



# Our Relationship with Industry

*Frank Kendall*

**A**s we enter what promises to be a difficult time for both defense acquisition professionals and the industrial base that we rely upon, I thought it might be useful to share a few thoughts on our relationship with industry. I want to provide some basic guidance for working with our industry partners at any time, but especially when those firms we depend on are experiencing a declining market, as they are now.

At any time, we need to be aware of industry's perspective if we are going to work effectively together. I left government in 1994 after a career in uniform and as a civil servant. One of the

reasons I left was that I felt I needed some time in industry to round out my background. I spent about 15 years in industry, some of it with major defense corporations, some of it as a private consultant working with defense firms of various sizes, and some of it as a partner in a small business working with defense companies ranging from start-ups to major corporations. Many, probably most, Department of Defense (DoD) acquisition people have not worked in industry and have not experienced that perspective firsthand.

Industry's perspective is pretty straightforward. One of the things I enjoyed about industry was that there was never any confusion or disagreement about the metric we used to measure our own performance. In short, we were trying to make money: If certain actions made us more money, they were considered good; if they made us less money, they were not good. That's an oversimplification, of course. In actuality, the equation for industry is much more complex than this



would suggest, but in the long run the principle I just articulated governs. If a firm is going to stay in business, profit is required. It doesn't stop there; business leaders also have an obligation to their shareholders to maximize the return the company achieves.

Our fundamental obligation, on the other hand, is to obtain as much value as we can for our warfighters and the American taxpayer. Industry's goal and ours would appear to be in tension, and to a degree they are. We are not, however, in a purely adversarial relationship with industry. Neither are we in one with completely common interests. As we try to maximize the value we receive from industry, we also have an obligation to treat industry fairly and reasonably. Here are some thoughts about how we should behave in this complex relationship:

**1** Give industry the opportunity to make a reasonable profit. How much is "reasonable" is subject to some disagreement, but generally it should be commensurate with the risks being accepted by industry and with the rate of return a going concern doing similar work would obtain in a free market. As I indicated above, profit isn't optional for a business, and firms won't support the DoD unless they have the opportunity to make an acceptable return.

**2** Don't ask companies to take on more risk than they can absorb. Defense firms generally will respond to any Request for Proposals (RFPs) the department puts out for bid that they think they have a shot at winning. We in government need to understand the risks associated with the performance we are asking for and structure the business deal so risk is allocated reasonably between the government and industry. This issue tends to dominate the decision between a fixed-price and a cost-plus contract vehicle. Firms can absorb some risk, but that capacity is limited. Before we can set the boundaries and terms of a business deal, we need to understand both the magnitude of the risk involved in providing a product or service successfully and a company's capacity to absorb risk.

**3** Tie profitability to performance. Profit is not an entitlement; it should be earned. Our industry partners tend to be smart people. If we give industry a financial incentive to provide the department with better services, or a better product, or anything else that we value, and if we structure that reward so it is attainable with reasonable effort, then we can expect to see the behavior we have motivated. In some business deals, this incentive is built in. A fixed-price contract always rewards effective cost control by the supplier, but the government may not share in that reward—unless we structure the contract so that we do. Incentives can and should cut both ways; poor performance should lead to poor returns. In



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general, I believe we can be more creative and more effective at structuring incentives that tie profit to performance. By doing so, we can create win-win opportunities for industry and government that reward the results that provide value for the warfighter and the taxpayer.

**4** Don't ask industry to make investments without the opportunity for a reasonable return. On occasion, I have seen government managers solicit or encourage investments from industry without a realistic prospect of a return on that investment. This can take several forms: internal research and development spending, participation in government-sponsored but unfunded demonstrations, development of proposals or option bids when there is no serious prospect of future business, or cost sharing in a technology project that isn't going to lead anywhere. This kind of behavior often occurs as part of an effort to obtain more support for a program that is on the margins within a Service's budget. Putting industry in this position is not fair to industry, and it wastes resources that could have been used more productively. It also destroys trust between industry and government when promised business opportunities do not materialize.

**5** Communicate as fully with industry as the rules allow. For some reason, we seem to have become "gun shy" about talking to industry. That's the wrong approach. The more we communicate our intent and priorities to industry, and the more we listen to industry concerns, the better. Up until the time a final RFP for a specific effort is released to industry, we should not overly restrict our contacts. We do have an obligation to treat all firms in the same manner—but that doesn't mean we can't have conversations with individual firms, as long as the same opportunity is available to others who want to take advantage of it. We can expect that a lot of what we hear from companies will be self-serving. At the same time, however, companies may have legitimate concerns about how we are doing business and superior ideas about how to acquire

the product or service we are contemplating. We need to be as open as we can be, and we need to listen.

**6** Competition works—use it whenever you can. The wonderful thing about competition is that it is a self-policing mechanism. Companies are motivated to do whatever they can to reduce cost and provide a better product or service in order to win business. We also generally can rely on industry to protect itself and only sign a business deal that delivers an acceptable profit, or at least does so within the firm’s risk tolerance and consistent with any broader business situation.

**7** Treat industry fairly, and keep your word. It is interesting that the commercial world has no requirement for one firm to treat another fairly. (Try to imagine a “protest” of a commercial contract award because the buyer’s source selection process wasn’t equally fair to all possible bidders.) Because we are an arm of the U.S. government and we expend public funds, we are held to that standard. It’s also the right thing to do ethically, and it is necessary if we want to have constructive relationships with industry. My experience is that industry does not entirely trust government people. Our source selections are opaque to industry, and no industry capture-team leader ever told his boss that he lost because he wrote a bad proposal. If we act just once in a way that is not consistent with our values or betrays a commitment we have

made, then we have sacrificed whatever trust we have built. We can spend our credibility only once and then it is gone.

**8** Protect the government’s interests and insist on value for the taxpayer’s money. I put this last for a reason. This is the other side of the coin. Industry can be counted on to try to maximize the metric that I mentioned, profitability. Most of the time, but not always, industry will do so within the “rules of the game.” The “rules of the game” are defined largely by law and by the terms of the contracts we sign. The business deals codified by our contracts have to be fair, but they also have to be structured so that the government obtains what it wants at a reasonable price and industry is motivated to improve its productivity. Once we have the business deal in place, we have to ensure that the product or service we’ve acquired is delivered as agreed. If not, we have a duty to act to protect the warfighter’s and the taxpayer’s interests.

Nothing I’ve written here should be a surprise. These are principles we should all be very familiar with already. As we continue, at least for the next few months, or maybe years, to experience shrinking budgets and environments that place great stress on both DoD and industry, I believe we should make a special effort to keep them in mind. Like everything else we do, this requires a deep understanding of the products and services we are acquiring, of the business deals we enter and of the industry partners with which we do business. &

## MDAP/MAIS Program Manager Changes

With the assistance of the Office of the Secretary of Defense, *Defense AT&L* magazine publishes the names of incoming and outgoing program managers for major defense acquisition programs (MDAPs) and major automated information system (MAIS) programs. This announcement lists such changes of leadership, for both civilian and military program managers for the months of July and August 2013.

### **Army**

**Col. Willie D. Coleman** relieved **Col. John S. Turner** as project manager for Combat Ammunition Systems-Indirect Fire (CAS-IF) Project Office in July.

**Col. Harry R. Culclasure** relieved **Col. Thomas P. Flanders** as project manager for Army Enterprise Systems Integration Program (AESIP) in July.

**Col. John M. Eggert** relieved **Darryl Colvin** as project manager for Lower Tier Project Office in July.

### **Navy/Marine Corps**

**Col. Dan Robinson** relieved **Col. Gregory Masiello** as program manager for the V22 Osprey Joint Program Office (PMA 275) in July.

**Capt. Mark Glover** relieved **Vincent A. Squitieri** as program manager for the Navy Multiband Terminal (NMT) (PMW 170) in August.

### **Air Force**

**Col. James Echols** relieved **Col. Michael Gregg** as the C-5 Systems program manager on July 22.

**Yvette S. Weber** relieved **Kathryn J. Sowers** as the program manager for the C-5 Reliability Enhancement & Re-engineering Program (RERP) on July 14.

**Anthony E. Zompetti** relieved **Edwin P. McDermott** as the program manager for the C-130 Hercules Program (C-130J) on July 8.