
**ADAPTING BEST COMMERCIAL PRACTICES
TO DEFENSE¹**

Frank Camm

Over the last decade, the Department of Defense (DoD) has sought increasingly to transform its basic approach to warfighting and the methods it uses to support warfighters.² As part of this effort, leaders and influential observers of DoD have repeatedly encouraged DoD to emulate “best commercial practices” (BCPs)—the practices of commercial firms that have been recognized by their peers as being the best among firms engaged in similar activities. Over the past 20 years, many successful firms have found that BCPs offer an important new source of information for improving their competitive position. In particular, they have used information on BCPs to complement and even replace more traditional forms of analysis associated with organizational innovation. Properly used, BCPs provide a rich

¹Much of the material in this chapter draws on empirically based policy analysis that I have conducted at RAND with John Ausink, Laura Baldwin, Charles Cannon, Mary Chenoweth, Irv Cohen, Cynthia Cook, Jeff Drezner, Chris Hanks, Cynthia Huger, Ed Keating, Brent Keltner, Beth Lachman, Jeff Luck, Ellen Pint, Ray Pyles, Ken Reynolds, Susan Resetar, Hy Shulman, Jack Skeels, and, particularly, Nancy Moore, co-leader with me of the Project AIR FORCE project on new approaches to sourcing and contracting. Together, we have reviewed the empirical literature on identifying and implementing best commercial practices in logistics, environmental management, and sourcing-related processes. We have conducted detailed case studies on practices in over 60 commercial firms and many DoD organizations. I could not have written this chapter without the work we have done together, but I retain full responsibility for the chapter’s content.

²For more information on this effort, see U.S. Department of Defense, *Quadrennial Defense Review Report*, Washington, DC, 30 September 2001; U.S. Congress, General Accounting Office, *Defense Reform Initiative: Organization, Status, and Challenges*, GAO/NSIAD-99-87, Washington, DC, April 1999.

database on new ideas that have worked in particular settings and on the factors underlying their success. Advocates of using BCPs in DoD argue that BCPs could serve a similar role in helping the department transform itself. That is, BCP assessment could complement other methods used to support transformation, including traditional forms of public policy analysis.

By contrast, skeptics argue that the institutional setting of DoD (and, more broadly, the federal government) is so different from the settings of commercial firms that BCPs have little to teach DoD. As my colleague, Gregory Treverton, argues, “The public and private sectors are alike in all the unimportant respects.” Differences in basic values, incentives, constraints, and operating environments, as well as DoD’s profoundly political setting, limit the applicability of BCPs observed in commercial firms.

This chapter describes how DoD can use BCPs to help transform activities that have appropriate commercial analogs, particularly activities in the defense infrastructure.³ These include administrative services, generic business and personnel services, education and training, sourcing, and the elements of base operations, medical care, information services, logistics, and civil engineering that are separable from direct military operations.⁴ Even where appropriate commercial analogs exist, fundamental differences between the public and private sectors require that BCPs be carefully tailored for adaptation to DoD needs. DoD has already found ways to tailor such BCPs to its peculiar needs and can do a great deal more of this in the future.

This chapter first addresses the general challenge of adapting BCPs to DoD. It then uses sourcing BCPs relevant to DoD to illustrate more concretely how to adapt BCPs to DoD’s peculiar institutional setting.

³For simplicity, I speak of a monolithic DoD in search of BCPs. Of course, DoD must rely on its constituent components and agencies to find and adapt BCPs in ways that work best for them. When I speak of DoD taking any particular action, I mean a particular decisionmaker or activity within DoD acting within the constraints relevant to that part of DoD.

⁴DoD can use commercial models for other activities as well, but finding useful analogs becomes increasingly difficult as the department’s core military activities are approached.

The initial overview covers four topics: (1) what BCPs are and how DoD can benefit by learning more about them; (2) the close relationship between many BCPs and operational total quality management (TQM)—i.e., TQM absorbed into day-to-day operational decision-making; (3) how DoD can identify BCPs relevant to its needs; and (4) how DoD can use formal change management techniques to adapt such BCPs to its own goals and operational environment.

Using BCPs associated with the general commercial practice called “strategic sourcing,” the chapter then walks through a sequence that uses change management to adapt BCPs to DoD’s needs. This sequence identifies strategic goals relevant to DoD sourcing policy, sourcing BCPs relevant to these goals and the way in which these BCPs relate to one another, DoD’s recent efforts to adapt these BCPs and key barriers to more complete adaptation, and tactics DoD can use to mitigate these barriers. DoD could use a similar sequence to pursue adaptation of BCPs in any policy area.

WHAT IS A BEST COMMERCIAL PRACTICE?

BCPs are typically tied to processes—i.e., activities that transform inputs into outputs in any organization. Processes can, for example, transform strategic priorities into requirements, development resources into new products, or labor and material inputs into serviceable parts. BCPs occur in processes that use fewer inputs to yield better or more outputs faster. They make specific processes or their outputs “better, faster, and/or cheaper.”

Most BCPs are more likely to occur in firms that do business with one another rather than with DoD. So, to find BCPs, DoD must typically look well beyond its traditional horizons.

Examples

Caterpillar was among the first firms recognized for world-class logistics performance. In 1990, it could fill 98 percent of all requests for parts within 48 hours, anywhere in the world. During the Persian Gulf War, Saudi Caterpillar tractors, supported by Caterpillar, were available throughout the war, whereas U.S. Army Caterpillar tractors, reliant on organic DoD support systems, were not. The specific

changes in logistics and sourcing processes that brought about such world-class performance in order fulfillment and reliability are BCPs.

In 1986, the Emergency Planning and Community Right-to-Know Act (EPCRA)⁵ created the toxic releases inventory (TRI), which identifies the physical volume of a list of toxic chemicals emitted by major U.S. companies each year. The TRI made many corporate executives aware, for the first time, of how their firms were affecting the environment (and how much money they were wasting as emitted chemicals). Under a variety of voluntary programs, firms committed themselves to cut emissions by an order of magnitude over three years. By implementing operational and environmental BCPs tailored to their particular industrial processes, they met their commitment without having to cut industrial production. DoD cut its TRI emissions by 50 percent over three years. It could very likely go even further.

From 1993 to 1997, AMR, the parent company of American Airlines, cut the cost of all its purchased goods and services by 20 percent (relative to inflation) without affecting performance levels. Honda cut similar costs by 17 percent from 1994 to 1997 without a performance loss. Both firms already had sophisticated purchasing programs in place. They introduced BCPs, tailored to their priorities, into their purchasing and supplier management processes to achieve these improvements; further improvement has continued in both firms as they have refined their approaches. DoD has sought savings of this magnitude primarily in incremental A-76 cost-comparison studies.⁶ AMR and Honda's experiences suggest the virtues of using a much broader approach focused on process change.

Commercial Practice: Neither Monolithic nor Easy to Define

A BCP is not a *specific* best way of doing something that can be picked up and moved anywhere else. On the contrary, the first lesson

⁵42 U.S.C. 11001-11050, also known as Title III of SARA (Superfund Amendments and Reauthorization Act).

⁶Office of Management and Budget (OMB) Circular A-76 defines a process DoD can use to compare the costs of using public and private sources to execute a particular work scope.

from commercial practice is that the private sector accommodates an extraordinary variety of policies and practices.

What works in one place may not work in another. The best commercial firms are always trying to learn from other firms with comparable processes, but they recognize that they cannot simply emulate another firm's practice without understanding why it works. Firms look for what might work in their own setting, and when they adopt a BCP, they may use it in such a new way that it is hard to tell exactly what was learned. The fact that best practices must be *adapted* to each new setting makes them elusive; even if all commercial firms applied best practices, there would be considerable variation among them.

Some firms stand out as particularly innovative. The best firms' practices differ precisely because these firms have found different—better—policies and practices that other firms have difficulty emulating.

To complicate things further, BCPs do not stand still. The variation observed in the commercial sector reflects informal experiments that constantly test the effectiveness of doing things differently. As particular practices succeed in appropriate settings, these practices become, by definition, BCPs. They prevail as long as they continue to yield success when appropriately applied. Over time, constant innovation, imitation, and competition yield variations that work even better, constantly displacing practices once considered the best. Firms that use BCPs do not identify specific practices that they then rely on indefinitely so much as they continually seek the best practices available. A commitment to always continue this search underlies the BCPs in the best firms.

Why DoD Should Care

Global competition is driving the best commercial firms to improve every aspect of their businesses. These firms are learning how to (1) determine requirements more quickly and with greater precision to increase the firm's agility and reduce its waste, (2) integrate organic processes across functional boundaries and align those processes

with the needs of customers,⁷ (3) build relationships with outside sources that integrate those sources with organic processes and the buyer's customers, (4) manage these relationships to realize the buyer's and seller's expectations, and (5) pick sources that can do this.

DoD faces such challenges itself, but in a different environment. Commercial firms face competition that threatens their survival day by day. DoD operates in a more lethal environment, but one that is truly threatening only during a contingency. When DoD actually projects military force, it can expect to face opponents with access to much of the information about BCPs that DoD has. In a global setting, global commercial practices can be adapted anywhere.

Because commercial firms are learning how to perform in an increasingly turbulent, unpredictable, competitive environment, the BCPs they develop often give particular attention to managing uncertainty more effectively. With care, DoD can use BCPs to ask how better to manage the increasingly uncertain environment in which it operates. Care is required to distinguish risks whose root causes are similar for both DoD and commercial firms (such as technological innovation and the behavior of external sources) from risks unique to DoD (such as those driven by immediate military concerns or congressional politics).

As these examples illustrate, DoD can expect not only cost reductions, but also improvements in process performance and product quality and reliability.⁸ What aggregate improvements BCPs will allow DoD to achieve cannot be predicted; they will depend on the particulars of the processes and products DoD addresses and on how it adapts specific commercial practices to its own institutional setting. But it is reasonable to expect that wherever DoD can find com-

⁷*Functions* are communities of specialists trained in similar skills, such as maintenance, financial management, or contracting. They provide skills to many different processes. *Processes* use specialists from different functions to deliver a product, such as a repaired part or a meal, to a customer. Functions tend to have an input-oriented perspective; processes tend to have an output-oriented perspective.

⁸DoD's goals reach well beyond concerns about cost, performance, quality, and reliability. As we shall see, DoD's institutional environment places high value on other goals for sourcing policies and practices. Given the priorities captured by that environment, however, BCPs are most likely to help DoD improve its costs, performance, quality, reliability, and so on. We return to this point below.

mercial analogs, it should be able to achieve significant and continuing improvements that outweigh the effort required to achieve such change. DoD can learn over time what to expect and thus specifically where to continue investing.

A BCP That DoD Uses Today: Lean Production

The book *The Machine That Changed the World*⁹ did much to popularize the relevance of BCPs. It detailed how the Japanese automobile industry was outperforming its North American counterpart, which, in turn, was outperforming the European counterpart. The term *lean production* was used to explain why the performance of these industries differed, what North American industry could learn from the Japanese automobile industry, and what some BCPs were in 1990.

What did Japanese firms do right? They cut design, marketing, and production cycle times to catch errors quickly, thereby generating less wasted effort than North American firms did. They built quality into the cars to reduce the cost of after-the-fact inspections and rework, thereby slashing parts and work-in-progress inventories, which, in turn, reduced the capital investment required to produce cars. They used basic TQM tools to understand what customers wanted and then aligned all of their design, marketing, and production processes to give customers exactly that.

When RAND analysts first examined lean production, they expected to find nothing useful to DoD. What could an organization focused on warfighters learn from firms driven by commercial accountants? The answer depends on how one looks. Lean production pays particular attention to uncertainties associated with customer demand, production process performance, and the performance of external sources. When RAND analysts looked at the automobile industry, process by process, and compared the uncertainties in these processes with those in analogous processes in military logistics, they discovered that lean production offered exactly what DoD needed to

⁹By James P. Womack, Daniel Roos, and Daniel T. Jones, MacMillan/Rawson Associates, New York, 1990.

deal with its logistical uncertainties.¹⁰ RAND helped the Air Force develop its first application of lean production: agile combat support (originally called “lean logistics”). The Army followed shortly thereafter, developing its velocity management, and the Marines then developed their precision logistics. Each adaptation is tailored to its specific setting in DoD.¹¹ None would have occurred the way it did had DoD not discovered how to learn from the experiences of the Japanese automobile industry.

What About Best Government Practice?

People in DoD tend to seek best practices elsewhere in DoD or at least in other agencies of the federal government. Benchmarking efforts in the federal government tend to focus on the government, and they suggest that cross-government learning is important.

Nevertheless, DoD ought to look as far afield as commercial firms outside DoD’s traditional orbit, because these firms are experiencing a real revolution in business affairs that is likely to continue. Moreover, while defense spending is growing, it still makes up just a few percent of the U.S. economy. All else being equal, any innovation is thus many times more likely to occur outside the defense sector than within it. The likelihood is even higher for processes that are more commercial than military in character, especially those processes that make up DoD’s infrastructure. If DoD can monitor commercial ideas that succeed, it can cull the best ones for its own use without having to experience the failure that some ideas, inevitably, will meet with.

In effect, BCPs help DoD focus its leadership and in-house innovation efforts on its core missions, because BCPs give it access to useful

¹⁰I. K. Cohen, John B. Abell, T. Lippiatt, *Coupling Logistics to Operations to Meet Uncertainty and the Threat (CLOUT): An Overview*, R-3979-AF, RAND, 1991; Timothy L. Ramey, *Lean Logistics: High Velocity Logistics Infrastructure and the C-5 Galaxy*, MR-581-AF, RAND, 1999.

¹¹For example, agile combat support increasingly emphasizes the importance of adapting to new contingencies quickly so that the Air Force can become more “expeditionary”—i.e., can project force more quickly and reliably in a contingency. Velocity management emphasizes improvement in peacetime performance to bring Army logistics processes under control to make them more reliable and less costly.

external information about its noncore activities—i.e., those with close analogs in the commercial sector. If most technological and organizational innovations outside its core activities are highly likely to occur elsewhere, why should DoD waste its own effort and resources keeping these activities at the cutting edge of capability? BCPs offer an alternative approach, one that DoD can use if it creates and maintains core, in-house capabilities for adapting BCPs. These new capabilities would free resources and leadership efforts to focus on core activities.

That said, when an innovation enters DoD (or the rest of the government), from whatever source, it is fair game for adaptation. Adaptation of any best practice is first and foremost about change management. Much of the following discussion on implementing change applies as well to best *government* practices as to BCPs.

OPERATIONAL TOTAL QUALITY MANAGEMENT AND BCPs

As often as not, BCPs involve the application of TQM in particular settings. The ideas at the core of TQM are simple and logical: TQM offers a straightforward approach to using reliable empirical evidence to track and adjust management decisions. *Operational* TQM does this as an integral part of day-to-day management. It does not maintain a functional distinction between a “quality community” and line management.

Key Benefits of TQM: Links Between Customers and Processes, and Continuous Improvement of Resulting System

TQM seeks clear, empirically based answers to three fundamental sets of questions:¹²

- Who are the firm’s customers and what do they want? If the firm has many customers, do they want different things? What can the firm do to reflect these differences in its products?

¹²For an eloquent demonstration of this point, see Arnold S. Levine and Jeff Luck, *The New Management Paradigm: A Review of Principles and Practices*, MR-458-AF, RAND, 1994.

- What processes does the firm use to serve its customers, and how does it coordinate these processes so that they all align with customer needs? If the firm buys inputs from external sources, how does it align these sources with its customers' needs?
- How can the firm improve? Is it serving the right customers? How can it improve its understanding of its customers' needs? How can it better coordinate and align all processes it uses to serve its customers?

Described this way, TQM sounds like simple common sense. To a large extent, it is. But such common sense focuses management's attention on (1) its customers rather than its internal constituencies (which can legitimize themselves under TQM only by serving the ultimate customer), and (2) cross-functional processes rather than the internal communities in functional divisions (which are thereby deemphasized).

TQM rejects internal standards as a basis for monitoring internal performance in favor of challenging all process owners to look for ways to improve the standard performance of each process. The logical place to look is at similar processes used elsewhere—BCPs, for example.

TQM relies on the idea that these things do not happen unless individuals do them. TQM aligns the behavior of individuals with an organization's goals. It formally recognizes the importance of stakeholders and the fact that they must participate in any process management. It then seeks rules of engagement, roles and responsibilities, metrics, and incentives that help them work toward a common purpose. In particular, it helps stakeholders involved in any process look beyond the process and understand how it can contribute to the goals of the organization as a whole. Such "common sense" demands that an organization that wants to change not only recognize what that change means for the job behavior of the individuals affected, but also prepare careful plans directly focused on how the change will affect the behavior of the individuals. These ideas demand that behavioral change lie at the heart of any organizational change induced by a decision to adapt a new practice.

TQM is most commonly associated with continuous improvement—*kaizen*, in Japanese. *Kaizen* can mean taking a given process or cus-

customer base and improving it over time—perhaps by shortening the process’s cycle time or improving the firm’s understanding of the customer base’s latent desires. In these cases, change tends to come from the bottom, because only the individuals who understand a process’s subtleties can offer useful process improvements.

More dramatic “reengineering” and strategic changes demand that an organization smash its existing processes and even seek new markets. Both of these require top-down initiative, because only by seeing the organization as a whole can one imagine a qualitatively different direction for its internal processes or its customer base. This is not what most people associate with TQM, but such distinctions may be overdrawn. In this chapter, TQM refers to the management of changes of all kinds that improve an organization’s understanding of its customers, improve the processes used to serve those customers, or prepare individuals in the organization to do these things in a way that promotes the organization’s goals. This definition is probably broader than the one normally used.

Implementing *kaizen* as a standard element of day-to-day management is a major change that requires commitment and sustained support from the top. Management systems throughout the organization must change; there is no *kaizen* way to implement *kaizen*. Conversely, the specific changes that implement reengineering and alternative strategic direction must come from somewhere (even if from a consultant, someone inside the organization must decide to pay attention). Radical changes to a part of an organization appear incremental to the organization as a whole—*kaizen* on a higher level. TQM provides useful principles for creating the culture that generates new ideas, be they large or small.

The best examples of the close relationship between TQM and BCPs come from looking at the ISO 9000 management standard and the U.S. Department of Commerce Malcolm Baldrige Award.¹³ For both, third-party auditors use a checklist to verify that an organization

¹³ISO 9000 is a family of voluntary standards created and maintained by the International Standards Organizations (ISO). Organizations can be certified to ISO 9000 if they maintain a detailed set of management processes. The U.S. Congress in 1987 created the Baldrige Award to recognize U.S. organizations that best exemplify a detailed list of characteristics based on the principles of TQM.

complies with specific requirements. The lists differ, but both include the key elements of TQM and seek to know how far TQM has been integrated into day-to-day management. Both also seek to understand an organization's customers and processes, how it ensures and improves quality, and how it enables and motivates people.

DoD could use such checklists. They work best when applied by a third party, which can provide objective discipline as well as the services of a knowledgeable consultant. In fact, third-party auditors could help DoD verify whether it has adapted the critical elements of any specific BCP it might consider.

TQM Viewed with Great Suspicion by Many in DoD

Some people have heard so many different versions of TQM that it just confuses them. As quality consultants split hairs over the fine points in trying to differentiate their wares so as to gain market share, the central message gets lost in the noise. In fact, as explained above, the core ideas in TQM are simple and logical.

Other people have participated in formal efforts to implement TQM in their agencies. They have heard all the rhetoric but have seen no more performance improvement from these efforts than from their predecessors. What they remember is the decline in budget and manpower authorizations made ahead of any savings that TQM would provide, and that they lost capability when the savings did not come. Commercial firms have similarly learned that TQM works only when it goes from being a stand-alone program to an operational part of day-to-day management, which happens less often than it should. TQM must be operationally implemented to overcome this problem.

Still others, particularly those looking for new commercial ideas, observe that the term *TQM* is now largely gone from the business press. In fact, where successful, TQM has been absorbed into day-to-day management. As implementers routinely use internal management audits and align their internal organizations to the processes they use to serve customers, they mention TQM less and less. Yet ISO 9000

(and its clones¹⁴) has become the dominant standard that good firms use to qualify suppliers. Profitability aside, the Malcolm Baldrige Award remains the dominant U.S. measure of high management performance. Operational TQM is now so pervasive in commercial firms that it is no longer seen as separate from good management.

IDENTIFYING BCPs

To identify BCPs, an organization must learn how to look beyond its own boundaries in a new way. It must learn how to exploit the increasingly abundant information resources available on other organizations' practices. The World Wide Web is a logical first place to look for references to appropriate information, if not for the information itself. Three types of resources can be helpful:¹⁵

1. *Professional associations and the conferences, courses, and publications they sponsor.* These offer ideal places to track rapidly evolving BCPs and their effects. They provide information on concepts and cases, as well as a natural place to meet specific practitioners and consultants who can provide additional information about practices in specific settings.
2. *Books and journals.* The major accounting firms maintain databases on best practices and have begun to publicize their data in books.¹⁶ More generally, books and journals offer detailed examples of best practices from an industry or academic perspective. The industry perspective typically includes hands-on detail critical to understanding the usefulness and transferability of a specific practice. The academic perspective typically puts cases in a broader context, one that is particularly useful in balancing the often over-optimistic message of the industry press. (Companies

¹⁴The automobile, aerospace, and telecommunications industries have now developed their own variations on ISO 9000: QS-9000, AS-9000, and TL-9000.

¹⁵Table 8.1, shown later, provides examples of items in these categories that RAND used in its work on strategic sourcing.

¹⁶For example, Arthur Andersen offered a comprehensive approach to adapting BCPs in Robert Hiebeler, Thomas B. Kelly, and Charles Ketterman, *Best Practices: Building Your Business with Customer-Focused Solutions*, Simon and Schuster, New York, 1998.

rarely voluntarily share information on their failures to adapt best practices.) Both perspectives are useful.

3. *Benchmarking*. A specific way to place an organization in a broader context, benchmarking typically proceeds in three stages. Stage 1, high-level benchmarking, identifies the general nature of BCPs. The resources described above focus at this level. Stage 2, quantitative benchmarking, identifies a set of metrics and compares them across organizations with similar processes. This can occur in specific studies or on an on-going basis in benchmarking networks of organizations with similar processes. Stage 3, practitioner benchmarking, allows an organization to send the people who will adapt a new practice to a place where the practice already works so they can talk to the people who make it work. Face-to-face comparisons of day-to-day operations on the best practitioner's site give an organization's own practitioners latent knowledge about how they will have to change to successfully transfer the practice that they can get in no other way.

Described in this way, the identification of BCPs is a natural aspect of market research. DoD has always conducted market research but has typically thought about it only in terms of acquisition and contracting. By contrast, all parts of the best commercial firms are becoming increasingly aware of what is happening outside their firms. Because BCPs can benefit DoD so widely, market research should interest all process managers, notably those responsible for requirements determination, organic process design, design of relationships with external sources, source selection, and ongoing performance management for internal and external sources.

Adapting BCPs for Use in DoD

The most challenging aspect of adapting a BCP is successfully transferring it into DoD—i.e., ensuring that DoD changes in a way that allows it to benefit from the BCP. BCP adaptation is thus first and foremost about managing organizational change. Any new practice will require a formal program, the goal of which will be to adapt the practice to the DoD setting and to adapt standing DoD policies and systems to support the new practice. These change-related activities present a serious challenge, no matter where the change comes from.

Formal change management systematically addresses a series of issues that are also relevant to adapting best practices:

- Who in DoD does the change affect? Do they have the same relative importance in DoD as their counterparts in the commercial world?
- Who has to change their behavior on the job? What are the best ways to induce such changes in DoD relative to the commercial source organization?
- What DoD management systems must be synchronized with the change? How do they compare to analogous management systems in the source organization?

Given the close relationship between adaptation of BCPs and change management, as well as the fact that any adaptation must ultimately support and induce a specific organizational change, DoD can best approach the challenge of adaptation itself through the lens of change management. If DoD plans for successful change management, it will also, by definition, define an effective adaptation. The two fit hand in glove.

Successful management of organizational change is in itself a BCP. As DoD adapts more commercial practices, change can become easier. In the meantime, however, change is likely to be harder in DoD than in the best commercial firms. Personnel can keep this in mind as they review material about BCPs and think about how such practices will change when they come to DoD.

Every large, complex organization faces a diverse constellation of stakeholders. Large commercial firms typically identify their shareholders, customers, employees, suppliers, and the outside community as the stakeholders relevant to their success. DoD serves taxpayers, warfighters, and military families rather than shareholders and customers. Its employees are organized differently and have different rights. It is subject to much greater external scrutiny and pressure than a typical commercial firm is; political constituencies, working through Congress or more directly, are particularly important. Because key stakeholders shape any large organizational change, DoD can expect them to alter BCPs as these practices move from any commercial organization to DoD. Such pressure could well reduce

the net benefits that a BCP offers, as DoD services each stakeholder's needs.

Still, DoD can affect the balance among these stakeholders to some extent. In particular, many BCPs shift control from a functional community to a customer. For example, in a logistics setting, BCPs emphasize the availability of parts to a final user (the customer) over the efficiency of the transportation system (the functional community) used to deliver these parts. DoD has demonstrated that it can do this in selected settings.

Once DoD acts to shift authority from its functional communities to its ultimate users, DoD can accept the presence of its key stakeholders and maintain an open process in which they negotiate to shape any new commercial practice. But to succeed, DoD must guard against allowing any one stakeholder to capture the adaptation process.

Change is only as effective as the senior leadership support it can garner and sustain through the full change effort. So a successful change is typically as large as the senior leadership supporting it allows. Adaptation of a BCP may look like a large change in DoD simply because of differences between the DoD and best commercial settings. This makes senior support and proper sizing all the more important.

A common approach seeks support for a small change in one locality and uses empirical evidence of benefits from that change to engage a higher, broader level of leadership. Even with high-level support from the beginning, an incremental approach is likely to sustain the support required to make a large change and to limit the risks associated with such a change. Ways to do this include the following:

- Use carefully instrumented pilots to test BCPs and adapt them to DoD as appropriate.
- Initially choose BCPs that require the smallest adaptation to transfer them to DoD.
- Make BCPs as compatible as possible with the local DoD culture where they are received. Use waivers where they are available.

- Refrain from introducing BCPs too close to DoD's core combat-related activities so that any failures will have no more than limited effects on DoD and on the change effort itself.

Caution is important, but a proposed change must be big enough to get people's attention.

Structural Differences Between DoD and Most Best Commercial Firms

Corporate America and the major elements of DoD initially learned from one another about how to harness the myriad energies of a giant enterprise to a single purpose. Well into the 1950s, they used similar management methods to plan and operate their organizations. Since the 1950s, however, and at an accelerating rate since the 1970s, the best commercial firms have moved away from the organizational form that DoD continues to favor.¹⁷ In particular:¹⁸

- While the military services and defense agencies favor strong centralized structures, best commercial firms have reduced their corporate headquarters staffs and devolved authority.
- While DoD organizations rely heavily on strong functional organizations (such as logistics, civil engineering, and financial management), best commercial firms increasingly align themselves along process lines associated with products that cut across such functional lines.
- While DoD favors clearly defined rules, roles, and responsibilities over motivation and incentives, best commercial firms rely relatively more on formal incentives to align employees with the

¹⁷The characteristics attributed to DoD here, of course, apply to the federal government as a whole.

¹⁸These are not the only factors that create differences between the public and private sectors. For example, DoD tends to draw a greater distinction between effectiveness (such as military capability) and efficiency (cost) goals than commercial firms do, because DoD is subject to many laws and regulations that do not affect private firms. And while DoD emphasizes procedural openness, fairness, and fraud prevention, best commercial firms are more pragmatic in their management of processes and of fraud and abuse.

organization's goals. These firms give their employees more discretion than DoD does.

These differences are real and significant, but they should not be given more importance than they warrant. DoD organizations will probably sustain their preference for directing many actions from the center and using their functional communities to do this. They will also rely more on specific rules than on incentives to align local activities with the center, and they will continue to emphasize openness, accountability, equity, and integrity. DoD must adapt any BCP to make it compatible with these priorities.¹⁹

To adapt a BCP, DoD must verify that relevant practices that work with commercial management systems also work with analogous DoD systems. Organizationwide management systems differ in all organizations. Because of the growing difference between DoD and the best commercial firms, the differences relevant to four types of management systems are particularly important in this context:

- *General information systems and, in particular, internal transfer prices and related decision-support information.* Prices work in qualitatively different ways in DoD and typical commercial firms.
- *Incentive and motivation systems.* Every organization has its own approach to motivating workers.
- *Workforce management systems.* DoD's need to deploy forces and its heavy reliance on a labor force with little lateral entry create workforce management challenges that the best commercial firms do not face.
- *Systems to release excess resources, particularly labor.* The federal Office of Personnel Management (OPM) and federal unions place constraints on DoD that differ from those faced by the best commercial firms, even those with strong unions.

Planning for major organizational change raises many issues similar to those associated with planning for military action. Before DoD ex-

¹⁹How best to adapt a BCP always depends on the context. The last part of this chapter illustrates this with sourcing examples.

ecutes a military action, it typically develops a detailed contingency plan. As the first day of a military campaign approaches, DoD incorporates more and more details about the actual situation to make the execution as well coordinated and free of surprises as possible. Surprises will occur, however, and the plan must adapt repeatedly as the action proceeds. But the initial plan provides enough structure to anticipate surprises and have resources in place to respond when they occur. Very similar statements could be made about how DoD develops a new weapons system, major end item, or subsystem.

DoD can think about large organizational changes in a similar way. DoD knows how to identify risks and plan against them; it can use this knowledge in planning how to adapt a BCP to its own cultural setting. Key elements of such a plan are likely to include

- A clear, succinct statement of goals, with metrics to characterize the goals. DoD can use these goal-oriented metrics to negotiate adjustments as change proceeds.
- A way to break the change into a simple, defensible set of chunks compatible with the degree of support available for the change.
- For each change, a list of the behaviors that must change on the job, barriers to these changes, and plans to overcome each barrier. These plans address appropriate roles and responsibilities, training and other resource needs, and milestones.
- A coherent endgame that ensures the change is integrated with all appropriate DoD-wide management systems and is sustainable at the end of the transition.

The natural tool to use for this monitoring is a Shewhart cycle,²⁰ a variation of which is shown in Figure 8.1. Such a cycle provides an integral part of a quality management system that keeps senior leadership well informed about a change's status.

²⁰Named for Walter A. Shewhart of Bell Telephone Laboratories, it is also popularly known as a PDCA, or Plan-Do-Check-Act, cycle.

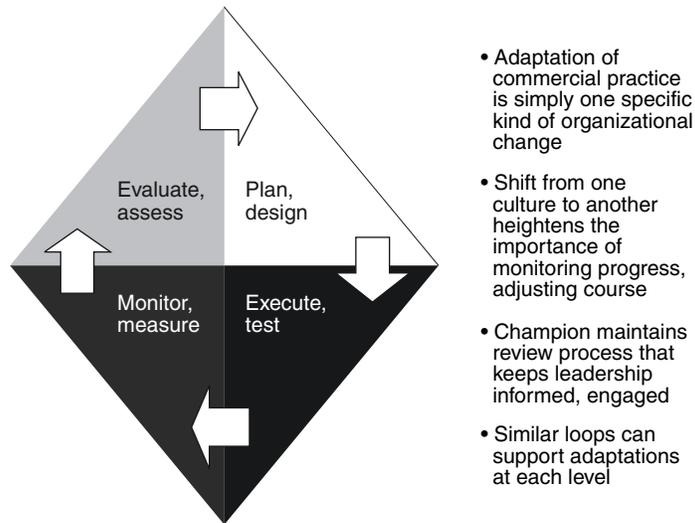


Figure 8.1—A Continuous Improvement Loop Indicating Whether Adaptation Is on Track

The champion (i.e., person responsible for the change) uses the cycle to plan and design the elements of a new commercial practice, execute and thereby test this practice in DoD, monitor the test and measure the practice's performance against the stated goals of the change, and evaluate the outcomes.²¹ If need be, the champion adjusts the design of the commercial practice and executes it again in the test setting. The champion includes the coalition supporting the change—i.e., the stakeholders whose organizations must alter their behavior for the change to succeed—in this loop. This gives the coalition an opportunity to approve or redirect as well.

²¹At RAND, we associate such a cycle with "maturation." For a discussion of maturation in the context of technological innovation, see J. R. Gebman, H. L. Shulman, and C. L. Batten, *A Strategy for Reforming Avionics Acquisition and Support*, R-2908/2-AF, RAND, 1988.

An Illustrative Example: Strategic Sourcing as a Basket of BCPs

Strategic sourcing links an organization's sources for the goods and services it uses as inputs to its corporate strategic goals. Typically, an organization identifies its customers' needs and then verifies that its sources of goods and services are tightly aligned with those needs. Every commercial firm that uses strategic sourcing customizes it to its own setting, but broadly speaking, a firm that uses strategic sourcing

- Identifies its customers' needs and translates them into measurable metrics.
- Organizes its internal processes to choose and manage sources, internal or external, accordingly.
- Develops relationships with key high-quality sources that become partnerships enabling both buyer and seller to benefit from pursuing the needs of the buyer's customers.
- Uses metrics that reflect customer priorities to measure the performance of the high-quality sources that the firm partners with.

Both buyer and seller benefit by working jointly to improve performance; joint continuous improvement lies at the heart of these partnerships.

The strategic goals relevant to strategic sourcing in DoD can be summarized as follows:²²

- Improve military capability
- Sustain or improve safety and quality of life
- Reduce total ownership cost²³

²²These closely mirror the set—efficiency, equity, and integrity—proposed in Steven Kelman, *Procurement and Public Management*, AEI Press, Washington, 1990. Kelman inferred these by examining the rationale underlying federal procurement regulations.

²³“Total ownership cost” is a commercial measure of all the costs associated with an activity or asset over its lifetime that DoD has begun to use. It covers all the costs of “owning” an activity or asset.

- Honor socioeconomic commitments
- Sustain the openness, equity, and integrity of the sourcing process.

With regard to military capability, the commercial analog is the value of output as measured in monetary terms. Because no one metric exists to measure military capability, this connection between the value of output and a source of inputs is more difficult to make in DoD than in the commercial sector. As for safety and quality of life, both DoD and commercial firms are concerned, but DoD is far more so. The safety of flight in a high-performance combat aircraft, for example, presents a far greater challenge than does safety assurance in most activities occurring in commercial firms. And quality of life more often applies to the workplace in commercial firms than to entire communities, as it does in DoD.

Both DoD and commercial firms also seek to cut costs. But commercial firms have far better cost accounts than DoD does and can more easily pursue comprehensive estimates of cost, such as the total ownership cost. DoD cost accounts are not even good enough to meet the standards that the Defense Contract Administration Agency (DCAA) requires of private-sector suppliers to DoD.²⁴ DoD needs better cost accounting procedures to go along with BCPs; perhaps they can be imported together.

DoD faces more-challenging socioeconomic goals than any commercial firm does, but commercial firms still have such goals, some self-imposed and some imposed by government regulators.²⁵ DoD can learn from how the best commercial firms service their socioeconomic goals, but by and large DoD will find its own way.

Finally, DoD faces more-challenging procedural openness, equity, and integrity goals than most commercial firms do. Again, DoD can

²⁴Standard government cost accounts are typically too incomplete to allow a third party to audit them. They are also not well structured for linking total government costs to outputs or for reflecting how changes in work scope affect costs. Government accounts focus on tracking the application of congressional appropriations, not on the levels of cost relevant to management decisions.

²⁵Of particular relevance to sourcing is the fact that many firms maintain goals to use small and disadvantaged businesses as sources.

learn from the way commercial firms pursue these goals. But DoD must be sensitive to its differences from the best commercial firms and verify that the best practices it imports can be adapted to the DoD setting. For example: Formal public-private competitions are far more common in DoD than in the commercial sector, because they provide the openness and equity that the federal setting demands.²⁶ But formal competitions can accommodate many of the sourcing practices that the best commercial firms routinely use.²⁷

Under these circumstances, it may be easiest for DoD to focus its search for attractive BCPs on process changes that can enhance its capability, safety, and cost goals. It can then reflect its socio-economic and administrative process goals as constraints inherent in the DoD institutional setting; any BCP that can enhance capability, safety, or cost goals must be compatible, when adapted, with DoD's operational socioeconomic and administrative process constraints to be useful to DoD.²⁸

BCPs Relevant to DoD's Strategic Goals

Table 8.1 lists examples of the sources RAND analysts drew on to identify BCPs relevant to DoD.²⁹ The professional organizations

²⁶Public-private competitions allow public and private sources to compete, in special forms of source selection, for selected government workloads. Private firms rarely use formal competitions to choose between organic and contract sources.

²⁷For example, DoD can use noncost factors to compare sources, limit comparisons to preferred providers, and reward successful sources with extended contracts. The discussion below provides more detail.

²⁸Such a distinction between goals and constraints does not imply that one is more important than the other. It is a natural—in fact, a necessary—part of any effort to evaluate a BCP when multiple goals or performance attributes are important.

²⁹This table and the discussion here draw heavily on Ellen M. Pint and Laura H. Baldwin, *Strategic Sourcing: Theory and Evidence from Economics and Business Management*, MR-865-AF, RAND, 1997; Nancy Y. Moore et al., "Commercial Sourcing: Patterns and Practices in Facility Management," PM-667-AF, RAND, 1997; Frank Camm and Nancy Y. Moore, "Acquisition of Services in 2010: Ideas for Thinking About the Future," internal document, RAND, 1999; Nancy Y. Moore, Laura H. Baldwin, Frank A. Camm, and Cynthia R. Cook, *Implementing Best Purchasing and Supply Management Practices: Lessons from Innovative Commercial Firms*, DB-334-AF, RAND, 2002; John Ausink, Frank A. Camm, and Charles Cannon, *Performance-Based Contracting in the Air Force: A Report on Experiences in the Field*, DB-342-AF, RAND, 2001; Laura H. Baldwin, Frank A. Camm, and Nancy Y. Moore, *Federal Contract*

Table 8.1
Sources Used for Ideas on BCPs

Professional organizations, conferences, and courses	National Association of Purchasing Managers International Facility Management Association Building Owners and Managers Association Council of Logistics Management
Books	Timothy M. Laseter, <i>Balanced Sourcing: Cooperation and Competition in Supplier Relationships</i> , Jossey-Bass for Booz-Allen & Hamilton, San Francisco, 1998 Jordan D. Lewis, <i>The Connected Corporation: How Leading Companies Win Through Customer-Supplier Alliances</i> , Free Press, New York, 1995 John Gattorna (ed.), <i>Strategic Supply Chain Alignment: Best Practice in Supply Chain Management</i> , Gower Publishing, Aldershot, England, 1998 Ricardo R. Fernandez, <i>Total Quality in Purchasing and Supplier Management</i> , in Total Quality Management Series, Saint Lucie Press, FL, 1994.
Journals	<i>Harvard Business Review</i> <i>Sloan Management Review</i> <i>Int'l Journal of Purchasing and Material Management</i> <i>Supply Change Management Review</i>
Benchmarking	Arizona State University Center for Advanced Purchasing Studies Michigan State University Individual exemplar firms

shown represent commercial professionals interested in purchasing and supplier, facility, building, and logistics management. All such groups give sourcing BCPs a great deal of attention in their meetings, research programs, conferences, and courses. Arizona State and Michigan State, shown as benchmarking sources, both maintain well-known programs of research on best practices.

These sources suggest many specific BCPs for DoD to consider. A number of them are listed and defined here, after which their recent

Bundling: A Framework for Making and Justifying Decisions for Purchased Services, MR-1224-AF, RAND, 2001.

status in one part of DOD (the Air Force) and the potential for expanding their application in DoD are described.³⁰ Table 8.2 summarizes this information. Keep in mind that DoD cannot use all of these BCPs and that it must tailor those it does use for its own needs.

The specific BCPs that DoD might consider include the following:

- *Core competencies.* Identify those capabilities critical to an organization's future success or its raison d'être. These core competencies constitute an organization's unique value-added and hence cannot be outsourced. (That said, note that very few commercial firms outsource everything that lies outside their core competencies.)
- *Chief purchasing officer.* Elevate the CPO to the position of executive-level champion for purchased goods and services. CPOs own the processes that the organization uses to reach make-or-buy decisions, choose specific external sources, and manage relationships with these providers. Commercial CPOs generally do not make such decisions themselves.
- *Metrics.* Use metrics for make-or-buy decisions, source selections, or source management that promotes organizationwide, strategic goals.³¹
- *Total ownership cost.* Measure effects on cost using TOC to monetize as many factors as possible and apply them to organizationwide goals. TOC tends to allocate overhead costs to specific sourcing decisions to reflect all the direct and indirect costs relevant to a decision. Specific TOC measures are best tailored to the capabilities of an organization's cost accounts.
- *Multifunctional teams.* Develop sourcing policy decisions using multifunctional teams composed of members that have been (1) relieved of other duties, (2) trained in team processes, and

³⁰The status of these practices in the Air Force is current as of late 2000.

³¹Such a change can have much broader effects than might first be apparent. For the Air Force, for example, it completely reframes the Air Force's current approach to determining requirements for many infrastructure activities.

Table 8.2**Summary of Openings for and Barriers to Air Force Adaptation of BCPs**

BCP	Status in Air Force Today	Barriers to Further Adaptation
Identify core competencies	Does this now	Processes for choosing competencies are not aligned with Air Force strategic goals
Appoint executive-level CPO	Has this	Not effectively empowered to build strategic sourcing policy across functional lines
Use organizationwide metrics in sourcing	Is comfortable with metrics	Functional metrics not properly aligned with Air Force-wide goals
Apply total ownership cost in sourcing	Is moving in this direction	Current accounts do not support it; definition unclear
Use multifunctional teams in sourcing	Uses IPTs	Teams not yet empowered or incentivized to transcend functional priorities
Stratify supplier base	Is moving in this direction	No clear barriers but no clear metrics to reveal value easily
Use simplified acquisition	Is moving in this direction	Contracting does not consider full effects
Buy services in larger bundles	Is moving in this direction	Small business rules strongly discourage this
Use substitutes for competition	Faces strong opposition to this	CICA and small business rules strongly discourage this
Use nonprice criteria to choose sources	Is moving in this direction	Sourcing processes still require a price criterion
Reduce number of suppliers	Faces strong opposition to this	CICA and small business rules strongly discourage this
Consolidate contracts to improve leverage	Is experimenting with corporate contracts	Current data systems do not support “spend analyses” required to do this
Use performance-based statements of work	Is moving in this direction	Still learning what it means and how best to do it
Use higher skilled personnel	Is moving in this direction	Training is hard; so is handling personnel who cannot be trained

NOTE: IPT = integrated process team; CICA = Competition in Contracting Act (1984).

(3) empowered to act for their functions without consultation. The reward structures for team members should reflect the performance of the teams the members work on with respect to organizationwide goals.³²

- *Stratified supplier base.* Use strategic criteria to stratify the supplier base. Suppliers of high-value inputs that are critical to the buyer's performance or that present other significant risks should be managed with greater care and by higher-skilled staffs than should suppliers of low-value inputs of a more generic character that present fewer risks.
- *Simplified low-priority buys.* Use automation and purchase cards to simplify low-priority buys. Automation releases personnel focused on transaction management; purchase cards further reduce transactions costs, particularly when bundled with auditing and reporting support from issuing banks.
- *Larger bundles.* Buying bundled services can allow the buyer to benefit from provider economies of scale and scope. They can also reduce transaction costs, particularly when the buyer devolves responsibility for oversight of many services to the provider.
- *Substitution of benchmarking and TQM standards for formal competition.* Benchmarking and TQM standards promote continuous improvement and make the external world more visible to the buyer. They can yield comparative information about capabilities, on a continuing basis, that buyers traditionally could only get from formal or "yardstick" competitions. By contrast, repeated competitions can impose unnecessary administrative costs and discourage long-term, joint innovation.
- *Less reliance on price.* In source selections, rely less on price and more on nonprice selection criteria. Nonprice factors can be critical to understanding total ownership costs and a source's ability to reduce them over time.

³²Such a change has broad implications. It lifts decisionmaking out of a functional frame and tends to accelerate any process that depends on input from multiple functional communities (e.g., requirements determination). Inputs traditionally provided in series now occur simultaneously, with feedback from all players rather than just those downstream in a decision process.

- *Reduced number of providers.* The best buyers have cut their number of providers by an order of magnitude. Reduce the number used and select the survivors using such standards as ISO 9000 or data on past performance. Deeper investments can then be made in the remaining sources to promote joint innovations and match specific providers more effectively to emerging needs.
- *Consolidated contracts.* Consolidating contracts with remaining providers can reduce transaction costs and simplify deeper, strategic investment in a provider. It can also improve the buyer's leverage with the seller by highlighting the value of its total buy from the seller.
- *Performance-based statements of work and objectives.* Write performance-based rather than process-based statements of work and objectives—i.e., tell a provider what to do, not how to do it. This forces the buyer to think more carefully about what it values and gives providers more latitude to innovate.
- *Upgraded skill levels in purchasing organizations.* As strategic purchasing and supplier management policies grow in importance, they can no longer be managed in a back office separate from the firm's core interests. Upgrading can be paid for by simplifying small acquisitions.

In pursuing useful BCPs, DoD should not view this list simply as a menu of items it can mix and match arbitrarily. The best commercial firms find that these practices work best as an integrated package. The presence of one raises the effectiveness of the others, for several reasons:

1. Strategic sourcing relies heavily on high-level interest and carefully structured incentive systems. The latter cannot succeed without appropriate metrics. Effective buyer-seller partnerships require everyone's cooperation, and that takes support from the top.
2. Workforce upgrades are easier when funds are available from sourcing efficiencies. Automation and simplification can free up sourcing personnel. A buyer can use the savings to upgrade re-

maintaining personnel so that they may then plan and manage more-complex and more-creative sourcing relationships.

3. Performance-based statements of work succeed only when buyers can trust sellers enough to reduce process-oriented oversight and let providers exercise enough discretion to exploit performance-based statements of work. The right source must be in place before performance-based criteria can be used.

That said, DoD need not adopt all the suggestions to realize benefits from any one of them. Instead, DoD could recognize these synergies and verify that the mix it picks generates enough of them. This is a special challenge if DoD breaks the introduction of strategic sources into pieces to be introduced sequentially. Such a strategy would affect the realization of important synergies.

Key Barriers to DoD's Adaptation of Sourcing BCPs

DoD is already introducing some aspects of the BCPs identified above, but it has not been as aggressive about any of these practices as the best commercial firms have. In some cases, goal differences account for the differences in practice; in others, DoD can emulate BCPs much more closely. Recent Air Force experience illustrates these points:

Core competencies. DoD and the Air Force are well aware of the concept of a core competency and have begun to use it in their planning. Sourcing reviews associated with defining “core” depot activities, Defense Reform Initiative Directive (DRID) 20, and recent OMB policy based on the Federal Activities Inventory Reform (FAIR) Act of 1998 have forced DoD components to think more carefully about their core missions.³³ Unfortunately, in doing this they have relied heavily on the organic functions that currently provide services. The best commercial firms do not go this route; they handle such policy

³³Congressional policy on depot use requires DoD to define the “core workload” relevant to its organic depots. DRID 20 required DoD to identify all manpower positions that could be considered for potential outsourcing via public-private competition. OMB's use of the FAIR Act requires DoD to put out for formal competition a prescribed fraction, which grows over time, of the manpower positions it has available for potential outsourcing.

at a higher level to avoid conflicts of interest with current internal providers.

Chief purchasing officer. The Air Force has a CPO, but the position lacks the authority held by CPOs in the best commercial firms. The Air Force CPO lives primarily within the acquisition community; commercial CPOs are more closely aligned with the line activities that use purchased goods and services, which gives them greater authority to work across functional boundaries in pursuit of broad, strategic organizational goals.

Metrics. Metrics of all kinds pervade the Air Force, but they tend to be designed and collected within functional organizations to meet their immediate needs. For instance, financial management focuses metrics more on managing against a plan than on responding to the needs of warfighters or their families. By contrast, BCPs explicitly align their metrics with customer needs.

Total ownership cost. DoD has been directed to start measuring TOC, using life-cycle cost as a basis. The quality of DoD cost accounts limits this effort by making it hard to trace all costs to the sourcing decisions they should influence.

Multifunctional teams. Integrated process teams (IPTs) that include members from all functions supporting a process are now a routine part of the Air Force and the rest of DoD. But these multifunctional teams are not used the same way best commercial firms use theirs. DoD team members rarely get the training on team processes that commercial team members receive, they cannot commit their functions to a decision without consultation, they are rarely managed and evaluated against specific organizationwide goals, and their members are not rewarded on the basis of such evaluations. Functional structures and the career patterns associated with them remain much more structured in DoD than in the best commercial firms, so DoD's functional organizations exercise relatively much more authority.

Stratified supplier base and simplified low-priority buys. The Air Force is moving toward stratified acquisition, which uses standard, generic contract terms to handle routine purchases and builds customized relationships with sources for strategically important inputs. Simplified acquisition and purchase cards are cutting the workload

of contracting personnel associated with small transactions. A more commercial approach could reduce burdens on the functional personnel who use purchasing cards. Lightning Bolt 99-2 is a policy reform initiative that, among other things, selectively uses highly skilled teams to address complex new acquisitions of support services.³⁴ Overall, this effort would probably yield larger gains if the Air Force managed it against Air Force-wide goals, such as TOC, rather than metrics tied to each specific initiative.

Larger bundles. The Air Force is moving toward bundling activities and outsourcing them together. It has initiated several large, multi-functional cost comparisons for base-level services. Recent Small Business Administration (SBA) regulation requires that any federal agency bundling previously unbundled services must document the benefits that will accrue; it also limits the benefits that can be used to justify bundling.

Substitution of benchmarking and TQM standards for formal competition. The Competition in Contracting Act (CICA) of 1984 makes it hard to limit the use of competition for external-source selection. Additionally, congressional legislation and OMB Circular A-76 require that the use of public-private competition continue. DoD will have to rely heavily on competition until these directives change. Under acquisition reform, however, the Air Force is using award terms and other techniques to extend the period between competitions.

Less reliance on price. The Air Force relies increasingly on best-value competitions to choose external sources for services. These competitions all place heavy emphasis on past performance and often consider other nonprice factors. But regulations require that price remain a significant selection criterion.

Reduced number of providers. CICA limits any effort to reduce the number of sources considered in a competition or to allow offers by invitation only. But acquisition reform now allows the Air Force to “down-select” during a source selection in more or less formal ways. A down-select effectively reduces the range of competitors to those

³⁴U.S. Air Force, SAF/AQ, *Aerospace Acquisition 2000*, April 23, 1999, available at http://www.safaq.hq.af.mil/acq_ref/bolts_99/bolt2.htm (as of October 22, 2002).

most likely to meet the government's needs. Thus, it can focus on a smaller field of offerors as it shapes the final version of any work statement.

Consolidated contracts. Contract consolidation is expanding in DoD. The Defense Logistics Agency has been writing so-called corporate contracts for over a decade, and the Air Force has several pilot corporate contracts in place and is seeking additional candidates. DoD continues to experience great difficulty in its attempts to consolidate contracts across DoD contracting organizations and across organizational lines within a provider firm.

Performance-based statements of work and objectives. The Air Force has initiated what are, in effect, over 20 successful pilots of performance-based statements of work during the last two years. This experience has revealed that knowledgeable, motivated acquisition personnel can write such statements of work in a DoD setting without much difficulty. But training remains a problem, and many non-contracting functionals and customers believe that such an approach presents more risks than rewards.

Upgraded skill levels. The Air Force strategy for contracting anticipates a smaller, more highly skilled contracting labor force. The Air Force is moving this direction but is still unclear what to do with personnel who cannot be upgraded. The Air Force has not yet extended this strategy to noncontracting personnel important to service acquisitions.

Insights from Commercial Experience on Overcoming Key Barriers

Looking across these BCPs, a number of barriers appear again and again, highlighting the importance of finding ways to ameliorate them. These include barriers to appointing an effective CPO, developing relevant metrics, using multifunctional teams or simplified acquisition, and defining requirements and performance-based statements of work. Less obviously, agreements negotiated a long time ago with competition advocates or small business advocates give them effective veto power. Some of these agreements are now reflected in laws and regulations. BCPs that can avoid these difficulties are easier to implement than those that cannot.

Most of these problems are not unique to DoD or the federal government. The best commercial firms have faced and found ways to deal with most of them. Their experience suggests that how an organization approaches strategic sourcing is often as important as what elements of strategic sourcing the organization pursues. Table 8.3 sketches the possibilities, which, in effect, illustrate how principles discussed earlier apply to the implementation of strategic sourcing BCPs.

DoD can do three things to address function-related barriers to strategic sourcing:

1. DoD can measure change in terms that transcend functional boundaries and reflect DoD-wide goals. The best commercial firms use “billets eliminated,” not just “billets reviewed for potential outsourcing,” to measure progress; and they use comprehensive measures of cost, not the number of items procured through a new form of contract. Such metrics are performance oriented: they tell leaders and workers what matters to the organization, not necessarily how to make detailed changes. Such an approach would encourage DoD organizations to measure costs better, thus

Table 8.3
Possible DoD Approaches to Strategic Sourcing

BCPs for Effecting Organizational Change	Implications in DoD
Use metrics relevant to parties affected to support change, justify investments, measure ultimate success, support incentives	Cost savings, billets eliminated; develop baseline, accounts that can measure these “accurately enough”
Build a coalition of parties involved	Unit commander, functionals, contracting, other support functions
Frame change to degree of senior support available	Within a major command or function and at a single base; keep as simple as possible
Have organization designated a special pilot	Attracts resources, allows policy waivers
Incentivize the parties involved	Awards, resources retained, performance reviews, protection for displaced personnel
Train personnel affected as a team	Substance of change, support tools, team process

making it easier to justify investments to support change, and would reward organizations that best promote DoD sourcing goals.

2. DoD can verify that an appropriate group of leaders, at the right level, supports change and can therefore form the core of the coalition used to plan and manage change. The coalition would include not only manpower (for A-76 actions) and contracting, but also relevant functional providers and customers of the services in question. Rapid turnover in leadership and current DoD team methods complicate coalition formation. But change metrics based on DoD-wide goals can help any group of leaders or team quickly understand the usefulness of change and make appropriate adjustments as the change evolves toward completion. In particular, such metrics can assist ultimate customers in understanding how sourcing actions can help them.
3. DoD can focus initially on smaller changes that require changes in only one organization. For example, it can pursue new sourcing practices at one base or in one functional area, but not both. As experience accumulates, an initial change can be used to build the case for broader change *if* the initial change anticipates settings for future changes and collects data relevant to future settings. Small changes limit the number of leaders who must coordinate their efforts to effect change; they also increase the likelihood that change can be completed during the leaders' limited tours of duty together.

Pilot programs are well suited to this approach. DoD has provided waivers that release many of the constraints discussed above in selected locations. Although such waivers are hard to get across the board, they can be used to establish selected beachheads, which, in turn, can supply the evidence that DoD can use to revisit the constraints.

Although performance metrics and incentives must be linked for change to be effective, there is wide scope to link performance metrics to whatever incentive system is compatible with an organization's corporate structure. DoD could use metrics like those used by the best commercial firms without changing its own incentive system much—as long as performance measures affect the incentives

that DoD normally applies to the people who must change their behavior.

For example, cost-cutting goals heavily drive DoD sourcing policy. DoD can use measures of total operating cost that are as similar to those used in BCPs as its own cost accounts will allow. But it must find its own way to reward those who succeed in cutting cost. It might allow a successful organization to retain a portion of the cost savings, even if DoD needs the dollars saved more elsewhere. Or it could prominently reflect cost savings achieved in the performance reviews of the personnel involved, and use this information to affect future promotion, training, and other career management decisions.

DoD uses training to explain how people must change their behavior to make implementation successful. The best commercial firms typically use a broader approach to training, including material on effective team processes, problem solving, and the change process itself. Such training is most successful when it engages the people who will have to work together as a team to effect change (for sourcing, for example, people in contracting, manpower, and the relevant functional areas, as well as the people who consume the services in question) and uses case materials tailored to the particular change in question. The case materials should reflect both specific socioeconomic and procedural factors relevant to DoD sourcing and details of commercial practice that help explain its success in the private sector.

Taken together, the BCPs discussed above point to the potential for large-scale, continuing change in DoD. It is important to remember that a similarly rich set of BCPs could be identified for practically every aspect of DoD's infrastructure activities. If DoD pursues all of these, it will enter a state that the best commercial firms increasingly take for granted: one of continuing change in which personnel have to learn to accept ongoing adjustment as a normal part of their day-to-day activities.

Change is already moving so fast and on so many fronts in DoD that many of the personnel whose behavior must change no longer understand how the changes are supposed to fit together or how to set priorities when they do not fit. These personnel do not even know who to go to for answers. Unless this state of affairs ends quickly, continuing efforts to change will overwhelm DoD personnel with

“innovation fatigue” and leave them disillusioned about the possibility of progress. Unfortunately, DoD’s constantly changing environment does not allow it the luxury of slowing its own change efforts. It has no choice but to learn how to live with continuing change. As DoD learns to knit together coherent packages of DoD-relevant metrics, leadership, pilots, incentives, training, and so on for each particular set of BCPs it considers adapting, it will also need to learn how to knit these packages into larger and larger programs of change. The commercial ideas offered here about how to implement individual sets of BCPs can also help DoD think about effecting change on a broader scale.