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Private Sector Support to Operations

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PRIVATE SECTOR SUPPORT TO OPERATIONS 2011

ABSTRACT: The Private Sector Support to Operations (PSSO) industry is an integral and enduring part of the United States Defense Industrial Base. In the last two decades, the PSSO sectors of logistics, forward base operations, training and private security were key force multipliers for the US Government (USG) in a multitude of contingency operations that span the operational spectrum from military conflict to humanitarian relief. This paper assessed the PSSO industry as being economically healthy and able to meet surge and mobilization requirements. In the long term, the PSSO industry will maintain its health through impending lulls in demand by leveraging emerging opportunities both inside and outside of the USG. Although healthy and currently successful in its continued support of USG operations, some challenges and areas for improvement exist that require USG action to ensure the industry's capability continues to be available as a sector of the Defense Industrial Base. This paper identifies these challenges and makes recommendations to address them.

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The United States Government (USG) is the world leader in leveraging national private sector contractors to achieve national security objectives during contingency operations.[1] After reducing its active military forces by 66% in the 1990s, the Department of Defense (DOD) found itself unable to field and sustain some of its previous expeditionary capabilities.[2] Consequently, when faced with the 1995 Balkans conflict and the protracted engagements in Iraq and Afghanistan the DOD needed a creative solution to compensate for lost or decreased capabilities without returning to previous force levels. To solve this dilemma, the DOD began using contractors to support its operations. Contractors are now a large and vital component of the DOD operational workforce.[3] This is especially true in the core support areas of logistics, forward base support, private security, and training, which comprise 61% of current contingency support in Iraq and Afghanistan.[4]

Even with its success in using the private contractors to support contingency operations, the USG still faces many challenges and areas for improvement. As it prepares to downsize its military presence in Iraq and Afghanistan and reduce its federal spending, the USG must now evaluate how to move forward reflective of these circumstances and develop a viable national security strategy that is ready for current and future contingencies. A key element of that evaluation is an assessment of the Defense Industrial Base and its ability in both the short and long term to meet the operational needs of the USG. This paper analyzes an industry in the services sector of the Defense Industrial Base to determine its economic health and viability along with its ability to surge and mobilize to meet current and future national security objectives. The research data for this analysis came from public sources, reviews of government reports, and face-to-face interviews with both industry and government leaders.

In addition to an economic analysis, this paper identifies key challenges and recommendations for how the USG could work more effectively with contractors to achieve national security objectives. Overall, this paper includes a definition of the industry, an assessment of the industry's economic health, an outlook for the future, current challenges, an exploration of emerging issues in the form of three short essays, and recommendations to address the challenges identified.

INDUSTRY DEFINITION

In general, the term "private sector" broadly covers non-government, for-profit industries that range from aircraft manufacturing to the technologically advanced space and communications industry. One industry within this spectrum, further titled and defined in this paper as ***Private Sector Support to Operations (PSSO)***, provides service support to the USG during Presidentially declared emergency or contingency operations. Inside this PSSO industry are multiple sectors. To obtain adequate representation, this paper identified the industry's four largest sectors of logistics, forward base support operations, training, and private security that are grouped together in this paper as a single market for analysis. Within this market, the sellers are the sector firms providing service support and the buyer is the USG as a whole, with individual agencies such as the DOD sometimes functioning as single buyers depending on the type of service required. There is intense competition between firms that drives down consumer costs and incentivizes higher quality service, thus creating value. To determine the economic health of the industry, this paper next examines its economic and firm value.

ECONOMIC HEALTH

A healthy industry significantly contributes to both the nation's economy and national security strategy. This paper uses the two opposing perspectives of economic and firm value to evaluate the economic health of the PSSO industry. The firms researched for this analysis include ***Fluor Corporation, DynCorp Int'l LLC, URS Corp., AECOM Technology Corp.,*** and ***KBR Corp.*** As these firms are industry leaders, their economic and firm value assessments represents the industry as a whole. In other words, if these key firms are healthy, the industry is generally healthy. The first perspective assessed is economic value.

Often associated with maximizing competition, an industry's economic value is a measure of its benefit to society and the national economy through an assessment of its economic efficiency. An industry with high economic value is one with the lowest possible inefficiency or *deadweight loss.* Efficient markets enable more optimal allocation of resources, both within and between markets. Minimizing deadweight loss also leads to greater potential national aggregate gross domestic product (GDP), sustained long-term national economic growth, enhanced quality of life, standard of living, and has a positive impact on national security.

In contrast to economic value, firm value is associated with minimizing competition in order to maximize profitability for the firm itself. It is a measure of whether profits and return on investment are sufficient to motivate and enable firms to remain in the industry and of providing the required capital for innovation and research and development. To enable a viable Defense Industrial Base, firms must decide to remain in the industry over both the short and long term.

Economic Value and Competitive Market Structure.

The economic value of the market is determined by how well supply and demand of services or products are balanced to ensure optimal allocation of resources. In a perfectly competitive market structure, which rarely exists, economic value is maximized. Value is conversely diminished as market structure becomes less competitive and moves toward a monopoly.

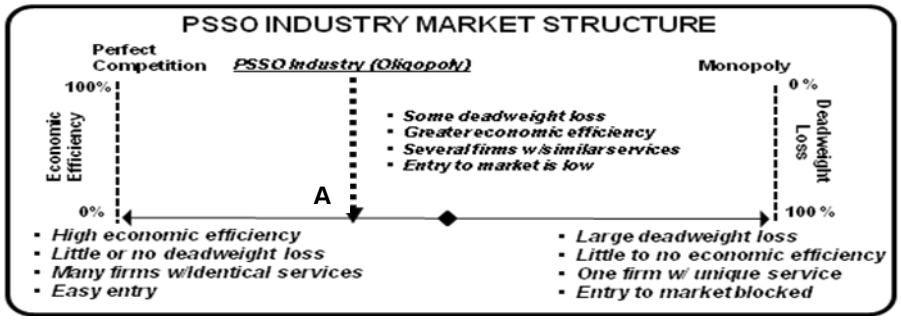


Figure 1 – PSSO Industry Market Structure

Figure 1 is an illustrative example of the PSSO market structure compared to standard competitive market structures. It is a highly competitive oligopoly.[5] This market also exhibits partial characteristics as a *monopsony* where the USG is generally the sole buyer. While most firms approach each agency within the USG as separate and unique customers, federal acquisition regulations force strict, rigorous, and standardized contracting practices across USG agencies, exerting some buyer power as a partial monopsony. The competitive oligopoly and partial monopsony nature of this market lead to a structure whose deadweight loss is not of great

concern (See Point A at Figure 1).

In a full monopsony, a single buyer exerts pressure on sellers to force down prices. A positive aspect of this partial buyer power is that it increases economic value by preventing market movement toward a monopoly structure. In its current state, the industry's economic value is positive and healthy, but the USG can increase it by leveraging its power as a monopsony to reduce prices and demand higher quality of service. As its monopsony potential is not yet realized, the USG does exert some limited single buyer power over industry firms, but not as much as it could. Through targeted policy actions, the USG should strengthen its single buyer power to improve its ability to exert influence over sellers and sustain or improve the industry's economic value and move Point A in Figure 1 further to the left.

In order for an industry to be a viable part of the Defense Industrial Base, it is not enough for it to be economically healthy. The firms in the industry must earn enough economic profit over the long term for them to make the business decision to stay and compete as a seller in this market. While many firms accept profit loss in the short term as a strategy to gain market share or competitive advantages, firms must make a profit over the long term in order to survive. The second part of the economic health assessment is a look at *firm value*, or the ability of the firms in this industry to earn a profit over the long term and conduct adequate research and development.

Firm Value

This paper uses the standard economic assessment tool of the Structure-Conduct-Performance (SCP) framework to evaluate and measure firm value. Each of the three elements of the SCP is interrelated and changes in one area cause reactions and changes in others. Using the SCP model to analyze firms in the PSSO market provides a measure of firm value and possible insight into potential areas where targeted USG policies can assist firms to enhance it with a view to maintaining a healthy Defense Industrial Base.[6]

Structure. In his book, *Five Competitive Forces That Shape Strategy,* Michael Porter presents a five-forces model that is widely used by academia and businesses to assess the profitability of firms. A comprehensive look at a firm through the lens of the model's five forces of Threat of New Entrants, Bargaining Power of Suppliers, Threat of Substitute Products or Services, Bargaining Power of Buyers, and Rivalry Among Competitors, "*…determines the ultimate profit potential in the industry, where profit potential is measured in terms of long run return on invested capital.*"[7] A firm's profit potential, specifically when measured over the long run, is the single greatest factor for firms when they are deciding to enter into, stay in, or exit from the Defense Industrial Base. Porter's five-forces model is one widely accepted tool for determining this potential. Analysis of the five forces shows that of the five, only *Rivalry among existing competitors* and *Bargaining power of buyers* show potential to impact firm value and therefore warrant USG attention. Detailed discussion of these two forces follows.

Rivalry Among Existing Competitors: Rivalry among PSSO firms is intense and open with no single firm controlling any major market segment. To adapt, many PSSO firms use similar business strategies and attempt to increase their competitive advantage through differentiation. In this context, their effort to differentiate relates to their human capital assets, not their types of services. Most senior executives of the corporations visited during this industry analysis cited the depth of experience of their staffs, their adherence to corporate codes of conduct, and senior leader skills as differentiating capabilities that set them apart from other firms in the industry. As

the market structure and forces drive a change in business strategy to this type of differentiation, an opportunity emerges for the USG. When possible, the USG should move from service contracts that are "technically acceptable" to ones of "best value." The PSSO firm differentiation strategies reflect the growing bargaining power of the USG as a monopsony buyer. This creates an opportunity for the USG to encourage competition and facilitate joint ventures among firms with complimentary services with creative contracts. This can lead to achieving higher quality services by employing joint ventures of highly qualified and experienced specialists rather than a single firm of less qualified and experienced generalists. The second of Porter's five forces that warrants USG attention and action is the bargaining power of buyers.

Bargaining Power of Buyers: Because of a continued reliance on contractors to provide traditionally USG capabilities and the associated financial cost necessary to rebuild those capabilities in the USG, the bargaining power of the USG as a buyer is not as strong as it would be without that degree of reliance. Additionally, a continuing impact on USG buyer power is its inability to provide a single, USG wide single-point of management for PSSO firms and contracts. Industry analysis identified that USG agencies detract from their buyer power by continuing to maintain separate contracting processes with little consolidation or synchronized oversight among agencies. The USG needs to take strong and aggressive action in this direction and develop tools to ensure collaboration and synchronization across all agencies in the USG that engage in contingency operations. In his essay on a proposed IT-based decision support tool, Mr. Rick Bauer presents a recommendation to mitigate this vulnerability and increase oversight of contracts. Strategic synchronization of oversight across agencies would move the USG toward a stronger monopsony structure and lower costs. The USG's single buyer bargaining power and influence will be especially strong with the industry firms that rely heavily or solely on the USG as their primary revenue source. For example, URS Corp. admits the "loss of the federal Government or the U.S. Army, as clients, would have a material adverse effect on [URS] business."[8] Also, DynCorp Int'l, LLC executives acknowledge that currently 80% of its operations are tied to defense contracts.[9] From the structure analysis of firm value, it is clear that stronger bargaining power of the USG may be a substantial and formidable force for lowering costs and increasing quality if it is leveraged correctly. The next component of measuring firm value is an assessment of the firm's conduct through the use of the strategic gameboard method or stated more succinctly, the how, when, and where of its competitive strategy.[10]

Conduct. Of the three elements in the strategic gameboard method, only the how and where of firm competition revealed issues for possible USG action.

How. As outlined above, the leading PSSO firms tend to follow a common strategy. They generally operate within the confines of "traditional rules" of competition within the industry, leverage their reputation as a method of differentiation,[11] and avoid niche markets with reputational risk such as armed private security. The industry firms accept smaller profit margins to provide a stable source of revenue. This is an acceptable risk to profit in the short term with an expectation that the firm will increase its long-term profit margin through the life cycle of a contract through improvement in processes and gains in efficiencies as a result of innovation and research and development. This potential for long-term profit is a motivator for firms to be part of the Defense Industrial Base.

As larger firms become more differentiated and the smaller firms specialize in niche capabilities, an emerging strategy employed by PSSO firms includes an increasing willingness to partner through joint ventures and corporate acquisitions. Both large and small firms then stand to benefit from such a strategy to gain an advantageous niche market position. These actions

force out competitors and result in greater market share for any acquiring firm. For example, the US Air Force Contract Augmentation Program (AFCAP) manages USG contracts for five firms: *CH2M HILL/KBR* (joint venture), *DynCorp Int'l LLC*, *RMS*, *URS*/*Lewis Berger* (joint venture), and *URS Energy & Construction*.[12] *URS Energy & Construction* is a May 2007 URS acquisition of *Washington Group International*.[13] From this acquisition, *URS Corporation* as an enterprise doubled its competitive ability for the AFCAP contracts, a demonstration of how joint venturing and consolidation through acquisitions is a formidable corporate strategy. To facilitate lower costs and higher quality of service with more capability in a single business partnership, the USG should encourage joint venturing by creating contract mechanisms that facilitate it. This maintains the profitability of smaller firms and ensures their continued involvement as part of the Defense Industrial Base.

Where. In response to the anticipated decrease in USG demand for PSSO in the future, many firms are looking to move away from DOD centric support and transition to other USG agencies such as the Department of State (DOS). Some firms are diversifying and expanding into non-USG markets to maintain their economic health and firm value.[14] While this strategy is currently not a threat that warrants USG action, the USG should prevent degradation of Defense Industrial Base capability by closely monitoring this shift in business strategy.

This conduct analysis shows the PSSO industry facing new challenges as the USG looks to cut federal spending and downsizes its operational tempo. Spending cuts coupled with the uncertainty of the international environment creates a sporadic industry tempo. For larger PSSO firms who have diverse business portfolios and large capital asset inventories, the lulls will not impact firm value as severely as smaller firms. The smaller, niche firms will find it increasingly difficult to survive demand lulls without external assistance achieved through government intervention or joint venturing. In addition to supporting joint ventures, the USG should assist smaller, niche firms in maintaining their surge capability by employing them in support of domestic and international non-contingency operations. This would integrate PSSO contractors into USG operations and facilitate pre-contingency combined USG and PSSO training for future contingencies while enabling niche firms to remain financially stable.

Performance. Economic Ratios. Figure 2 displays several key economic ratios for leading firms within the PSSO industry. Overall data for the industry enables a comparison between the leading firms and the industry as a whole. S&P 500 data enables a comparison of PSSO firm data with that of commonly accepted economic health data of other firms. Ratios above 1.0 are healthy.

Economic Ratio	*Fluor*[15]	*Aecom*[16]	*URS*[17]	*KBR*[18]	*Industry*[19]	*S&P 500*[20]
Current Ratio	1.58	1.70	1.83	1.62	0.86	0.82
LTDE Ratio	0.51	53.10	17.49	4.6	14.80	150.33
Asset Turnover	10.1	1.48	1.23	1.94	0.26	0.46
EBITDA Margin	3.55	6.10	6.35	6.01	No Data	No Data
EBITDA (5 yr avg.)	4.77	5.29	5.35	4.27	16.66	18.23
Return on Investment	11.15	8.67	5.80	12.47	1.85	6.52
ROI (5 yr avg.)	17.51	8.69	4.90	8.90	7.65	6.21
P/E Ratio	36.23	12.95	13.80	16.42	42.34	18.14

Current as of 8 Mar 2011

(Figure 2)

NOTE: DynCorp International LLC is a privately owned firm and not traded publicly. Therefore, current year financial data was not available for comparison.

The ***Current Ratio***[21] data for the leading firms within PSSO indicates that they are able to meet short-term obligations better than the industry as a whole. Also, while *Current Ratio* indicates liquidity, the ***Long-term Debt to Equity (LTDE) Ratio***[22] offers insight for long-term stability. Although URS Corp. and AECOM Corp. data indicate a greater reliance on debt to finance operations, the industry as a whole is minimally leveraged and the ***Price to Earnings (P/E) Ratio*** for URS Corp. and AECOM Corp. indicate investor confidence in their ability to create value despite increased debt leverage. These are indicators that firms and their stockholders consider the probability of long-term profit to be positive. The ***Asset Turnover Ratios***[23] for the leading firms indicate the industry effectively uses assets to produce revenue for stockholders. The two principal ways for PSSO firms to increase their profits is to reduce operating expenses or increase revenue through higher prices. Since the latter is difficult within the highly competitive PSSO market, firms constantly strive to find ways to minimize operating expenses in order to increase firm value. The ***EBITDA Margin***[24] is an indicator of the firm's ability to do so. *PSSO* firms tend to have positive ***EBITDA*** margins by the ***Return on Investment (ROI)*** data shown (See highlighted row in Figure 2). While all of the financial ratios display positive financial health for the industry, the ROI is the most indicative of firm value in such that it is sufficient for firms to want to remain in the industry, promotes innovation, and sustains adequate research and development. Combined with the healthy ***P/E Ratios***[25] that are competitive with S&P 500 figures, the financial ratio data indicates that PSSO firms are financially healthy and enjoy strong shareholder confidence.

The SCP analysis shows heartening results. Even though PSSO profit margins levels appear low in comparison to other private industries, they represent an industry that is financially healthy and is maintaining optimal economic and firm value in the market. Another positive finding is that although the PSSO industry is not innovation or research and development intensive, the financial data indicates firms have sufficient levels of capital for adequate innovation and research and development to sustain their firm value and contribute to a technologically strong Defense Industrial Base. With positive firm value in the industry, it is likely that new firms will enter the market and the firms already in the market will remain. There is a high expectation of increased joint venturing and corporate acquisitions to meet specific capability needs. This paper now turns to providing an outlook for the future of the industry and then transitions to an evaluation of the industry's operational challenges or potential improvement areas.

FUTURE OUTLOOK FOR THE PSSO INDUSTRY

Due to the expected drawdown of military force levels in Iraq and reduced USG spending in response to the constrained budget environment,[26] the PSSO industry will experience a shift in USG demand. Over the next two to five years, the 10-year expansion of demand following the the 2001 terrorist attacks will end and the industry is expected to enter a lull period. The USG will still require PSSO support, but at levels much lower than those of the last decade. As the overall demand for PSSO decreases, some of it will shift from one agency to another. A case in point is the transition of security operations in Iraq from the DOD to the U.S Department of State (DOS). To facilitate this, the USG allocated the DOS $10B in the fall of 2010 for the next five years for private security in Iraq.[27] As operational priorities shift within the USG, the PSSO firms will likely respond in kind, developing the necessary capabilities to support requirements, adapt, or move into other market sectors to ensure firm value.

The decrease and shift in USG demand for PSSO will result in a lull period for business opportunities focused on the USG as a primary customer. There are, however, emerging opportunities for PSSO firms in other countries and with other governments. These opportunities are two-fold, one with military forces already involved in contingency operations such as Canada, Britain, and France[28] that are constantly evaluating and reshaping their workforce and structure mix between military and contractor elements. The second international opportunity for PSSO is in support of countries that are expanding global contributions to expeditionary operational contingencies. Brazil's post-earthquake contribution to the United Nations Stabilization Mission in Haiti (MINUSTAH) is one example of an emerging entrant providing significant growth potential. Should Brazil's positive economic potential become realized, its expected challenge will be to maximize internal military security to participate strategically in coalition-oriented missions. It will reach a strategic decision point on the need to employ (or not) capabilities offered in the PSSO industry. COL Arthur Lopes, from the Brazilian Army, outlines this in his essay on the potential applicability of PSSO in Brazil. A further emerging market example involves the United Arab Emirates, which seeks a PSSO type firm to train their military forces.[29] To ensure the PSSO firms remain economically healthy during the approaching lull periods, the USG should encourage and support PSSO industry pursuit of these opportunities.

To prepare for the future environment outlined above, this paper next presents several opportunities for improvement that need USG attention and action. These challenges, when mitigated, will gain the USG greater efficiency in costs and better effectiveness in meeting the operational needs of USG leadership.

CHALLENGES

While the USG maintains its leadership role in using PSSO in its operations, many elements of doctrine, policy, organization, and culture have not kept pace with the evolution and rapid expansion of PSSO operations. As a result, many government audits and reports detail lapses of oversight, decreased cost efficiencies, inadequate effectiveness in meeting operational demands, and criminal incidents of theft, fraud, and waste in the billions of dollars.[30] While the USG aggressively is mitigating many issues, there continues to be challenges that threaten efficiency and effectiveness of PSSO employment. This paper presents these challenges with strategic areas of readiness, command and control, and oversight.

Readiness

Civilian Expeditionary Workforce (CEW). In 2009, DOD established its Civilian Expeditionary Workforce (CEW) as part of its *Total Force* construct.[31] When fully functional, the CEW will provide a government civilian workforce ready to support contingencies.[32] This program is not yet fully mission capable. The DOD must accelerate implementation of this program to meet future contingency operations.

Doctrinal Conflict. To meet national security missions, the USG must rapidly respond to no-notice humanitarian and disaster relief contingencies.[33] Operationally, rapid response identifies a mission capability measured in hours.[34] For logistics and PSSO, *rapid response* means "faster than normal" with mission readiness measured in days and weeks.[35] This doctrinal gap poses a threat to operations by delaying needed mission capability for senior leaders. This

emerged as a critical factor in USG responses to Katrina, Haiti, and the Deep Water Horizon oil spill. After action reports outlined operational failures resulting from delays in contractor support due to poor pre-event planning.[36] Traditional surge and sustainment post-event planning and preparation cannot meet current needs. From lessons learned in Katrina, the Department of Health and Human Services and the Federal Emergency Management Agency established a prepositioned national ambulance contract to provide rapid response ambulance services using contracted ambulances. This industry best practice demonstrates the benefit derived from rigorous and collaborative pre-event planning and accurate requirements identification. The USG should clarify its response doctrine and accurately define rapid response mission requirements across the enterprise.

Planning and Requirements Identification. Humanitarian and disaster responses over the last few years highlight the need for effective pre-event planning for contingencies. The more serious impact of ineffective planning is the dramatic increase in cost to gain mission capability after the fact. A common comment from industry leaders was *"We can provide any service the government requires, but the shorter the timeline and the greater the ambiguity of requirements, the more it will cost.*"[37] The more effective the contract support planning is, the greater the benefits reaped by the USG will be in the form of reduced costs and improved competition. DOD is beginning to address contractor support planning by mandating the development of refined plans by each Combatant Command (COCOM). Currently, these plans, known as "Annex W" are significantly behind schedule and still face several obstacles to their completion[38]. A significant planning vulnerability is that the DOD Joint Staff and COCOMs still view private sector contractors as follow on support to the operating force.[39] They doctrinally plan for contractor support to be requested after the event and are not planning with the recognition that contractors are often 50% or more of the response force.[40] In addition to Annex W improvements, three specific examples of planning issues and challenges were found in the areas of systems support contractors, total force capabilities, and the integration of inherently governmental and commercial capability.

Systems Support Contractors. Planning for systems support within DOD is a mandatory process within the Defense Acquisition process. However, the incorporation of contract support into DOD plans, to include systems support plans, was identified as a deficient area in a 2003 Government Accountability Office (GAO) report.[41] Addressing the uninterrupted support of these vital combat systems is a critical aspect of acquisition planning accomplished prior to the declaration of a contingency. This needs to be better integrated with operational plans prior to a deployment, not as a reactive action when support was "needed yesterday." Current methods for contracting and funding contingency systems support can create operational and budgetary vulnerabilities for the supported commander. Contracted support for weapons systems in wartime and contingency operations must be assured through better integrated planning between operations, logistics, and acquisition bodies to ensure a seamless and transparent transition from garrison to deployed support. Specifically, this planning should include contract mechanisms, cost estimation and funding planning, and training and contractor integration.

Inherently Governmental and Commercial Capabilities. As use of PSSO in the USG matures, it is necessary to review *inherently governmental* functions and introduce the concept of *inherently commercial* capabilities. DOD has provided initial guidance on the definition of inherently governmental services. Issued guidance requires further refinement to ensure core competencies and capabilities are not lost. For example, within the training service area of the PSSO market, many PSSO contractors have replaced active military officers and NCOs in the

provision of core military skill training. Though contractors are facilitating operations in a positive manner, over the long term, their use may erode the DOD's combat capability and warrants further review.

The USG does not always have the internal ability or resources to respond appropriately to a contingency and must rely entirely on private sector efforts to ensure mission accomplishment. In this case, these capabilities would be defined as an "inherently commercial" capability which means the private sector is the only force either able to do it at all, or can do so much better, faster, or cheaper that it should be the default mechanism for that support. During Deep Water Horizon, British Petroleum (BP) led the response efforts due to their specialized experience and capabilities in oil spill mitigation and recovery, skills the USG did not possess. USG leadership worked as an equal partner with BP to handle the response. In this incident, PSSO firms were the only source of "inherently commercial" capability. One example of this capability not currently factored into operational planning is the management of satellite communications, which is addressed by LTC Victoria Miralda in her essay.

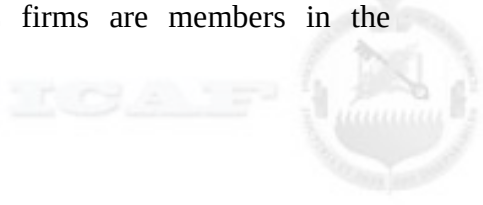
Command and Control / Oversight

Competent Leadership. In addition to readiness challenges, competent leadership was a consistent theme which emerged across all issue areas. Firm, competent, and collaborative leadership is necessary to ensure both effectiveness and efficiency. Without effective leadership, there would never be successful mission accomplishment. Given the importance of leadership, this paper explores potential issues that are currently detracting from the application and accountability of government and industry processes. From that perspective, the analysis identified areas of improvement in accountability for contractor performance and conduct, legal authorities, organizational alignment, and strategic leader authorities.

Accountability for Personal Performance and Conduct. Another command and control issue was accountability of individual contractor performance and conduct**.** For either a military commander or a civilian USG leader, two key elements of performance management are the abilities to set and also to enforce individual performance standards. In the current contingencies, these elements are well defined for military and government employees, but not for private sector contractors. To be effective during contingencies, senior leaders must be able to set standards of performance and conduct for individuals and then have the authority and mechanisms to enforce them with discipline or corrective action when those standards are not met.

The 2007 shooting incident involving the Private Security Company (PSC) Blackwater at Nisour Square, Iraq, best illustrates the shortcomings in both areas.[42] The international and domestic outrage to this situation weakened U.S. counterinsurgency efforts and highlighted the importance of effective senior leader oversight and legal jurisdiction over individual contractors. Although this incident involved PSCs, it is applicable to all contractors working in support of USG efforts. Current oversight attempts in this area range from structural, such as agency policies and contract guidance, to direct legislative action. These measures are insufficient and do not achieve the level of effectiveness necessary to support operational mission leaders and objectives.

Standards of Conduct. Establishing standards of conduct is a necessary step toward exercising leadership over contractors. Many private firms belong to third party associations with direct partnerships with the USG. For example, most PSC firms are members in the



International Stability Operations Association (ISOA). This association developed a well-defined standards of conduct charter and requires each member firm to abide by both its intent and substance. When member firms fail to meet standards, the association administers corrective actions that range from censure to termination of membership. Many other private sector firms belong to the same type of association in their own fields. This effectively puts informal enforcement of standards of conduct in the arena of a third party, not the USG. Integrating the associations in collaborative partnerships with the USG to establish standards of conduct would be beneficial for the associations, private firms, and the USG. It would strengthen the associations by making private firms want to be members; clarify contract selection criteria for private sector firms; and improve the quality of contractor performance for the USG.

Legal Authorities. With the USG's large dependency on private contractors as a necessary tool for operational effectiveness, it has also reaped unintended consequences in other areas such as negative public reaction to their presence. As an example, while PSCs only account for 5-10% of DOD, DOS, and U.S. Agency for International Development (USAID) contractors,[43] they carry the greatest burden of risk for operational success and strategic international legitimacy. To ensure the highest standards of performance, senior leaders must have the legal authority to control and enforce contractor conduct. Currently, there are three avenues to prosecute deployed contractors for criminal misconduct: host nation law, extraterritorial application of U.S. law, and the extension of U.S. military law.[44]

Since 2007, military commanders are allowed to exercise full disciplinary authority over contractors assigned in support of DOD.[45] However, local political realities discourage the use of UCMJ in areas that traditionally covered by civilian law. Additionally, legal scholars debate the constitutionality of applying UCMJ to civilians. Outside of the UCMJ, the Military Extraterritorial Jurisdiction Act (MEJA) serves as the existing legal vehicle for the investigation and prosecution of crime. This law allows for the prosecution of all persons employed by or accompanying the armed forces overseas. This measure does not give the broad authorities granted by the UCMJ; instead, it ensures the Department of Justice can target the investigation of crimes that would reach a felony level if committed within the United States. However, it accounts for very few successful prosecutions of contractors accused of criminal activity. The continued perception that private contractors can operate with impunity erodes the achievement of National Security objectives. The current legal authorities must be modified, consolidated, and improved to include all USG contractors supporting all contingencies and give disciplinary authority to any USG leaders in charge of missions, not just DOD military commanders.

Organizational Realignment and Authorities. Along with improved readiness, and strong individual leadership exercised through command and control mechanisms, organizational realignment and strategic leadership authorities are needed to prevent and mitigate the challenges identified within this paper. Many of these issues are direct results of misaligned chains of command, multiple oversight agencies, and the lack of strategic level leaders or champions. Poor contractor oversight and a lack of integrated command and control continue to be significant themes noted in domestic and international contingency response after action reports.[46] In addition to structural and operational issues, there have also been many instances of criminal actions which warrant comment.

Several USG audits conducted for Iraq and Afghanistan identified many instances of fraud, waste, and abuse resulting from improper oversight and lack of cohesion in the command structure.[47] Multiple leader rotations are a significant contributor to ineffective oversight. From a contracting perspective, there are too many lines of contracting authority in a contingency

environment with duplicating efforts both in labor and of funding. Without effective leadership and synchronization of contracting efforts, millions of dollars are wasted annually. To alleviate many identified problem areas that cost the USG millions of dollars a year, a realignment of organizations and their roles, missions, and authorities at both DOD and USG levels is necessary.

DOD Alignment. In Iraq and Afghanistan, the DOD established two organizations - the Joint Theater Support Contracting Command (JTSCC) and Joint Contingency Acquisition Support Office (JCASO). While both organizations are evolving in their roles and responsibilities, they still establish parallel, but unsynchronized lines of effort for contracting support. The JTSCC is temporary organization emplaced for the contingency and reporting to the senior military commander and JCASO is assigned to the Defense Logistics Agency (DLA), but works for the COCOM commander. To integrate their missions and provide a more synchronized command and control and senior leadership structure, the JTSCC should be made a permanent command and absorb the deployable JCASO from DLA.

USG Reorganization and Alignment. While both the 2009 and 2010 NDAA call for the establishment of an interagency advisory panel to improve coordination between DOD, DoS, and USAID, this is has not been achieved or established. It is imperative that the USG implement substantial transformative change on par with the Goldwater-Nichols act of 1986. Nothing less than an effort of that scale and magnitude would force the multiple federal agencies to achieve the "Jointness" in interagency operations and the "All of Nation" approach to National Security. While Congress is currently faced with political and financial pressures not to move in this direction, it must do so in order to achieve the budgetary efficiencies required in our new economic reality.

Leading this move toward interagency *jointness* for contingency support and reconstruction operations would be a single governmental entity embedded in the National Security Council and led by a senior executive leader. This new agency would be resourced by transfer and consolidation of the Department of State Office of the Coordinator for Reconstruction and Stabilization (S/CRS) and the elements of the Department of Defense that have been involved in contingency support and reconstruction efforts such as its civil-military affairs corps, government employees involved in contingency support, and its Commander's Emergency Response Program (CERP) funds. This proposed new entity is closely modeled after the US Office of Contingency Operations (USOCO) proposal presented by SIGIR and supported by key USG leadership. We must start with interagency alignment, and concurrently, provide strategic global leadership by designing the U.S. model to integrate with existing global architectures within the Paris Declaration and the Accra Agenda for Action.[48] This new organization would have dedicated funding, contracting authority, and life cycle management of contingency related contracting. It would not manage systems support contracts, but it would manage and facilitate planning, requirements vetting, contracting, and coordination among federal agencies, NGOs, private sector firms, and multinational firms and governments (coalitions). Unity of effort, synchronized procurement, contracting, and mission execution would vastly improve both efficiency and effectiveness in operational mission support during domestic and international contingency operations.

ESSAYS ON SPECIAL TOPICS

Essay #1: Brazil as an emerging market for the PSSO industry

As a growing regional power, Brazil has been campaigning for a permanent seat on the UN Security Council. In 2004, as part of this bid, Brazil took command of the UN Stabilization Mission in Haiti (MINUSTAH), the first time the country supported the use of force under UN Charter Chapter Seven authorities.[49]

In 2010, after years of financial difficulties and tight defense budgets, Brazil's President Luiz Inacio Lula da Silva signed executive orders to implement a new national defense strategy that comprises the restructuring of the Armed Forces and military hardware acquisitions. The new national defense strategy will demand a more robust defense budget and new strategic defense concepts for each service. At a time when Brazil desires to assume a more relevant role in the world security context, it will become an emerging market for the PSSO industry.

PSSO Industry Potential in Brazil: There is no PSSO industry in Brazil, but in the civilian market many big companies are outsourcing secondary activities in order to concentrate in their core business. According to Paulo and Aline,[50] the industry of logistics operators in Brazil became important from 1994, due to the economic stability provided by the economic plan called "REAL". Since then, this industry has rapidly grown with both the emergence of genuine national operators and also the entrance of important global providers in the Brazilian market.

Bottino[51] asserts that some Brazilian logistics operators already meet full conditions to support military operations with the required quality. Bergo[52] thinks the market is limited because the military spending in Brazil is small and not attractive for companies to undergo these functions. Nevertheless, the market can become more attractive in the future if Brazil assumes a more important role in international military operations.

Opportunities for the PSSO industry: The structure of the Brazilian Army is constrained during peacetime and is expected to be fully realized during wartime through national mobilization. In case of declaration of contingency operations by the President of Brazil, the peacetime structure of the Army would require the surge of logistic support capabilities in a short time and the PSSO industry would be a good solution.

There are discussions and academic essays about utilizing the PSSO industry in the Brazilian Army. According to Bergo,[53] the lack of involvement of the Brazilian private sector and civilian society with national defense issues and the Brazilian legislation are the main obstacles to include the PSSO industry in the Army's doctrine. Bottino[54] defends the use of private companies to provide material and transportation support for the Army in military operations. By adopting this practice, he raises the advantage of the Army to save resources to undergo core combat capabilities and the risk of the Army to become excessively dependent on private companies support. For this reason, he recommends that the Army uses private companies to complement organic support capabilities.

Among the Brazilian Army's missions[55] are:

- Participate in international operations: peacekeeping missions, joint international exercises and foreign humanitarian assistance.
- Comply with assignments subsidiaries: participate in national development and national humanitarian assistance.
- Support the country's foreign policy.

The more the Brazilian Army becomes involved in international security operations, accordingly with its mission, more opportunities for the PSSO industry will be created.

The new Brazilian national defense strategy outlines two goals with the statement of "national independence achieved by the mobilization of physical, economic and human resources to invest in the country's production potential"[56] and "partnerships with other countries will be attempted, aiming at developing the technological capacity and the making of national defense products to gradually rule out the need to purchase imported services and products."[57] Should the Brazilian Army decide to use private contractors to support military operations, it is reasonable to assume it will look for Brazilian companies provide that support. In this case, Brazilian companies should look for initial partnerships with more experienced international companies to develop support capabilities. Hence the future Brazilian PSSO industry should certainly count on the participation of international companies, at least in the initial stages.

Barriers for the PSSO industry in Brazil: The main barriers for the PSSO industry in Brazil are the national legislation and the Armed Forces' doctrine and structure.

National legislation. For the U.S. government, PSSO is an industry that provides base operations, logistics services, training, private security, and intelligence support for contingency operations declared by the President of the United States (POTUS). However, if we consider the Brazilian legal framework, the organizations that compose the PSSO industry, or contractors, perform support activities in conflict zones that are restricted to the Armed Forces.

According to Article 142 of the Brazilian Constitution, "*The Armed Forces, comprised of the Navy, the Army and the Air Force, are permanent and regular national institutions, organized on the basis of hierarchy and discipline, under the supreme authority of the President, and intended to defend the Nation, guarantee of constitutional powers and, at the initiative of any of them, law and order.*"[58] In the Brazilian Constitution, there is no mention of any other entity charged with the duty of defending the Nation. If the activities of contractors are defined as defending the Nation, they are not framed in the Brazilian Constitution. Also, National Law No. 7.170, December 14, 1983, defines crimes against national security, political and social order, and contains several articles according to which some activities of the PSSO industry could be considered crimes.

Concerning the international law, because the Brazilian Government does not currently allow the support of military operations by Brazilian private military and security companies during armed conflict, Brazil is not participating signatory of the Montreux Document. In order to create a PSSO industry in Brazil, all the issues about the national and international law should be addressed and adjusted accordingly.

Brazilian Army's doctrine and structure. The current Army doctrine does not consider contracting with private companies to serve and provide support in conflict zones and it does not have any organizational element that could conduct contracting and contract management of PSSO missions. Presently, Brazil employs two Infantry Battalions and one Engineer Company in the United Nations Stabilization Mission in Haiti (MINUSTAH) with no PSSO industry involvement.

Another important issue is that Brazilian Army doctrine works with the possibility of having no safe or green area in a conflict zone, a situation that represents a great barrier for the employment of private companies.

Recommendations: Under the claims for a more important participation of Brazil in international security affairs, the national PSSO industry should not be forgotten as a factor of augmentation of military power. In order to foster a Brazilian PSSO industry, some policy recommendations are:

Recommendations for the Ministry of Defense (working with the Brazilian government and the services):

- Promote the necessary legislation changes that permit the operation of PSSO industry companies in the Brazilian market, according to the Brazilian interests.
- Foster the development of a Brazilian PSSO industry.

Recommendations for the services (working jointly):

- Carry out the necessary changes in the doctrine and structure in order to work together with the PSSO industry.
- Strengthen military cooperation with international Armed Forces in order to develop a doctrine adapted to the work with the PSSO industry.
- Strengthen contacts with the Brazilian logistics operator companies in order to build up a Brazilian PSSO industry according to the interests of the services.

Recommendations to the defense industry:

- Strengthen contacts with the Ministry of Defense, the services and international PSSO industry in order to build up a Brazilian PSSO industry.

COL Arthur Lopes, Brazilian Army

Essay # 2 - Commercial Satellite Communications (COMSATCOM) – An Emerging Private Sector Dependence

"A robust and competitive space sector is vital to continued progress in space. The United States is committed to encouraging and facilitating the growth of a U.S. commercial space sector that supports U.S needs, is globally competitive, and advances U.S. leadership in the generation of new markets and innovation-driven entrepreneurship."- U.S. National Space Policy 28 June 2010 [59]

The private sector support to operations industry segment includes and relies almost exclusively on commercial communications. During contingency operations, the majority of communications services are accessed by commercial satellite communications or "COMSATCOM." This capability provides reach-back access to support personnel and resources directly supporting contingency operations. Military use of COMSATCOM bandwidth has exceeded the capacity provided by military satellite communications (MILSATCOM), since 1993, shifting reliance to this emerging private sector market.[60] Together, military and contractor operations reliance on commercial SATCOM capacity is in effect absolute. Future PSSO analysis should include COMSATCOM as a critical element of the industry market health. While COMSATCOM is an integral component of the PSSO market, it is significantly different in terms of reliance, planning constraints and market dynamics. It is inherently more of an oligopolistic market than the remainder of PSSO. The commercial SATCOM industry has higher barriers to entry, fewer suppliers, and significantly more buyers

and competition for resources. This paper explores ways for the USG to compensate for these differences and recommends actions to increase USG buying power and ensure future availability of the market to support contingency operations.

In 2009, the U.S. military spent approximately $500 Million on leased COMSATCOM capacity services.[61] Despite this significant investment, the USG does not forecast or plan for future COMSATCOM capability requirements. This shortfall is operationally significant given the reality that in all but rare contingency operations, communications capabilities are the strategic umbilical cord linking USG, private contractor, agency, and military teams. The commercial SATCOM industry is therefore a vital component of PSSO enabling U.S. diplomatic, information, military and economic elements of power. The assessment of the private sector health in its ability to support Presidential-declared contingency operations in the areas of logistics, base operations, training, and private security presumes adequate access to assured communications capabilities. This is an increasingly risky assumption.

Presidentially-declared contingency operations are inherently reliant upon non-line-of-site communications due to typically contested security environments or the need for rapid U.S. assistance where a crisis is evolving. Autonomy in operations is a required condition for success. Almost entirely, these operations are conducted with minimal notice in distant and austere locations where terrain or infrastructure realities limit access to terrestrial-based communications. COMSATCOM enables assured force projection and the ability to conduct military, security, or disaster relief operations, highlighting the need for initial and often continued reliance on COMSATCOM assets.

In addition to anticipated SATCOM capacity shortfall estimates, three policy, organizational, and process shortfalls stand out. If left unaddressed, these may threaten future industry health and capacity availability. The largest issue is current export restrictions shackling the satellite industry and marginalizing U.S. technology leadership in a globally competitive environment. Second, an inadequate USG COMSATCOM collective requirements identification and capability development process permits and codifies inefficiencies. This prevents the USG from communicating with one clear voice to industry to shape and ensure future capacity. Compounding these challenges is a absence of an empowered and interagency USG authority to plan for and procure COMSATCOM bandwidth capacity. This gap results in a loss of assured and prioritized surge capacity to meet national interests. A final dynamic influencing COMSATCOM availability is the increasing competition for capacity between DOD forces and the contractors who support them. This is an emerging resource conflict.

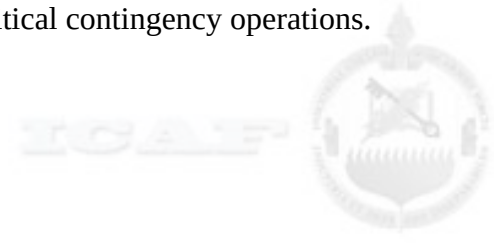
Despite enduring U.S. space policy advocating competition, the space industry has been constrained by export trade regulations levying the unintended consequence of a negative effect on competitiveness. Wide consensus purports current export restrictions have marginalized U.S. commercial space technology vitality and leadership. The satellite manufacturing industry is the only U.S. commercial sector mandated by law to have all goods managed as munitions. The effect of this has been markedly negative.[62] The natural result of the current U.S. export regulations implemented through the International Traffic and Arms Regulation (ITAR), in a global environment is a informal self-imposed trade barrier. Since implementation in 1999, this regulation has impeded U.S. space industry competitiveness. One senior executive in the industry estimated that each U.S satellite built costs approximately one million dollars to just to meet ITAR requirements. Loss of market competitiveness is compounded by the decrease in the U.S. space industry workforce of talented scientist and engineers.[63] This is attributed at least in part to the impact of costly U.S. trade restrictions leading to a less vibrant space industry.

Considering the overall industry revenue growth of 11%, there is an expectation of a sustainment or growth in employment. Instead, in 2009, there was a 5.5% decline in the space industry workforce in accordance with the general trend since 2002.[64]

The 2008 Center for Strategic International Studies (CSIS) report titled "Health of the U.S. Space Industrial Base and the Impact of Export Controls," concluded that U.S. preeminence in space is under challenge in many areas. *"Satellites and their components were placed on the U.S. Munitions List due to Congressional action with the intent of limiting the spread of space technology. However, this has had the unintended consequence of encouraging the proliferation of space capabilities, has not prevented the rise of other space powers but has impacted U.S. competitiveness." – CSIS Report 2008*[65] When ITAR was enacted in 1999 The U.S. space industry held over 60% of the global manufacturing market. It is now below 40% as of 2010.[66] While some of that decline may be a natural result of globalization, the lost potential may never be knows in terms of sales, competitiveness, and human capital in the U.S. satellite industry.

The U.S. satellite industry is also losing share in the international markets. The current export control policy continues to constrict U.S. engagement, economic partnerships, and coalition interoperability with the rest of the global space community. This feeds a growing separation between the U.S. commercial space community and DOD and an emerging non-U.S. space community.

The recently proposed U.S. legislation, House Resolution 2410, the "Foreign Relations Authorization Act," addressed the need to reform satellite industry export controls. The intent of this legislation was to alleviate some of the more damaging process and categorization restrictions from classification of space related exports and restore the President's decision authority. The bill did not pass in 2010 and requires re-introduction. The U.S. Satellite Industry Association President, in a letter to the Chairman of the House committee on Foreign Affairs, stated that HR 2410 will, "help put U.S. manufacturers of satellites and related components on more competitive footing in the $144 Billion global satellite market, reinforcing America's global technological leadership, while safeguarding jobs and critical space technology for the action."[67] Capability requirements identification, planning and development inefficiencies hamper the USG ability to communicate with one clear voice to industry. The USG must improve forecasting of COMSATCOM capacity requirements and provide the satellite industry a clear demand signal to build toward. It is also essential to integrate all SATCOM requirements across USG organizations earlier in the commercial capability development process. If USG COMSAT bandwidth purchasing continues to be as a "what do you have left" customer, there will be a point where its bandwidth needs will go unfulfilled. This actually happened recently.[68] Unlike most other industry sectors, the launch delay time lag and high upfront investment costs demand capital investment years in advance. Our current COMSAT acquisition and procurement processes are need-response based and are not built to anticipate such unique characteristics. Uniquely, this service industry sector demands assured customer revenue before the investment makes business sense. The COMSATCOM demand is adequate now to saturate all available satellite bandwidth, leaving little bandwidth available for contingency operations. At most, approximately 20% of the bandwidth may be uncommitted when a satellite is built. The reliance on COMSATCOM is compounded by the near-absence of a USG hand in ensuring capabilities are financed, built, and available, to fulfill future requirements. This vulnerability is particularly problematic considering the continued and increasing reliance on COMSATCOM capabilities by the USG and private contractor organizations in critical contingency operations.



The absence of a single empowered purchasing authority acting in accordance with pure national interests contributes to shortfalls in future capacity planning and development. The lack of USG "whole of government" purchasing power, national capacity prioritization oversight, and assured availability at a fair price threaten COMSATCOM availability over the long term. Despite its potentially powerful position as the largest single COMSATCOM capacity purchaser, the USG accounts for less than 5 percent of all COMSATCOM bandwidth consumption. In purchasing bandwidth as multiple organizations vs. one buyer, the USG cedes power and opportunity to shape the future COMSATCOM capabilities it relies upon. It also forfeits potential cost savings and return on investments, allowing capital sourcing by foreign entities. This leads to more costly bandwidth purchasing and leaves industry guessing at USG government requirements and assuming more risk. Finally, the advent of High Density Television has increased competition for COMSAT bandwidth driving up costs and reducing short-notice availability.

Sound requirements identification begins with comprehensive requirements planning and forecasting which is notably absent from DOD for a variety of reasons. While the many dynamics causing this are beyond the scope of this paper, the major contributing shortfall is the absence of a single empowered interagency authority to gather and fund capacity in accordance with national priorities. While these bandwidth request processes have long existed for MILSATCOM, they have not been established and enforced to manage COMSATCOM in a similar manner. Given the reality that commercial COMSATCOM is now in essence MILSATCOM in use, it is vital that the USG establish a similar and enforceable process to ensure highest priority contingency capabilities and long term certainty of program funding. Existing processes for contracting COMSATCOM requires change to establish and empower an interagency authority. While CJCSI 6250.01 "Satellite Communications," establishes that DISA acquires all user COMSATCOM resources, it is difficult to enforce and DISA does not have comprehensive procedural purview or enforcement authority over all USG purchasers.[69] For example, it is not uncommon for DISA to "find out" about approximately 40% of the bandwidth being used in DOD after-the fact. As a result, DISA is unable to support optimized procurements efforts, national prioritization efforts, or provide operational oversights for performance issues when they occur.[70] Organizations and commands manage their own money and can procure bandwidth on their own. Enforcing centralization of all COMSATCOM procurement can increase USG efficiencies and the predictability of available capacity. This requires flexible and responsive contracting approaches grounded in trust for capability. Emerging concepts such as shared vs. dedicated bandwidth, commercially-hosted USG payloads, and COMSATCOM "on retainer," may be necessary contractual variations to meet future requirements in a cost-effective manner.

To ensure availability of SATCOM bandwidth in the future, the U.S. must revise outdated and ineffective export restrictions to permit healthy competition and stimulate our industrial base; establish an interagency executive authority empowered to drive future satellite capability requirements for our nation; and empower an interagency focal point for COMSATCOM procurement in accordance with national priorities. As a vital component of the Defense Industrial Base and the PSSO market segment, COMSATCOM services require realistic forecasting and innovative procurement methods to ensure surge capacity to meet contingency operations in the future.

LTC Victoria Miralda, USA

Essay #3 – Re-Inventing Data Sharing Methods

Inefficiencies within the USG procurement process continue to present challenges within the Private Sector Support of Operations (PSSO) industry.[71] One of the greatest of these is the lack of data sharing in procurement decisions. The absence of a single source of data to make command, procurement, and contracting decisions continues to drive up costs, reduce available resources, and provide room for fraud, waste and abuse to occur.[72] The issue of finding an effective solution to this problem has been discussed at great length within the USG, and is also being actively explored by the Ministries of Defense which our group visited during our industry study.[73]

The USG continues to compete for available resources between its various agencies. This continues to erode the ability of the USG to benefit from the scale of its buying power as a monopsony and often results in various agencies bidding against each other for finite available resources. The development of an effective and accurate decision support tool designed to integrate the government more into a single buyer will address this problem.[74]

Another problem potentially mitigated by this decision support tool is the sharing of data between the various arms of the USG. Currently, there is very little data sharing between agencies relative to procurement support decisions. By sharing data in a meaningful way within a virtual marketplace, this would dramatically improve the ability of the USG to make effective decisions. Additionally, by integrating the ways in to monitor contractor performance, this will allow for real-time sharing of this information, extremely useful in a joint USG environment in contingency operations.

Keeping Up With the Pace of Change:

The pace of change is rapidly overtaking the existing procurement systems used in Government. The current process makes use of a number of incompatible IT systems, as well as hard copy record systems. As such, procurement concerns such as sourcing information, available contract vehicles, and contractor past performance information are not easily shared or known among agencies or offices. The lack of shared data continues to act against the ability of the USG to make effective use of its position within the market.

One of the problems with the current system is it was designed for sustained peacetime use, and does not adequately address the utility of the end user in a deployed environment. While there is an interest in making the current process more user friendly, and more like the commercial marketplace, very little organizational movement has happened in this direction. Solutions continue to be designed from the top down, looking at certain aspects of the PSSO industry and not a whole-of-government approach. This approach continues to focus on aspects of private sector support to the DOD, and not at the long-term benefits of using integrated, global solutions.

Some Potential Long-Term Improvements:

In order to improve the data sharing process, and make it more like a working market, the USG should look at this problem in an entirely different way; crafting a system more in line with the private sector, which can integrate actionable data, and still conform with US procurement laws.[75]

A satisfactory solution is achievable but will require significant changes in policy, as well as integration of data into one shared interagency system. The system would be a user-friendly decision support tool, similar to the tool currently being used by the British Ministry of Defense.[76] It would be connected to a central portal and support organization, which would update information vital for the device to work effectively. Effectively, the USG would be creating a virtual marketplace, in which PSSO vendors could compete on a "whole-of-government" basis for contract opportunities worldwide. This would vastly increase the visibility of vendor opportunities and USG contact award decisions. It would also improve the USGs ability to work jointly and present itself as a single buyer within the marketplace.

Ultimately, the effective use of data is critical to the evolution of the approach taken by the USG to work with the PSSO industry. Being able to integrate all the disparate databases and providing ways to better provide awareness of regulatory restrictions, such as International Trafficking in Arms Regulation (ITAR) and the Buy American Acts, is greatly needed.[77] The current approach is heavily dependent on USG contracting employees to make informed decisions, using their abilities to research and apply regulatory guidance and market information. These informed decisions are primarily experience driven. But the declining federal workforce numbers continues to challenge this, and makes its necessary to find effective supporting solutions, particularly in the areas of managing PSSO vendors.

Program Tools

The decision support tool would prompt a Government customer to any possible regulatory restrictions on items they may be ordered from the private sector, such as required ITAR licensing. In addition, the system will track data from multiple users, and make it more accessible for wider use. Once an order is placed, the deliverable is tracked along its delivery path until received. This type of tracking function currently exists in many areas within the commercial industry (such as FedEx, UPS and Amazon.Com), and could be applied here. This is fully in line with the flat earth concepts of "glocalizing"[78]. The product tracking data will incorporate real time information, so Government customers can see where the items are in transit. This would allow them to make changes in delivery destination points and plan for receipt of the items.

The decision support tool will empower the end-user, by making disparate data available on a joint basis. This type of shift in data sharing is critical for the future of PSSO, in order to facilitate the growing reliance the government has in this area. As the reliance of the USG on the PSSO has grown, the demands have increased on the USG to monitor and manage performance of contractors. Proper compliance monitoring currently requires a large amount of USG personnel, using data reports that are not commonly shared. The decision support tool could vastly improve this, by making these types of compliance reports accessible and shared on a wider basis.

Digital copies of existing DOD and non-DOD agreements (such as LOGCAP, GSA FSS Schedules, DOS and NAMSA IDIQ contracts) could be made available on a wide-use basis and updated simultaneously. The actual ordering of contract line items could be effectively tracked, and more realistic contract use data could be collected and shared. This would dramatically reduce the problems with overlapping and redundant procurement efforts which currently exist within the DOD. And it would allow for comparative assessment of support agreements, to better meet mission requirements and consolidate efforts.

Improvement reforms such as this would help empower the PSSO industry and dramatically improve cost reduction initiatives, by making better use of the competitive marketplace. This way, different government agencies can work together, and better manage and control industry support to operations in both peacetime and wartime settings.

Mr. Rick Bauer, DON

CONCLUSION

Significant reductions in the military force structure followed by an increase in contingency operations since 1990 have led to a growing USG reliance on contractor support to meet the operational demands. This reliance and dependency is particularly strong in the areas of logistics, base operations, training, and private security. Although this paper assessed the industry as highly successful in meeting the operational and national security needs of the USG, some challenges, specifically in the areas of readiness, command and control, and oversight still exist. Through a combination of policy initiatives, strong leadership, and organizational improvements, the USG can effectively implement the recommendations in this paper to address the challenges presented and ensure the PSSO retains its viability as a key sector of the Defense Industrial Base, which in turn, strengthens the overall national security of the United States.

RECOMMENDATIONS

The following recommendations address challenges and areas for improvement across the key areas of readiness, command and control, and oversight. The categories listed reflect the functional area of the recommendation.

1. Law/Doctrine/Policy

1.1. Create legislation placing all contractors supporting declared government contingencies under a single law that governs their behavior.

1.2. Establish a more refined and specific DOD wide doctrinal definition of *rapid response* missions; establish timelines and capability requirements.

1.3. Integrate the concept of *inherently commercial* capabilities into contracting and workforce development doctrine.

1.4. The USG should shift from *technically acceptable* to *best value* service contracts to take advantage of emerging differentiation strategies in industry firms.

2. Planning

2.1. Conduct more rigorous pre-event planning at an appropriate level of authority and visibility to ensure adequate synchronization between key interagency stakeholders.

2.2. Create a central system of contractor accreditation to enforce standards of conduct and performance for contractors in contingency operations.

2.3. Establish pre-event contracts for planning, logistics, base operations, and personnel services to ensure a rapid response support capability.

2.4. Encourage joint venturing by smaller industry firms by emplacing special contracts reserved for joint venture partnerships.

2.5. Improve integrated planning between operations, logistics, and acquisition bodies to support systems support contractor employment in contingency operations.

3. Organization and Personnel

3.1. Transition the ad hoc Joint Contingency Contracting Command (JCCC) to a more permanent organization that "trains as it fights" and can deploy in support of any COCOM during a contingency.

3.2. Establish a new USG organizational entity at the National Security Council level with an appropriately assigned senior leader to lead and manage synchronized interagency contingency support for all of USG.

3.3. Accelerate the full implementation of the Civilian Expeditionary Workforce (CEW) to full mission capability.

4. Command/Authorities

4.1. Establish a Special Inspector General to oversee compliance, investigation, and prosecution of private sector contractors engaged in worldwide contingency operations.

4.2. Recommend Congressional legislation that mandates USG interagency "jointness" similar to the the Goldwater-Nichols Act of 1986.

4.3. Consolidate and synchronize contract management activities to leverage stronger single buyer power (monopsony) of the USG to obtain lower costs and higher quality services.

ENDNOTES

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