

Why Not Fully Fund ACAT III Pilot Programs?

by Colonel Jose R. Aragon

Much attention has been focused on defense acquisition reform in recent decades. That is not at all surprising considering the average acquisition cycle time for weapon systems is currently 10-15 years and annual defense procurement expenditures exceed \$60 billion. DoD cannot continue to have 15-year weapon acquisition cycles when the underlying technology becomes obsolete in 2-4 years. (3:3) Since the end of the Cold War, America has seen an increase in regional conflicts and operations other than war, making threats unpredictable and robust. The ability to rapidly respond to changes and opportunities is key to maintaining a long-term military advantage at an affordable price. The warfighter must have the right weapons at the right time and at the right quantities to successfully achieve national security objectives. The underlying imperative for acquisition reform is to make weapon systems faster, cheaper, and better. (4:16)

Acquisition reform remains largely ineffective in reducing weapon system acquisition cycle time because it has focused on processes associated with cost and schedule rather than funding. One of the principal barriers to reducing acquisition cycle time is the overriding impact of the funding-based limitations on defense projects. By funding each project based on its development related requirements and providing contractor incentives to establish realistic schedules, the acquisition system will be better able to meet the warfighter's needs. (5:3) **The Air Force should fully fund acquisition category III (ACAT III) pilot programs to help build the case for reducing weapon system acquisition cycle time throughout the Department of Defense.** By focusing on smaller ACAT III programs for which it controls the funding distribution, the Air Force can establish pilot programs to reduce acquisition cycle time, ensure short-term success, and make appropriate proposals that will affect major defense acquisition programs (ACAT I). Reducing acquisition cycle time will allow the Air Force to procure weapon systems faster and divest itself of aging systems that impact the warfighter's readiness. This by no means is current transformational thinking. Indeed, our acquisition process has been *transforming* since the birth of our nation.

Since 1776, Congress has passed over 4,000 statutes dealing with defense acquisition and procurement. Additionally, since WWII there has been a steady stream of commissions, studies, investigations, reports, initiatives, and legislation directed at reforming the acquisition process. Some of the most notable include the 1969 Fitzhugh Commission, the 1983 Grace Commission, the 1986 Packard Commission, which identified problems at all levels—from program managers to Congress, and the 1993 National Performance Review. With the creation of a Deputy Under Secretary for Acquisition Reform in 1993, many recommendations long

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languishing from previous reports began to become a reality. Some of those include the consideration of cost as an independent variable (CAIV), elimination of military specifications, performance oriented contracting, consolidation of federal procurement regulations, methods for providing feedback, and metrics to measure progress. Also implemented was a recommendation by the 1993 National Performance Review to establish defense acquisition pilot programs. Thirteen pilot programs were authorized under the Federal Acquisition Streamlining Act of 1994. Such pilot programs encourage risk-taking and they provide the opportunity for demonstrating near-term success. (6:—)

Three more recent efforts directly address acquisition cycle time. They are 1) The Air Force Acquisition Reform Initiative (**Lightning Bolt #10**) that calls for a reduction in award to contract time by 50%. 2) The Advanced Concept Technology Demonstrations (ACTDs) designed to reduce acquisition cycle time by incorporating considerably more contract flexibility and allowing the acquisition process to start at Milestone II—the beginning of full-scale development. This approach circumvents the normal acquisition process for a few select projects but does not change the process used to develop the majority of weapon systems. And 3) the Lean Aerospace Initiative led by the Massachusetts Institute of Technology, which is a consortium encompassing industry, government, labor, and academia. It is principally a research-based project that strives to reduce acquisition cycle time for military weapon systems by infusing commercial best practices throughout the defense aerospace industry. (5:53-55)

While these current studies have attempted to identify the causes of long cycle times, they have had little overall effect as development times continue to grow. Albeit there are many documented cases of acquisition reform success stories, most reform initiatives have focused on processes rather than funding. Additionally, few successes have been implemented across the board at all levels of acquisition. This is due in large part to the acquisition *culture* that exists.

A 1992 GAO Report attributed performance shortfalls, schedule delays, and cost overruns to the existing acquisition *culture* that drives inefficiencies in the acquisition process. Program managers, engineers, financial managers, end users, and others involved in the acquisition process present many competing priorities. Reforms must be implemented by groups of individuals who have a vested interest in not changing the status quo of the acquisition process. Few incentives exist for key actors in Congress, the Pentagon, and the defense industry to alter conventional patterns of behavior. (2:236)

One major political influence on the acquisition process is the Defense budget. The current decreasing trend in the size of the budget suggests that Congress will attempt to maintain or even increase its influence over the acquisition process. Acquisition reform initiatives that address funding flexibility will threaten that influence. For radical change to succeed it must adjust to certain political, strategic, and economic inflexibility. Incentives should be focused on the military services. The military services must be discouraged from promoting unnecessary, untested, and unworkable hardware simply because their organizational lives depend upon shares of the budget. (2:235-243) Any changes to funding strategy will face opposition from various customers. Opposition notwithstanding, there are too many programs currently funded that take too long to deliver. The longer a program exists, the more the Air Force must pay for overhead and development of the product. But the reverse is also true. If the development schedule is shortened, then the cost of the program decreases.

Fully funding select acquisition pilot programs is one solution to shortening the development schedule. Beyond programmatic schedule slips, it would appear that a major cause of extended schedules is there are too many programs or projects in progress simultaneously, thereby spreading funds too thinly among those programs. To eliminate this cause will require a paradigm shift in the management philosophy of program managers and acquisition leadership. Leadership must have the courage to delay or cancel the start of some programs considered lower priority. Concentrating on projects that can be produced quicker and cheaper, while delaying or canceling others, will require discipline throughout the corporate Air Force in order to enforce the effective use of scarce resources. Milestone funding or full capital funding of programs would ensure that necessary funds would be available, but would require a significant change in the Planning, Programming, and Budgeting System (PPBS). Capital funding of programs would ensure funds are available to accelerate projects as opportunities arise.

To those in the Air Force that must deal with the PPBS and the Acquisition System, it is obvious that instilling discipline in the business of acquisition also imposes significant constraints and inflexibility when a program deems it necessary to change schedule, and hence its funding profile. But a change in the selection and approval process used for programs may indeed provide its own solution for those that are delayed. The solution is in the savings derived from the accelerated programs. In aggregate, if programs are given sufficient funding flexibility to accelerate development and production, the acceleration should return money to the Air Force as unused. The natural tendency of the Program Offices will be to retain these savings. But if the baseline

performance is achieved, there should be little reason to retain those funds. They must be returned to the corporate Air Force to continue to press the *accelerator* on other programs.

But where will the funds come from initially? Unless additional funds can be garnered via the PPBS, the only other reasonable source would be from initiating fewer programs, or divestiture of existing programs. These additional funds must be made available to surviving programs as they initiate contracting so that the Program Offices can attempt to solicit optimum schedules from their contractors. The Program Offices may also need these funds as incentives for the contractors to accelerate the schedule. Theoretically, the acceleration of the schedule should generate sufficient savings to provide for the additional funding necessary for the incentives. Acquisition managers must be granted maximum funding flexibility in order to react to schedule opportunities proposed by the Program Office or the contractors.

It is estimated that as much as half of the cost growth in major weapons systems is due to nothing more than funding instability. (1:59-64) The best solution would entail full funding of a program's development program in the year it is initiated. With statutes restricting the length of funding expenditures, pilot programs adopting this approach must significantly shorten the development cycle time. Before requesting Congressional relief from current statutory time limits on funding, the Air Force must first successfully execute those low-level, short-duration pilot programs. Seventy-seven percent of Program Offices surveyed believe they could reduce development time by fifty percent or more if funding flexibility allowed for schedules to be accelerated. (5:203-213, 326)

At a program's inception, the funding profile is provided by the Program Office and endorsed by the using command. That funding profile has as its basis a particular program schedule. Two primary sources of information used to establish the program schedule, and thereby its funding profile, are the expected development funding and expert judgment. (5:214)

It is quite appropriate to call into question the *expert judgment* used in establishing the initial schedule and funding profile for Air Force programs. This *expert judgment* is one that has been developed over the years in a system that endorses and supports a constrained system that cannot accelerate its programs due to the inflexibility of the budget system. This *expert judgment* is also nearly devoid of commercial industry experience—an industry whose existence is based on rapid reaction to a fast changing marketplace.

The other source of information used to establish the initial program schedule is the development funding profile. Often the Program Office anticipates the level of funding it can obtain, develops a schedule to fit the funding profile, and then inserts that profile into the PPBS. It is clear that the actual or anticipated development funding profile drives the schedule. (5:212) Flexibility must be inserted into the process used for funding programs if acquisition schedules are to be accelerated. Acquisition managers must be empowered to do just that. The case must be built.

Why can't the portfolio managers be empowered with full funding flexibility? The approach previously offered that down-selects to pilot programs to achieve schedule acceleration and subsequent program savings, is a first step in developing that funding flexibility. The key to allowing a program to accelerate its schedule is to remove the restrictions caused by the year-by-year funding profile established via the PPBS.

Currently, an acquisition hierarchy exists that supports the management of an acquisition portfolio of programs. Those positions are called Program Executive Officers (PEO) and Designated Acquisition Commanders (DAC). They indeed manage a portfolio of ACAT III programs. (4:26-28) While they have significant programmatic authority, they have almost no flexibility to change funding profiles within a program or between programs in order to accelerate a program. An extension of the Portfolio Manager's authority under a pilot program is the shifting of funds within the portfolio. There are several ways this portfolio arrangement can be implemented, but in essence the funding barriers currently imposed on these general officers and senior executive service members should be relaxed significantly.

Funding for ACAT III programs is controlled and restricted based upon internal Air Force policies. Pilot programs would need to be implemented at the portfolio level to demonstrate the synergistic effects across a range of products or projects. The DAC, such as the Aeronautical Systems Center Commander (ASC/CC), could be designated as the responsible authority for this increased flexibility within his portfolio. With the authority to allocate funds within the portfolio, and with the additional funds made available through the program down-select process described earlier, ASC/CC could fully fund select development programs at their inception, incentivize an optimum schedule, and develop further savings through accelerated schedules. The savings and outyear funds subsequently released by those programs could be reallocated outside the portfolio to resource additional pilot programs in the ensuing years.

Countless studies and reports have been written on acquisition reform initiatives. Almost all have focused on processes and cost reduction. While some have highlighted funding instability, none have formally presented options or solutions to the PPBS process. In fact, the acquisition reform movement as a whole has been almost

exclusively focused on the Acquisition Process, ignoring the Requirements Process and PPBS. Clearly, a paradigm shift is needed.

The Air Force should fully fund ACAT III pilot programs to help build the case for reducing weapon system acquisition cycle time throughout DoD. However, the existing acquisition *culture* comprised of groups with a vested interest in maintaining the status quo, may resist such a radical change. Fully funding select pilot programs will help establish benchmarks for future weapon system programs that are both realistic and attainable. Flexible funding strategies will help reduce acquisition cycle time for new weapons and allow the Air Force to replace its aging weapon systems sooner. Empowering a PEO/DAC with the flexibility to proactively reprogram funding within his portfolio of ACAT III programs will establish a basis for wider application in ACAT I and ACAT II programs. Success will help build the case for congressional support. The end result will be a program funding stability that will allow delivery of new weapon systems to the warfighter — faster, cheaper, and better. What a transformational concept!

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