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Risk Management and Performance in the Balkans Support Contract

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Summary

Contractors provide the Army with services in a wide variety of settings and circumstances, both domestic and international. Recent pressures on the Army to rely more heavily on contractors and the increasingly ill-defined nature of the battlefield raise serious questions for policymakers. Is the Army getting what it needs from its combat service support (CSS) contracts? Do those contracts present any unrecognized, unmitigated, or unnecessary risks? If the Army is not getting what it needs or is accepting inappropriate risks, what can it do about it?

Case studies of CSS contracts can provide some answers. In this report, we present a case study of the Balkans Support Contract (BSC), a CSS contract that has involved deployment. We chose the BSC because of its extensive track record, scope, and size. The contract has provided wide-ranging life support, transportation, and maintenance services to the Army and other end users over several years in a dynamic operating environment. By analyzing the performance of the contract through the lens of risk management, consisting of risk assessment and mitigation, we draw lessons for U.S. policymakers. In so doing, we also compare some of the risks of different sources. We undertake this analysis by examining official records, studies, and press reports and by interviewing customers, contractors, and other observers.

Origins and Key Characteristics

The BSC establishes an opportunity to fill requirements through a designated contractor, but not an obligation. It emerged from two earlier contracts: the Army's Logistics Civil Augmentation Program (LOGCAP) umbrella contract and a derivative sole-source contract.

- In 1992, Brown and Root, now Kellogg Brown and Root (KBR), won the Army's first LOGCAP umbrella contract.
- In 1995, the Army activated the LOGCAP contract in the Balkans.
- In 1997, the Army awarded KBR a sole-source contract in the Balkans.
- In 1999, the Army awarded the BSC to KBR for a five-year term. The contract was awarded through an open competition on the basis of best value.

Given the inherent uncertainties of operating in a contingency environment, the Army has—through the BSC—sought to balance potentially competing demands for preparedness and responsiveness, along with an apparent interest in reducing its in-house role in providing CSS in the region, relating to various resource constraints. For these reasons, the BSC, like the LOGCAP and sole-source contracts, was set up as a preplanned, performance-based, indefinite-delivery, indefinite-quantity (IDIQ) contract, with a cost-plus-award-fee (CPAF) payment structure, devolving responsibility for service coordination and delivery and freeing Army resources, especially manpower, for other core functions.

- In a “preplanned” contract, the contractor develops an implementation plan for a future contingency. The plan typically covers the full range of potential activities posited in the work scope and work breakdown structures.
- A “performance-based” contract generally tells the contractor what the customer wants done but does not tell the contractor how to do it. The BSC lists service requirements in terms of out-

comes. The customer obtains services through task orders, delineated by country.

- An IDIQ contract does not specify the delivery date or exact quantities at the time of the award. This level of generality is desirable when the customer lacks information about timing or quantities.
- A CPAF contract reimburses costs within certain agreed-on limits, typically guarantees a set base fee, and provides performance incentives through award fees, which depend on the contractor's performance. The BSC specifies both fees in terms of the negotiated estimated cost, not the actual cost.

A performance-based, IDIQ, CPAF contract can afford considerable flexibility to the customer and contractor and require less micromanagement than do many other contract types. However, it is not self-governing or without management rights and responsibilities. Indeed, the BSC involves numerous participants, including government contracting and functional personnel drawn from several U.S. Department of Defense (DoD) agencies, various end users, and the contractor and its employees. The U.S. Army Corps of Engineers, Transatlantic Programs Center administers the contract from Winchester, Virginia, and provides the principal contracting officer. The Defense Contract Management Agency contributes field-level administrative contracting officers. Area Support Groups have taken on routine base operations and administrative control functions. The Joint Acquisition Review Board (JARB) is responsible for validating requirements and selecting sources. U.S. Army Europe (USAREUR) funds the contract, and deployed U.S. forces are among the end users. However, only a contracting officer can give direction to the contractor, and only the contractor can give direction to its employees.

The U.S. government is also responsible for providing the BSC contractor and its employees with some support services, including force protection. On a day-to-day basis, the responsibility for protection falls largely to the task force commanders. The Army has tended to limit the contractor's responsibility to passive force protection and

to self-defense to better preserve the status of the contractor's employees as "civilians accompanying the force."

Risk Management in Theory and Practice

Army and joint doctrine define risk and provide practical guidance for managing risk. The doctrine tends to be operationally oriented, but the basic framework can be applied to contracting. The doctrine requires systematic consideration of what can go wrong in an operation, including the likelihood and potential severity of the event. Such systematic thinking can facilitate priority-setting for risk control.

Definitions and Practical Guidance

The Army defines *risk* as the "chance of hazard or bad consequences; the probability of exposure to chance of injury or loss from a hazard; risk level is expressed in terms of hazard probability and severity." It further defines *hazard* as "a condition or activity with potential to cause damage, loss, or mission degradation" and any actual or potential condition that can cause injury, illness, or death of personnel; damage to or loss of equipment and property; or mission degradation. Joint doctrine is generally consistent. The 2001 Quadrennial Defense Review Report calls attention to an even wider range of hazards, relating to force management, operations, future challenges, and institutions. Drawing from all three sources, we address potential hazards across wide-ranging military activities and objectives.

Drawing from Army and joint doctrine, Figure S.1 outlines a five-step continuous risk-management process. The process begins with a mission but could also begin with a make-or-buy decision or new service request.

Steps one and two constitute risk assessment. Joint doctrine stresses the importance of determining the root cause or causes of each hazard, in step one, to improve the effectiveness of risk controls. Absent a clear understanding of causality, the Army might choose

to eliminate risk. It may be preferable for the Army to accept some amount of residual risk and develop a response and recovery plan.

Applying Risk Management Principles to the BSC

We apply the following definitions and methodologies to the BSC.

Listing Potential Hazards and Addressing Causality. We find that some potential hazards relate to the performance of specific activities, such as food service, transportation, etc., and others relate to higher-order concerns, such as mission success, force management, and security, defined as the safety of personnel, property, and information. However, a list of potential hazards, absent further analysis, is of little practical value. To design appropriate risk-mitigation strategies, the Army must also assess the hazards' underlying causality, probability, and severity. In tracing the origins of three hypothetical BSC failures, we find that problems can arise from poorly framed requests for services, trade-offs between quality and cost, and inadequate planning and coordination, but not necessarily from the decision to contract per se. Moreover, we find that the proximate cause of the failure is rarely the same as the underlying or root cause.

Evaluating Risk-Management Strategies and Tools in the BSC. We find that most risk management appears to have occurred during the source-selection process or within the structure and operation of the contract.

The BSC request for proposal, which calls for explicit consideration of performance risk in selecting a contractor, presents the most visible example of risk assessment. Moreover, we see evidence of efforts to address risk in ongoing decisions about sourcing new work, as occur through the JARB validation and source-selection processes. We see little evidence of formal risk assessment in the initial decision to reobtain contract support in the Balkans in 1998. However, the concept of "initial" is muddy because the BSC emerged from two previous contracts.

For the most part, the contract's risk-mitigation tools reside in its structure and operating principles. The BSC attempts to balance concerns about preparedness and flexibility through its preplanned performance-based work scope, IDIQ specification, and CPAF pay-

ment structure. The contract's built-in management and oversight mechanisms can also mitigate risk. Data reports provide a nearly continuous flow of information, potentially serving as an early warning system. The work order, funding, and award fee processes also provide opportunities to evaluate performance. In addition, the JARB's source-selection process may mitigate some cost- and quality-related performance risks by posing the option of alternative suppliers and inducing competition. Risk-mitigation tools may also have been introduced before the contract took effect, in the design of the source-selection criteria and process. The Army weighted experience and past performance heavily in the competition, contributing to the selection of a known and trusted quantity—the incumbent.

Day-to-day communication is another risk-mitigation tool in the BSC. The Army describes the benefits of developing “habitual relationships” with service providers, to establish a close, cooperative Army-contractor work environment and build confidence in each other's ability to perform. Finally, internal and external evaluations and audits, such as the U.S. General Accounting Office (GAO) reports, which are discussed below, can also mitigate risk.

Examining the BSC Track Record. We examine the BSC track record in light of the five-step risk-management process, focusing on reported concerns about performance and security. Three frequently cited GAO reports address performance in terms of costs, quality of life, and readiness. Concerns about security have tended to relate to the safety and protection of contract employees. More recently, attention has turned to the troops' safety, as it relates to the use of contractors and their employees.

The first GAO report addresses four specific instances of possible cost excesses, one relating to firefighting services, another to power generation, a third to base camp personalization, and a fourth to furniture orders. In all but one case, the proximate cause of the excess is an action taken by the contractor. In all cases, however, the root cause derives from either a planning and coordination problem or an incentives problem, typically involving both the contractor and the customer. With one exception, the costs appear to have been

modest, especially in relation to total contract spending. In all cases, the excesses appear to have been amenable to timely correction.

Apparently in response to GAO's concerns, the Army took several steps to reduce costs. The Army's actions may suggest the merit of the concerns. However, the question remains as to the appropriate balance between cost and other objectives. For example, additional Army manpower and leadership focus might be needed to reduce costs. Given competing demands on these resources, the Army might choose to pay a premium to free them for other purposes. The Army's priorities might also shift over time from getting the job done at the start of an operation to cost after conditions have stabilized. Indeed, by adopting a "best value" source-selection process, the Army clearly indicated that cost was not its primary consideration.

The second GAO report addresses quality, concluding, "The vast majority of soldiers we surveyed said the Army's efforts [including the BSC] met or exceeded their quality of life expectations." And, providing an indication of overall BSC satisfaction, KBR typically receives "excellent" or better performance ratings.

The third GAO report raises general concerns about readiness, which we discuss in terms of the contractor's ability or willingness to respond when needed or called on. For the most part, the contractor appears to be reliable and responsive. However, looking beyond the BSC—e.g., to KBR's pre-BSC Balkans experience and to more recent events in Afghanistan and Iraq—we note that start-ups may pose additional challenges, not necessarily because of the use of contracts per se but because of more onerous planning, coordination, and management requirements, some relating to funding and security. We address concerns about security below.

To conclude the discussion of performance, one arena in which the risks associated with contracting appear to be very different from those associated with organic provision is consideration of the chain of command. Neither the contractor nor its employees fall under the military chain of command. Authority flows from the contract, through the contracting officer, to the contractor.

Regarding security, we have seen little evidence of risks relating to the safety of contract employees or troops in the BSC, but vio-

lence, injuries, and death elsewhere demonstrate the prevalence of significant risks in other, less stable operating environments. The extent to which safety might affect the willingness of a contract provider and its employees to work, hence feeding back to readiness, would likely depend on their perception of the risk, their tolerance for risk, and the compensation that the Army offers them for taking the risk. Such considerations may be negotiable in some circumstances and can, potentially, be addressed in the terms of a contract.

Conclusions and Lessons Learned

We began by asking three questions: Is the Army getting what it needs from its CSS contracts? Do those contracts present any unrecognized, unmitigated, or unnecessary risks? If the Army is not getting what it needs or is accepting inappropriate risks, what can it do about it? On the basis of the BSC, it would appear that the Army has been getting what it needs, though it may, at times, have accepted more cost-related risk than necessary to get it. Moreover, the large number of contract participants and organizations may pose additional risks in terms of challenges in planning, coordination, and management. Short tours and abbreviated training for some government contracting and functional personnel and end users might compound those risks.

Nevertheless, the BSC appears to have delivered as promised, insofar as its developers sought to implement a high-quality contract and, at least initially, to deemphasize cost. Whether the Army accepted too much cost-based risk at the outset of the operations remains an open question, given the totality of its objectives and the evolving nature of contract management. Regarding readiness, the BSC appears to be a reliable and responsive arrangement, judging from its performance in the context of an ongoing operation. In terms of higher-order concerns, the BSC also appears to be a relatively safe arrangement. However, drawing a larger circle to include the pre-BSC experience under LOGCAP and other, more recent CSS

activities in Afghanistan, Iraq, and elsewhere, we see evidence of risks to readiness and security.

To conclude, we draw together and highlight some of the key findings of this report to make three general points, which are applicable to other CSS contracts, even those providing different types of services.

First, not all risks in the BSC are inherently contractual. The discussion of hypothetical BSC failures and the contract's track record suggest that relatively few risks arise directly—or only—from the decision to contract. Rather, most are inherent in particular activities or the operating environment. Indeed, a contract may provide an effective vehicle for addressing risk through its structure, including its management and oversight mechanisms.

Second, a contract is only as good as its customer. The customer—and those acting on the customer's behalf—must possess the ability to plan, coordinate, and manage the contract. To the extent that performance-based contracts, particularly those involving wide-ranging participation, require special skills, DoD contracting and functional personnel and Army and other end users might require additional training.

Third, risk management is not risk elimination. A commander obviously wants to anticipate hazards and reduce or avoid the risks associated with them whenever it is practical, but, to achieve the Army's primary objectives in the theater, it may be necessary to accept some risk. It may also be necessary to balance risks across competing objectives. This logic applies as well to the use of contractors as it does to any other aspect of operational command.