

## Why Companies are Reluctant to Contract with the Defense Department

Written by Nick Sanders

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Competition is good, and so is innovation. Having more contractors willing to sell to the Pentagon addresses both of those goods. Having more “non-traditional” contractors willing to sell to the Pentagon is even better. Consequently, most policymakers want to see what can be done to attract those non-traditional companies to the defense industrial base.

DOD leadership has been focusing on innovation in order to “maintain military superiority,” according to [this story](#) by The Washington Post. In fact, Mr. Frank Kendall, USD (AT&L) has announced that he is dedicating “Better Buying Power 3.0” to “innovation, technical excellence, and speed,” according to the story. Readers may recall that previous incarnations of BBP focused on reducing DOD bureaucracy and increasing supplier efficiency. Previous BBP initiatives focused on reducing suppliers’ costs, among other things. (It’s not like this blog hasn’t provided detail upon detail of those previous BBP foci. The site’s keyword search feature is your friend.) Today’s BBP is about innovation, because (according to Kendall’s quoted speech) “We cannot assume, as we did in the 1950s and ’70s, that the Department of Defense will be the sole source of key breakthrough technologies.”

So innovation is the current area of focus, and it is believed that innovation can best be found in the non-traditional technology companies. It is felt that the DOD is too bureaucratic, too moribund, to drive disruptive technology breakthroughs. (We’ve written about that before, as well.)

The RAND Corporation tackled the subject via one of its Federally-funded Research and Development Centers (FFRDCs). As part of its analysis, it interviewed representatives from 16 non-traditional suppliers in three industries “where DoD indicated that it wants to seek substantial innovation from nontraditional suppliers.” It also interviewed three DoD staff members who dealt with such companies.

It recently published [its results](#) .

It cited four commonly heard complaints with the DOD business environment. Those were—

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a lack of access to and communication from DoD

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an extensive, complex, and inefficient bid and selection process

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administration and management of contracts that created extra work and delays

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a lengthy funding time line and final payments that often also involved delays and gaps.

With respect to management and administration of contracts, the RAND study reported—

Our interviewees noted particular problems with contract management by the Defense Contract Management Agency (DCMA) or the Defense Contract Audit Agency (DCAA). Correcting errors, whether by DoD or the contractor, could be extremely difficult, and critical errors affecting the scope of work or payment could take months or even years to fix if contract management had shifted from the original contracting officer to DCMA. Similarly, *final contract payments could reportedly be stalled for years because of large DCAA backlogs.*

(Emphasis added.)

To address those perceived barriers, the RAND authors recommended (among other actions), “reducing backlogs at DCMA and DCAA, noting the chances of project cancellation, and adopting best commercial procurement practices or even those used in state and local governments, which tend to be far less cumbersome.”

*Sure.*

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You might want to call those recommendations “innovation in contract management.” Except there’s nothing at all innovative about them. We’ve heard it all before, haven’t we?

Whether it’s Mr. Kendall pleading for tech companies to invest their own funds to create disruptive technologies that can be transferred to the U.S. military, or it’s the RAND folks recommending the adoption of “best commercial practices,” we’ve heard all this before.

Remember “acquisition reform” under President Clinton? Remember the Federal Acquisition Streamlining Act (FASA) and FARA and IMTRA? Remember Kelman’s acquisition revolution? Remember “reinventing government” and “a government that works better and costs less”? Remember all that?

Because we do.

We remember it was driven by a perception that DOD had fallen behind Silicon Valley, that this newfangled Internet thingee was going to revolutionize the way the Federal government did business—if only we could convince the Federal government employees to use it.

Yeah. Mr. Kendall? Sir? Been there; done that.

In fact, the notion of abandoning bureaucratic and moribund Pentagon acquisition practices in favor of “best commercial practices” has a long, honored pedigree. For example, the Manhattan Project used it in World War II (“Operation Silverplate”). You can go back farther than that, if you’d like to.

Allow us to quote—

Three points stand out prominently ... The first is that the established system of doing business

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in the War and Navy Departments broke down early in the war. The second is that the civilians, expert and inexperienced, who attempted to carry on business which properly belonged to the departments, where they succeeded at all in doing better than the departments themselves, did so usually by violation of the law—the very law which, in large measure, prevented the departments from doing as well as the civilians did. The third is that it was found necessary to replace a bureaucratic order with the more elastic and freer methods of private business.

We quote, of course from the Editor's Preface to Preliminary Economic Studies of the War: Government War Contracts, published by the Carnegie Endowment for International Peace. It was published in 1920. That was very close to one hundred years ago.

It's actually a very interesting book. It explained the advantages of using Cost-Plus-Incentive-Fee contracts instead of CPFF types. It discussed how the Supply Bureau perpetuated and enhanced competition during wartime. It discussed how contract changes and modifications were handled. And it shows just how little has changed in the past 95 years of defense acquisition, despite initiative after initiative, study after study, and at least three separate incarnations of Better Buying Power.

We particularly like this quote summarizing the Navy's approach to cost-control in a cost-reimbursement manufacturing environment: "The accounting organization has been imbued with the idea that a way must always be found to prevent the waste of the government's money without interfering with the expeditious prosecution of the work." That was the approach taken in World War I.

Where did the Pentagon fall away from that foundational principle and, instead, let the auditors take control?

How did we reach a point where companies with something to offer the Defense Department would rather not sell to the DOD because they don't want to deal with audit backlogs and stalled final delivery payments?

We learned lessons in World War I. We learned them again in World War II. We learned them in Korea, in Vietnam, and in the first Gulf War.

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Now, apparently, we are learning them again.