
- **Incentives can be most effective when targeted**
  - Task completion – CDR by certain date (Objective elements complete: i.e. 80% design drawings complete); System Verification Review (Physical Configuration Audit + Assessment of LRIP)
  - Magnitude and nature of incentive sufficient to motivate desire behavior
  - Award fees for retaining key contractor personnel

