CONTRACTORS ON DEPLOYED MILITARY OPERATIONS: UNITED KINGDOM POLICY AND DOCTRINE

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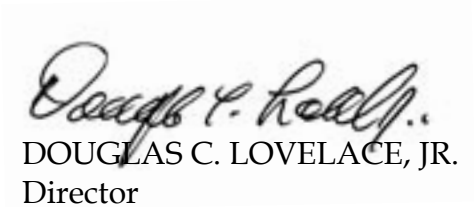
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FOREWORD

Department of Defense (DoD) initiatives to use contractors on deployed military operations remains a contentious issue in U.S. military transformation. Despite the intense debates surrounding the benefits and costs of DoD outsourcing, little attention has focussed on similar Ministry of Defence (MoD) initiatives underway in the United Kingdom (UK). Since the UK and United States are likely to remain close allies in future expeditionary deployments, the MoD's approach to contractor support is a salient case study for the DoD and U.S. armed services.

This monograph, by Professor Matthew Uttley, examines the controversies surrounding deployed contractor support, the ways that the MoD has harnessed private sector capacity, and the lessons this provides for U.S. policymakers and military planners. In doing so, the author provides important insights into a significant theme in contemporary defense and security policy.



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MATTHEW UTTLEY holds the Chair in Defence Studies at King's College London (KCL). He is currently the Head of the Defence Studies Department: a KCL department of 50 academics supporting military education at the UK Joint Services Command and Staff College, Shrivenham. He has previously held posts at the Royal Naval College, Greenwich, the University of York and Lancaster University. Professor Uttley has published widely on the historical and contemporary dimensions of defence economics, weapons acquisition, and UK defence policy. His authored/edited books include *Westland and the British Helicopter Industry, 1945-1960* (Frank Cass, 2001), *Britain and Defence 1945-2000* (Longman, 2001, with S. Croft, A. Dorman and W. Rees), *The Changing Face of Maritime Power*, (Macmillan, 1999), and *The Changing Face of Military Power* (Palgrave, 2002). He has published in a variety of journals including *Intelligence and National Security*, *Defense Analysis*, *Public Policy and Administration*, and *Defence and Peace Economics*. Professor Uttley has acted as an advisor for a number of UK bodies including the National Audit Office, European Commission, the Ministry of Defence and the Economic and Social Research Council.

SUMMARY

Since the Cold War, the U.S. and UK armed services have undergone significant transformation in response to the radically altered threat environment, new operational demands, and reduced defense budgets. Central to this transformation in both states is an expanded role for private contractors in providing deployed support functions traditionally conducted by uniformed personnel. Despite the similar direction of military reform, the U.S. armed services' approach to battlefield outsourcing has undergone extensive public scrutiny and debate, whereas UK Ministry of Defence (MoD) initiatives have hitherto attracted comparatively little independent assessment. Close U.S.-UK military cooperation over recent years in Afghanistan and Iraq, and the likelihood that both states will remain close allies in future interventions, suggest that the UK MoD's approach to deployed contractor support is a salient issue for U.S. military planners. This monograph analyses the MoD's outsourcing strategy and identifies those aspects of UK policy and doctrine that warrant consideration by the Department of Defense (DoD) and U.S. armed services.

The monograph surveys the evolution and content of the MoD's "public private partnership" program. This reveals the scale and scope of MoD initiatives to date, and the managerial, operational, and technological factors that have shaped the MoD's approach to organizing and managing private sector involvement. It also surveys why, despite the DoD's and MoD's widespread use of contractors on deployed operations, military outsourcing remains a controversial aspect of defense policy in the United States and UK. The DoD and MoD have been keen to articulate the financial and operational gains that the private sector can provide. Correspondingly, this "government orthodoxy" has been under sustained attack from those critics claiming the UK and U.S. armed services have gone "too far" with ideologically motivated privatization policies, and others who argue they have done "too little" to harness private sector capacity. The utility of this survey of claims and counterclaims is that it generates testable hypotheses against which the financial and

operational performance of MoD and DoD outsourcing policies can be evaluated.

Evaluation of the performance of MoD outsourcing policy and doctrine against these testable hypotheses reveals two broad observations. On the one hand, the MoD has developed a number of novel command and control mechanisms that have succeeded in rationalizing and removing the risk in commercial battlefield support. On the other, the data necessary to evaluate the real impact of deployed outsourcing have yet to enter the public domain. Despite internal MoD reforms intended to ensure in-house and contractor alternatives are assessed on a "level playing field," limited information has emerged on how this works in practice. Similarly, questions remain about the relative cost-effectiveness of organic military provision and contractor alternatives, and whether purported savings from contracting out are actually being reinvested in additional front-line capability. Moreover, the MoD confronts a range of personnel issues before it can optimize the management of deployed contractor assets and ensure that outsourcing does not erode military cohesion.

Comparative analysis indicates that there are no fundamental differences in overarching MoD and DoD outsourcing philosophy. To the extent that variations do exist, this reflects differing national military structures, contractual practices and legal frameworks within which deployed contractor support has been engaged. Despite the similarities in overall approach, the analysis points to specific MoD initiatives that could enhance the U.S. armed services' ability to manage their deployed contractor support.

The monograph generates three primary conclusions and associated recommendations. The first is that military outsourcing will remain a controversial element of defense transformation unless the MoD and DoD release more detailed information policy on performance into the public domain. Second, given the current U.S. and UK commitment to outsourcing, the MoD and DoD need to address a range of implementation questions to ensure that contractors are engaged on deployed operations in the most efficient and cost-effective manner. And third, there are aspects of outsourcing "best practice" that the MoD and DoD have developed, and both organizations have specific lessons to learn from each other.

CONTRACTORS ON DEPLOYED MILITARY OPERATIONS: UNITED KINGDOM POLICY AND DOCTRINE

INTRODUCTION

Over the last decade, the use of private contractors to support U.S. deployed military operations significantly has increased in scale and scope. Private industry's expanded role is evident from the headline statistic that the ratio of military personnel to contract workers was 10:1 in Iraq during 2003, compared to a ratio of 100:1 in the 1991 Gulf War.[1] The broadening scope of outsourcing is reflected in the extension of Department of Defense (DoD) contracting from domestic training and base maintenance functions to include logistical and operational support needs during combat operations, peacekeeping missions, and humanitarian assistance missions, that have ranged from Somalia and Haiti to Bosnia, Kosovo, Afghanistan, and Iraq.[2] The perspective of contemporary U.S. policymakers has become that:

> The use of contractors to support military operations is no longer a "nice to have." Their support is no longer an adjunct, ad hoc add-on to supplement a capability. Contractor support is an essential, vital part of our force projection capability--and increasing in its importance.[3]

One outcome is that DoD outsourcing has attracted extensive debate and scrutiny from the U.S. policymaking and academic communities.[4]

In the United Kingdom (UK), the Ministry of Defence (MoD) also has contracted for commercial sector support under its "Contractors On Deployed Operations" (CONDO) policy and "public private partnership" programs. Reflecting DoD trends, MoD's objective is to incorporate the private sector "so firmly into the doctrine for deployed operations that Planning Staffs and their Commanders will take it for granted that their task force will include a contract support element."[5] However, in contrast to DoD outsourcing, MoD initiatives have attracted comparatively little scrutiny or independent assessment to date.

This monograph provides an in-depth analysis of MoD's approach to deployed contractor support, and highlights those aspects of UK policy and doctrine that warrant consideration by the U.S. armed services. The content and direction of MoD outsourcing is relevant to the U.S. armed services for four reasons. First, since the Cold War, the UK has been one of the few states to join the United States in developing a joint expeditionary power projection capability across the spectrum of conflict types, ranging from high-intensity warfare to lower-intensity humanitarian and peace support. The MoD has also followed DoD trends in seeking to acquire "network centric warfare" capabilities that link sensors, command and control, and weapons delivery platforms via common digital communications networks. These similarities in defense transformation strategies mean all aspects of British military reform are salient for U.S. policymakers.[6]

Second, the UK and United States remain key allies, as evidenced in their close political and military cooperation in Afghanistan and Iraq. Britain's defence policy is predicated on the assumption that in "the most demanding operations" in the future, its armed services "will be operating alongside the U.S. and other allies."[7] As Britain is likely to be a key member of future U.S.-led coalitions, its approach to contractor support is directly relevant to DoD operational planners. Third, analysis of international defense outsourcing statistics indicates that the MoD most closely matches DoD trends. As Figure 1 shows, the number of UK MoD "public private partnerships" (PPP) significantly exceeds those in other European countries, which suggests that the U.S. armed services are more likely to draw policy-relevant lessons from the UK experience than from comparisons with other allies.

Finally, similar controversies and debates surround government initiatives to employ "contractors on the battlefield" in the UK and United States. According to MoD and DoD, contractor support reduces defense costs and provides a crucial "force multiplier" to meet the needs of contemporary military deployments. Despite this shared "government orthodoxy," military outsourcing remains emotive, and two contending critiques have emerged. One claims that MoD and DoD risk going "too far" with "obtuse" forms of privatization that could increase defense support costs and erode operational effectiveness.[8] Correspondingly, another critique starts

Country	Number of Defence PPP Projects
UK	1,181
Ireland	62
Italy	55
Netherlands	40
Portugal	21
Finland	7
Spain	6
Sweden	6
France	3
Norway	3

Statistics presented in S-E Bakke, *What is PPP About, With Main Focus on Outsourcing*, 2nd Annual Nordic Defence Industry Summit, Oslo, April 27, 2004.

Figure 1. International Statistics on Public Private Partnerships (PPP) in Defense.

with the premise that "there are no military core competencies, and that all functions (including combat) are candidates for private sector involvement,"[9] and criticizes MoD and DoD for employing "too little" commercial sector support on deployed operations.[10] In this context, an in-depth assessment of MoD's approach provides a mechanism to evaluate controversies surrounding military outsourcing in both Britain and America.

This monograph is divided into five sections. The first surveys the evolution, content, scale and scope of MoD's "public private partnerships" program. The second analyses the premises underpinning the "government orthodoxy" and the counterclaims of the "too far" and "too little" perspectives. This generates contrasting hypotheses against which the performance of MoD outsourcing policy can be assessed. The third evaluates the evidence on MoD policy towards battlefield contractor support, and the fourth identifies those aspects of the UK approach that warrant consideration by the DoD and U.S. armed services. The final section summarizes the main conclusions and recommendations.

AN OVERVIEW OF "PUBLIC PRIVATE PARTNERSHIPS" IN UK DEFENCE

Contemporary commentators tend to assume that defense outsourcing is a post-Cold War phenomenon and that the presence of "contractors on the battlefield" marks a recent departure from a paradigm of military self-sufficiency. In the UK case, neither assumption is accurate. As this section shows, MoD initiatives to harness contractor support on deployed operations mark the latest phase of a privatization program stemming from the early 1980s. It was the legacy of 2 decades of outsourcing that provided the impetus for contractor battlefield support and shaped MoD's assessment of how private sector involvement should be organized and managed.

Until 1980, a key tenet of UK defence policy was that MoD and the armed services provided directly all the services for which they were responsible and owned the main resources necessary to provide those services. Comprehensive in-house self-sufficiency across the spectrum of "front line" and support functions was considered essential for operational effectiveness, and:

> There was little or no scope, or perceived need, for private, commercial organizations to contribute to national defence. Moreover, the armed forces were increasingly likened to a "total institution," one in which all the functions and activities of those concerned were internally geared to achieve the goals of the institution to the exclusion of all else.[11]

Between 1980 and 1997, MoD gradually extended the scale and scope of competitive tendering and private sector involvement in nondeployed defense support under successive Conservative administrations. This started modestly in 1981 when government-imposed Civil Service manpower targets led MoD to consider the possibility of "putting work out to contract."[12] By 1983, Defence Secretary Heseltine introduced the more systematic approach that henceforth:

> . . . the only work which is carried out within our own defence support organization should be that which is essential for clearly proven operational reasons, or where there is financial advantage for the taxpayer.[13]

Policy became to "market test" selected in-house defense support functions against private sector bids and to contract-out where industry offered cheaper alternatives. A more intensive phase followed with the 1991 *Competing for Quality* (CFQ) White Paper,[14] which exposed Third and Fourth line logistic support to external competition and led to multiactivity facilities management contracts where tasks "did not impinge directly on the services' operational roles."[15]

In parallel, after 1992, MoD explored the scope for capital items traditionally purchased through the defence budget and run in-house to be financed and operated by industry under the UK government's wider Private Finance Initiative (PFI). By 1997, the results of outsourcing policies under the Conservative administrations were that £2.2 billion, or approximately 25 percent of the defence support budget, was market tested and MoD estimates were that CFQ had "realized significant efficiency savings."[16]

After June 1997, the new Labour Government criticized its predecessor for assuming that the best solution to public sector problems was "simply to transfer as much of the activity as quickly as possible to the private sector."[17] However, the Blair administration actually set about increasing private contractor involvement in defence under a banner of government "modernization" and "public-private partnerships," and sought to build "upon the successes of contracting out support services that formed the basis of the early program."[18]

Launched in 1998, the *Better Quality Services* (BQS) initiative assessed all MoD support functions in terms of whether they should be abolished, internally restructured, strategically contracted out, or privatized.[19] The BQS initiative has formed one part of the Labour administration's pan-government PPP program, which is intended to replace "adversarial" relationships between MoD and its suppliers with "alignment" of mutual objectives.[20] The PPP philosophy is predicated on competitive tendering in the allocation of long-term contracts, open discussion between MoD and suppliers on the allocation of project risk, "framework agreements" that allow MoD to place separate tasking orders, and opportunity for "gain-share" between MoD and suppliers if contractors can provide innovative solutions to requirements. The PPP program emphasises that:

> With industry increasingly involved in providing long-term services to MoD, we have recognized that a partnership approach--building reliable links with our suppliers--is often the best way of achieving the required performance. This does not mean creating privileged or monopoly suppliers: selection of a long-term partner is competitive wherever possible.[21]

The PPP initiative significantly has increased the scale and scope of private sector involvement in defence support. In practical terms, the program contains five generic types of customer-supplier relationships between MoD and industry (see Figure 2).

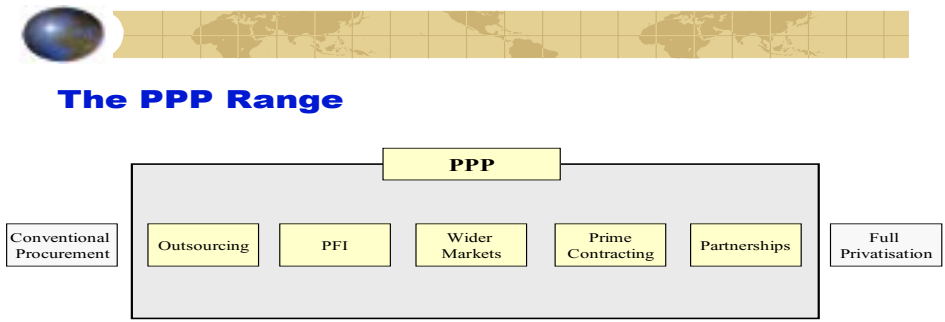


Figure 2. Elements of the UK PPP Program.

The first PPP category covers the outsourcing of support services. The trend has been towards new large-scale multiactivity contracts with "industrial prime vendors," typically of 5-7 years' duration. Illustrative is the "Defence High Frequency Communications Service" (DHFCS) contract covering operation of long distance strategic communication between Army units, Royal Air Force (RAF) aircraft, Royal Navy (RN) warships, and UK headquarters.[22]

The second category covers PFI contracts. Between 1997 and 2000, the Joint Services Command and Staff College, the Medium Support Helicopter Aircrew Training Facility, the Attack Helicopter Training Package, the Hawk Training Simulator, and the Tornado GR4 Training Simulator were contracted for under PFI arrangements.[23] During 2000, following the publication of the *Ministry of Defence Investment Strategy*, MoD policy became that "before funds are made available for any new investment, private financing must be shown

to be inappropriate, unworkable or uneconomic."[24] Subsequent PFI deals have included commercial provision of support vehicles ("White Fleet" project), new e-business systems, a Royal Navy communications service, Lynx and E3D Sentry aircraft simulator-based training and Tri-Service Materials Handling services.

The third PPP category covers commercial marketing of irreducible spare capacity in MoD facilities, which commenced in 1998 under the pan-Government *Wider Markets Initiative*.[25] Practical developments have included "equity joint ventures" between the former Defence Evaluation and Research Agency (renamed QinetiQ) and the private sector to market speech-recognition technology,[26] and the Navy Recruitment and Training Agency's (NRTA) partnership with Flagship Training Ltd. to exploit MoD estate and training facilities.

The fourth PPP category is "Prime Contracting." Here, MoD retains ownership and responsibility for the full capital costs of new facilities, but prime contractors manage entire project design, construction, and final delivery supply chains. The fifth category covers "partnership agreements" between MoD and "key suppliers" under loose contractual frameworks intended to encourage the private sector partner to identify the scope for potential innovation and value for money improvements in defense support delivery.

The PPP program significantly has increased the scale and scope of private sector involvement in defence support. By 2000, some £10 billion, or 45 percent of MoD's "annual business," had been reviewed for potential private sector involvement under the BQS initiative.[27] The MoD currently has 42 PFI projects in operation covering military training facilities, logistics functions, and communications that bring in £2 billion of private sector investment, and another 40 projects in procurement that could ultimately generate £12 billion of additional defence investment. By 2000, the situation was that MoD and the armed services had assessed most nondeployable nonequipment support for partnering potential, and private companies were now:

> involved in the management of property, the provision of services to military establishments and, increasingly, in the delivery of operational support to Forces overseas--a continuum of support from the home base in the UK to deployed military units.[28]

This experience provided impetus for MoD to pursue the next logical progression: the development of systematic policies for the spatial movement of logistic support already provided by private industry nearer to the front line of deployed military operations. Though industry supported deployed forces in theatres of operation on an *ad hoc* basis during the 1990-91 Gulf War, and the Bosnia and Kosovo campaigns, MoD "lacked a coherent and agreed policy for its use."[29] Systematic policies have emerged since the 1998 *Strategic Defence Review*--the UK's policy blueprint to transform the armed services for post-Cold War operational deployments--stated that "wherever appropriate" MoD "will consider the use of contractors to assist with logistic support."[30] This new imperative manifested itself in 2003 with MoD directives to "maximise the use of contractors" during UK military operations in Iraq.

In parallel, weapons acquisition reviews suggested benefits from closer "partnering" between MoD and equipment suppliers in the "through-life" design, development, manufacture, in-service support and disposal of weapons platforms.[31] The MoD's "Smart Acquisition" initiative attempts to achieve this through "integrated project teams" involving industry at all stages of weapons projects to achieve "faster, cheaper, and better equipment."[32] This has provided an imperative for acquisition officials to draw manufacturers "further and further forward in the operational area in support of their equipment," as prime contractors have assumed greater responsibility for Integrated Logistic Support (ILS).[33] Building on the PPP philosophy, the trend here has been towards "an outsourcing of procurement from MoD with the prime taking ever greater responsibility, and risk and reward, for what is becoming a service rather than the provision of an asset."[34]

Five discrete types of deployed operational support contracts have emerged that reflect a combination of MoD's overarching PPP approach, and operational and acquisition imperatives. "Original equipment manufacturer" (OEM) and "contractor logistic support" (CLS) contracts, signed when new equipment is brought into service, cover maintenance and upgrade of deployed equipment. The OEM contracts normally specify the provision and maintenance of "proprietary" equipment (e.g., combat aircraft, armoured fighting

vehicles); CLS contracts provide the armed services with options to contract out some or all aspects of the deployed support and maintenance function to a commercial supplier. Available statistics suggest that 10-15 percent of the total value of equipment contracts is spent on through-life support to make the equipment available on deployed operations. Since 2001, some 30 CLS contracts to support systems and platforms have been invoked in support of British forces in Afghanistan and Iraq.[35]

"Urgent Operational Requirements" (UORs) are one-off (short term for individual items) and time-limited contracts established as circumstances require, and typically cater for logistic functions or equipment upgrades not already covered by OEM and CLS contracts. Approximately £50 million per annum was spent on UORs before the UK's interventions in Afghanistan and Iraq.[36] Of the £800 million UOR expenditure to meet the UK's Iraq intervention cost, approximately £350-£400 million was spent on deployed contractor services.[37] These UOR contracts were placed with over 100 UK and non-national companies, which deployed 2,500 employees in support of UK military forces in the Iraq Joint Operations Area.

"Equipment-based Private Finance Initiative" contracts, which currently include the Army's Heavy Equipment (Tank) Transporter (HET) and the Royal Navy's Roll-on/Roll-off vessels, cover complete private sector provision of deployed equipment.

Finally, deployed capability is provided through MoD's overarching "Contractor Logistics" (CONLOG) Contract, a "one-stop-shop" for packages of commercial support not already covered by OEM, CLS and PFI contracts. CONLOG is intended to reduce the number of *ad hoc* UOR contracts[38] and has been awarded to Kellogg Brown and Root (KBR) under 7-year partnering arrangements. The MoD pays KBR £1.5 million per annum to provide planning and advice about potential contractor capability, and additional payments for specific "task orders" where KBR actually delivers capabilities on deployed operations.

The current scale of MoD deployed contractor support, and the extent to which the UK armed services have shifted from their pre-1980 self-sufficiency paradigm, is evident from contracting data. Before operations in Iraq during 2003, MoD did not collect statistics

systematically on the value of contracts placed with firms or data on contractor personnel deployed on operations. Since 2003, the UK Permanent Joint Headquarters (PJHQ)--the organization responsible for command and coordination of UK joint operations--has collected extensive data intended to inform operational planning and decisionmaking.[39] PJHQ and Defence Manufacturers Association (DMA)[40] figures suggest that approximately £11 billion of the UK annual £24 billion defence budget is spent with industry on support services and the provision, operation, and maintenance of equipment. Of this £11 billion, some £2.3 billion of MoD expenditure on equipment and services is "contracted for availability and capability" on deployed operations.

The number of contractors' employees that have supported UK military operations since 1996 also demonstrates the scale in the shift from MoD's traditional self-sufficiency paradigm. Available statistics indicate that somewhere between 21,000 and 27,000 contractor personnel, including locally employed civilians and locally recruited workers, have sustained UK military deployments.[41] Of these, between 15,000 and 20,000 have supported "service contracts" on operations in the Balkans, Afghanistan, West Africa, and the Middle East. A further 1,100 to 1,500 personnel have been involved with CLS-type contracts, and up to 1,200 have acted as consultants or technical advisers. Specific contracts for the Afghanistan and Iraq deployments have involved 3,500 contractor personnel.[42] An indication of the scale of contemporary private sector support is the MoD estimate that contractor personnel have accounted for approximately 25 percent of the UK's total deployed force since combat operations commenced in Iraq during 2003.[43]

CONTENDING PERSPECTIVES AND CRITERIA FOR EVALUATING MoD OUTSOURCING POLICIES

As MoD has entered into contracts for deployed operational support, it has articulated its rationale for assuming that private sector involvement provides benefits for the UK armed services. This rationale closely resembles orthodoxies shared by other national defense departments pursuing outsourcing strategies.

Correspondingly, this "government orthodoxy" has been under sustained challenge from "too far" and "too little" critics. This section reviews the contending perspectives and generates testable hypotheses to evaluate the performance of MoD policy and doctrine.

MoD Orthodoxies.

The MoD's stated justification for employing contractors on deployed operations has six main premises. The first is that private firms can provide certain military support functions more cost effectively than the armed services. The assumption here is that military units traditionally have conducted numerous support functions with "close civil analogues and where comparisons of cost and productivity between Services and the private sector should present few insuperable technical problems."[44] Consequently, MoD has a range of "make or buy" options to meet its deployed support needs.

According to MoD, contractor provision may be cheaper than military units for several reasons. In-house military provision "removes, to a significant extent, the incentives and constraints that apply to firms operating under competitive market conditions."[45] Under such monopoly-supply arrangements, there are few incentives for in-house units to seek lower cost methods of work because operating costs are met from defense budget allocations, and policymakers lack comparative cost data on alternative sources of supply ("information asymmetry"). According to MoD, competitive tendering between military units and private firms should resolve these deficiencies because it enables policymakers to compare competitively-determined bids from potential suppliers.

Private firms may also have particular attributes that enable them to provide more cost-effective support capability than military units. According to the UK Treasury, the "realities of the private sector market place," the need to generate profit, innovation incentives to meet customer demand, and skill in running service delivery activities "exert a powerful discipline on private sector management and employees to maximise efficiency."[46] Correspondingly, the

"risk averse culture" of the public sector means "these disciplines can never be fully replicated," so in-house provision can be "less equipped to challenge inefficiency and outdated working practices, and to develop imaginative approaches" to delivering defence support services and managing MoD-owned assets.[47] Here, MoD's assumptions reflect a wider literature that concludes transferring activities to the private sector allows "innovative thinking and adjustments, especially about the use of technology and labour, to maximise the chances of success, which are not available to the fixed hierarchies of militaries."[48]

Finally, MoD assumes that battlefield outsourcing can simultaneously be "profitable for the contractor while demonstrating value for money" for MoD.[49] Central here is the notion that "partnership" and "partnering" between MoD and private suppliers enables the development of mutual products/services in a relationship where risks, costs, and benefits are shared, and where "mutual added value" can be achieved.[50] From MoD's perspective, a combination of competitive tendering and "appropriate benchmarking" can ensure that private suppliers provide cost-effective deployed support solutions. Through mutual trust, the combining of complementary assets and the identification of shared objectives, "public private partnerships" can draw on "complementary contributions to compose a package that makes good business sense and offers benefits" to MoD and the contractors.[51] The types of "complementary contributions" MoD envisages from partnerships are summarized in Figure 3.

The second premise is that MoD can reinvest resources released by outsourcing into operational enhancements in the form of additional front line military personnel, extra equipment, or access to private sector expertise. According to former UK Secretary of State for Defence George Robertson, cost reductions from outsourcing and other efficiency initiatives form "an integral part of our plans to drive down costs to pay for the modernization of our forces."

The MoD also assumes the process of substituting uniformed combat support units with civilian contractors releases trained military personnel for front-line tasks. The MoD's 1998 *Strategic Defence Review* (SDR)[52] marked the first systematic attempt to transform the armed services from their Cold War threat-based posture

Private Sector Contribution	Defence Ministry Contributions
Marketing expertise	User needs, users "Frontline" knowledge
Access to capital	"Frontline" knowledge and experience
Access to leading-edge technology	Property, buildings, equipment, and specialized areas
Operating expertise	Operating systems
Increased use of spare capacity	Access to restricted zones, passage through restricted areas
	Scientific expertise, databases, patents
	Sharing of communications bandwidth

Source: Adapted from material presented in S-E Bakke, *What is PPP About, With Main Focus on Outsourcing*, 2nd Annual Nordic Defence Industry Summit, Oslo, April 27, 2004.

Figure 3. Complementary Contributions in Defence Partnering Arrangements.

into a capability-based expeditionary force configured for mission types ranging from humanitarian assistance and peacekeeping, to high-intensity conventional warfighting.[53] The SDR recognized that this spectrum of mission types would require UK forces to deploy to conflicts over longer lines of communication than during the Cold War and conduct concurrent operations, potentially of differing intensities. At the same time, the SDR also acknowledged that:

> The increased operational pressures of the last few years have shown up weaknesses in our ability to sustain forces deployed overseas, particularly where local facilities are limited . . . To remedy these weaknesses and ease overstretch, we plan a package of logistic enhancements . . . Where this is appropriate, we will consider the use of contractors to assist with logistics support.[54]

In this context, MoD planners assess that outsourcing reduces "overstretch" by releasing "those assets, in rouelment, that are still army owned to be available for additional operations that may come along in the meantime."[55]

In addition, MoD assumes the armed services can acquire private sector expertise for support requirements where the generation of in-house military capability is less cost-effective. Outsourcing can provide access to high-technology skills where small numbers of military specialists are required, and where the armed services'

retention of training infrastructure is uneconomic. In this regard, outsourcing is seen as a way for the armed services to "to keep pace with technology, retain access to the best that industry can offer, and apply increasingly scarce resources to high value combat systems."[56]

The third major premise is that contractors can provide deployed support functions with no adverse result on operational effectiveness. According to Secretary of State for Defence Geoff Hoon, the main driver for outsourcing "is the better use of resources in defence and the maintenance or enhancement of operational effectiveness." Considerations of private sector involvement must take that aspect into account before proceeding to such issues as "the impact on the chain of command and service discipline."[57] This premise rests on five assumptions.

1. There will invariably be readily identifiable safe and secure areas on any operational deployment where private contractors can operate. The MoD draws a distinction between "benign" and "nonbenign" areas within theatres of operation that are demarked by a "benign edge" behind the "front line."[58] In "benign" areas, "there is minimal risk of [contractor] personnel and equipment sustaining injury or damage through the effects of . . . hostile activity," and "adequate [security] means are in place to ensure [personnel and equipment] safety."[59] According to MoD doctrine, "benign" areas represent a safe and secure environment in which contractors can operate. Though "benign conditions are found at different geographical locations and at different times as an operation develops," MoD assumes that there will always be a range of circumstances where "commercial capability could be interchangeable with military capability throughout an operation" behind the "benign edge" (Figure 4).[60]

2. The MoD assumes contractors can enhance significantly the armed services' logistics and equipment support capabilities up to the "benign edge" of deployed operations. Capability enhancements can take various forms. Contractors can provide logistics capabilities that the armed services do not have that might include temporary base and infrastructure provision or the expertise to support new and complex technologies on the battlefield. Contractor-delivered capabilities therefore:

. . . augment that provisioned by purely military means (as determined by extant Defence Planning Assumptions). [It can provide] . . . functions that may be required to enable extended operations in Joint Operations Areas (JOA), additional (unplanned) concurrency of operations, such as the maintenance of more than two deployed Lines of Communication, or access to the most modern technologies.[61]

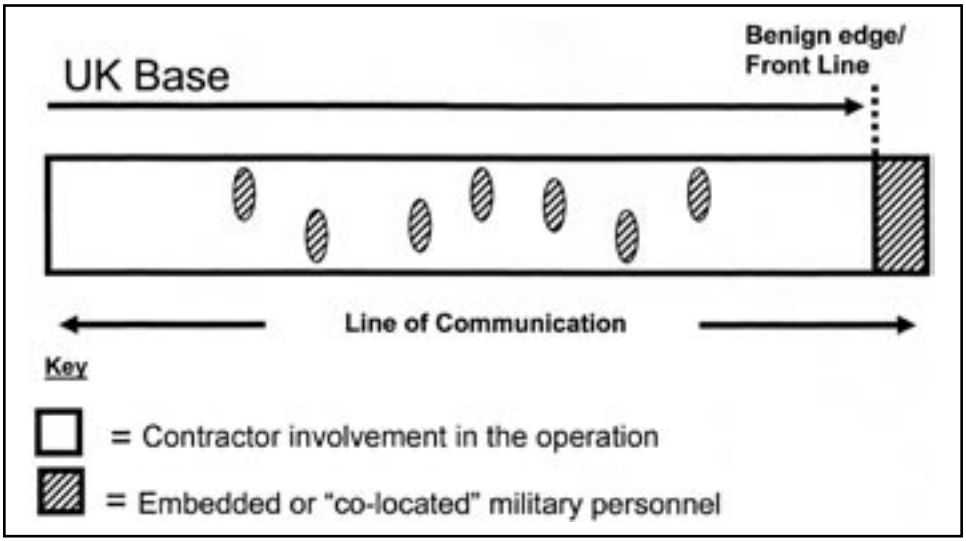


Figure 4. Contractor Support and the "Benign Edge."

3. Contractors providing deployed support can be integrated into military operational planning, and command and control (C^2) arrangements without disruption. The MoD assessment is that contractors can effectively "interface with and operate within the bounds of military doctrine and the operational commander's concept of operations," and meet "the requirements of the military logistics support plan."[62] Finally, MoD assumes contractor support can be harnessed without undermining the armed services' core military capabilities. The MoD has stated that contractor support "is not intended to replace core military manpower in the Order of Battle," but rather to augment it.[63] Consequently, it is assumed that criteria can be employed to ensure that contractors can safely be employed to "enhance military capability in a cost-effective way, taking advantage of the skills and capabilities available in the commercial environment."[64]

4. The reliability of private firms to deliver the deployed support they are contracted to is ensured by "gain-share." The MoD assumes that its "partnering" philosophy enables relationships with its suppliers that build on "trust, confidence, mutual alignment, [and] mutual understanding of what each party can and cannot do."[65] Consequently, firms providing battlefield support functions offer the same assured service as direct military provision because contractual "partnerships" enshrine common "understanding of constraints and imperatives faced by all parties."[66]

5. Outsourcing can enhance the morale, cohesion, combat effectiveness, and ethos of the armed services themselves. According to MoD, these gains accrue on two levels. On one level, contractors can relieve military personnel of mundane support missions, enabling soldiers to focus on mission critical activities that can improve their "quality of life significantly and, ultimately, impact [positively] on training and retention."[67] On a more fundamental level, it has been suggested that the "corporate ethos" of defense contractors themselves leads to close cooperation with the armed services on operational deployments. The contention here is that UK defence contractors tend to recruit ex-military personnel "predisposed" to "ways of acting, based on values drawn from their experiences of military service," and who operate "to the same high standards" of the armed services "while exhibiting the same moral values which were first instilled in them in the military."[68] Consequently, it is assumed that contractors working with military personnel "generally share the same experiences, hardships, enjoyment, and problems, eroding further any cultural barriers that exist between them" in a mutually beneficial relationship where "values pass easily between both environments, shaping attitudes and work practices."[69] This suggests a new form of "military ethos" transcending the traditional military/civilian divide that replicates what the UK government sees as a new "public service" ethos and the sharing of "best practice" in other areas where the in-house monopoly provision has been replaced with a mix of public and private service delivery.[70]

The final premise is that because PPPs self-evidently provide a cost-effective mechanism to meet defence support requirements, then MoD policy is in the vanguard of an inevitable global trend. The MoD claims PPPs are successful and proven management tools

that have improved defence support without offending traditional military values.[71] It has been keen to point out that PPPs in defence are adopted only after politically "neutral" cost-effectiveness calculations, rather than in response to any ideological commitment to forms of privatization. The MoD claims its:

> approach [to PPPs on deployed operations] is pragmatic, with the emphasis of encouraging innovations through commercial and in-house solutions depending on whichever is better placed to deliver required services at best value. There is no predisposition towards either public or private sector.[72]

As such, MoD sees itself at the cutting edge of defence management innovation because:

> There is huge international interest in the UK's approach to developing partnerships between the public and private sectors. It is an area of public policy where the UK leads the world. Over 50 countries have consulted the Treasury about the PFI. Some, like Italy, Ireland, Japan and the Netherlands are following us in the way we organise within government to deliver partnerships. Some are legislating to enable them to happen.[73]

Consequently, MoD assumes it is a world leader in harnessing private sector support to enhance defense affordability and effectiveness to the extent that "the pressures of the modern age will eventually oblige everyone to follow suit."[74]

"Too Far" Critique.

The MoD has acknowledged there are "several conflicting points of view" about contractor battlefield support, and that some remain "cautious about possible impact on fighting capability."[75] This alludes to the criticism that MoD risks going "too far" with "unreflective" outsourcing schemes[76] that fail to reduce defense costs and risk degrading combat capability by placing the armed services "at the mercy of a private agent[s]."[77] This "too far" perspective raises concerns about each of the six main premises underpinning MoD's case for deployed contractor support.

The challenge to MoD's assumption that outsourcing is necessarily cheaper than in-house military provision employs two

modes of analysis. One is the "Theory of Agency," concerned with understanding conflicting goals between contract providers and contract purchasers.[78] Because it occurs under nonprofitmaking "public service conditions," direct military provision of support functions is assumed to take place in an environment where policymakers have full visibility and control over service delivery.[79] Correspondingly, the "Theory of Agency" suggests that outsourcing introduces inherent tensions between the armed services' security goals and a contractor's imperative to maximise profits, under new circumstances where the armed services' visibility and control are reduced. "Too far" critics argue that opportunistic contractors can exploit this reduced visibility and control, in stark contrast to the situation when the armed services "had the position of a permanent monopoly."[80]

"Too far" critics tend to accept that the scope for contractor opportunism is minimised when markets for military contracts are "contestable," namely, where competitive tendering allows military customers to select between competitively determined bids, and when precise output requirements can be specified.[81] Here, MoD can agree on fixed price contracts with a chosen supplier and impose rigid performance indicators to monitor contractor compliance.

However, "too far" critics point out that contestability rarely applies to contracting for deployed operational activities. On the one hand, the supplier base for battlefield equipment maintenance, logistics, and support functions is often limited to original equipment manufacturers or a small number of large specialized firms with niche expertise.[82] On the other, uncertainties about precise requirements for future operational contingencies mean that the armed services rarely can impose fixed price arrangements when signing contracts.[83] The concern here is that profit-seeking contractors have scope for "ex-post rent extraction" by exploiting uncertainties to increase the price of service delivery in ways not originally envisaged by the armed services at the contracting stage, thereby increasing the overall cost of service delivery. [84]

The other analytical perspective employed is "Transaction Cost" theory. This emerged to explain why organizations conduct functions in-house so extensively, given the widely acknowledged

optimal resource allocating properties of competitive markets. Transaction Cost theory suggests in-house production can be more cost-effective when any additional "transaction costs" of planning, bargaining, modifying, and enforcing a contract with an external supplier outweigh the savings from competitive tendering. "Too far" critics claim that "hidden" costs, including contractor protection and other military support to contractor personnel during deployments, are seldom included in MoD comparisons of armed service and outsourced provision.[85]

Combining Theory of Agency and Transaction Cost perspectives, "too far" critics claim there is no systematic evidence to prove outsourcing is cheaper than military provision,[86] and that military provision might be more cost-effective precisely for deployed operational support functions where contractors have incentives to behave opportunistically, future requirements are uncertain, and the number of potential external suppliers is small. These conclusions reflect a wider critique of public sector contracting out, which holds that the implications of outsourcing are:

> . . . often assumed or promised, but not well-documented. Relations between cause and effect are contested; for example, indicators of efficiency and effectiveness are often elusive, side effects are hard to trace and the methodology used in evaluating . . . [outsourcing] . . . is often inadequate. The gap between an emphasis on evaluation and performance assessment in the reform model on the one hand, and the lack of real evaluation of the reform models themselves on the other, is especially striking . . . because their legitimacy is based on results.[87]

Second, "too far" critics question MoD claims that outsourcing necessarily releases resources for defense modernization and enhances front line capability. In the absence of systematic evidence to prove that private firms can provide battlefield support more cheaply than military alternatives, it has been suggested that the resource redistribution anticipated by MoD is illusory. Critics also challenge MoD claims that safe and secure "benign" areas for contractors exist. Instead, they claim the reality of the contemporary battlespace is "more complex, more dynamic and non-linear" which means that there is a less well-defined "front line" or "rear area."[88] Moreover, the extended range of contemporary weapons systems and threats of

enemy interdiction suggest the vulnerability of civilian personnel is significantly greater than MoD policy implies.[89] On this basis, critics suggest that the use of civilian personnel on deployed operations is more likely to tie up the military with contractor protection rather than releasing soldiers for front line duties.[90] They also claim that, as battlefield support functions are increasingly outsourced, then the residual military forces for contractor protection are likely to dwindle, further overstretching scarce military assets.

Third, "too far" critics question MoD assumptions that the private sector can perform battlefield support without undermining operational effectiveness. Instead, they contend that outsourcing generates inherent risks to mission effectiveness. This concern stems from the assumption that "military institutions" are optimized to provide combat and deployed support. As legally recognized organizations controlled directly by the state, armed services have a legal mandate to deliver lethal force and are accorded "combatant" status under international law. The armed services' organizational characteristics, that include rank structures, discipline and training regimes, military doctrine, and structures that combine formal hierarchy and functional specialization (the "line and staff" system), are designed specifically to foster group cohesion and "effectiveness in battle."[91] Finally, armed service personnel have unique conditions of employment that include subjugation to military law and "unlimited liability" to obey legal orders.[92] From this starting point, "too far" critics identify various ways that outsourcing risks mission accomplishment by diluting the proven operational benefits of direct military provision.[93]

Critics point to operational constraints that arise because the military cannot "command and control contractors in the sense that it commands and controls (C^2) military units and soldiers.[94] One C^2 concern here is that a system of "contract management rather than command" erodes the armed services' ability "to adapt logistics structures and procedures to changing situations, missions and concepts."[95] Castillo, for example, claims that:

> A commander's freedom and ability to improvise quickly in using tactics, employing weapons, and deploying personnel have long been considered essential to victory in combat. A contract--a legal, binding document--even when written with the best of intentions, cannot cover

> every possible contingency in advance. To stop during wartime, no matter how briefly, to rewrite or renegotiate a contractor's obligations severely limits a commander's ability to accomplish the mission.[96]

Another C^2 concern arises from inherent difficulties in measuring contractor readiness and ability to deploy. Readiness states of military units are measured systematically in terms their ability to achieve mission tasks, and logistics units maintain excess capacity to meet potential surge requirements for unplanned contingencies. Conversely, critics argue that contractors are unlikely to maintain such excess capacity because it is costly and cuts into their profit margins.[97] As military commanders lack direct control over contractor functions, then deficiencies in contractor readiness might be difficult to detect, undermining the commander's ability to answer the question, "How are we fixed for war?"[98] Analyses of contractor support to British Army combat units, for example, suggest:

> It is unlikely that in a normal situation, civilian production facilities, support assets, and transport assets will be available [within the deployment timetable of Army units] unless they remain uncommitted to other ventures and earmarked solely for MoD use, which in all probability will command a premium price. It may therefore be more cost effective in certain situations to rely on military assets rather than civilian ones.[99]

A further cluster of "operational inflexibilities" identified by critics stem from the legal status of contractors, which, it is argued, impose constraints that are absent with military provision.[100] Military commanders have less direct control over a contractor's workforce than military personnel, and contractors cannot be disciplined for violations of the Uniform Code of Military Justice.[101] Moreover, a fundamental difference is that "contractors are not soldiers, and they cannot be exposed to the same risks as soldiers."[102] This means that contractors are precluded from performing purely military functions that include occupying defensive positions or providing direct support to hostile operations.

According to "too far" critics, these legal factors create a range of operational rigidities and C^2 complications that are absent with military personnel. For example, a problem for commanders is determining the boundaries of "direct support of hostile operations," as:

> A system contractor employee who travels to the area of operations to perform minor technical maintenance on a weapon system that is still operational and capable of performing its intended mission may be violating the constraints against support to hostile operations. On the other hand, the same person performing the same maintenance on the same item in a maintenance facility in a safe area may not be in violation of the constraint.[103]

These complexities generate potential problems that are absent with direct military provision: on the one hand, "by having a contractor accomplish a particular job, field commanders may be asking them to give up their protected status if captured"; on the other, the military commander may be violating the law of war by having a contractor participate in an activity that is *de facto* in direct support of hostile operations.[104]

A final series of operational concerns surround MoD claims that contractors are used only to "augment" deployed forces rather than "replace" core tasks that must be performed by military personnel. According to "too far" critics, MoD's failure to define "core functions" or distinguish between "augmentation" and "replacement"[105] has meant that "augmentation" merely describes "outsourced functions without any reference to potential impact on warfighting."[106] The conclusion here is that the armed services may now lack the military personnel to fill mission critical roles if contractors are not present.

Accordingly, the "too far" critics argue that if the armed services lack personnel to fill mission critical functions, the MoD premise that contractors can be relied upon to deliver these functions is questionable. Instead, critics claim the armed services' reliance on private firms can create "critical dependencies" that arise because contractors are inherently less reliable than military units. Whereas military personnel can be compelled to perform mission requirements:

> The Services cannot ensure that the contractor will be there when hostilities begin. Legally, contractors cannot be compelled to go into harm's way, even when under contract, unless there is a formal declaration of war.[107]

The risk that contractors might refuse to service contracts is not limited to those firms directly in receipt of MoD contracts, as prime

contractors often rely on an extensive array of potentially unreliable subcontractors to meet deployed operational requirements.[108] "Too far" critics argue this risk is far from theoretical, citing a case during the 1990 Gulf War where a contractor, fearing missile attacks against its employees, withdrew its personnel from Saudi Arabia because "the company alleged that the risk of death or injury to its employees outweighed the profit motive for the company."[109] In the same vein, a more "insidious" risk is that "in a contractor-rich, deployed environment," multinational corporations contracted to support military deployments might decide that the loss of MoD business "is less of a business risk than the loss of more vital business interests [e.g., contracts with other governments] or personal safety in other areas."[110]

The net effect, critics argue, is that the armed services might lose mission critical support capability as a result of outsourcing. Equally significant, the concern is that outsourcing has left the armed services without the capacity to fill in if contractors are not present,[111] to the extent that the option of "turning to military members in times of contractor failure will become less of an option."[112] Consequently, in contrast to direct military provision, the "no looking back" nature of contractor support means there are potentially significant critical capability shortfalls if contractors withdraw their support.[113] Consequently, the crux of the "too far" operational concerns is that the UK armed services have inadequate mechanisms to evaluate whether management by contract rather than command affects the delivery of military capability.

In contrast to MoD assumptions that outsourcing enhances the cohesion of the armed services, "too far" critics claim that it erodes their morale, combat effectiveness, and professionalism. At the general level, the claim is that reliance on civilians for deployed operational support appears to threaten "the traditional separation of military and civilian society that has been central to the organizational ethos of the armed forces,"[114] which

> risks turning the military vocation into a trade, thereby eroding the moral content of military service and diminishing the serviceman in his own eyes. The end result of this process will [be] . . . the destruction of the ethos which enables men to fight wars with courage and honour.[115]

A central claim is that by "relying excessively on partnerships and by contracting out an increasing portion of what were once in-house defence activities . . . there is a danger that the clear division between military and civilian spheres may continue to blur."[116]

Concerns about the impact of a blurring of military and civilian spheres broadly reflect concerns raised in Charles Moskos's "institution/occupation" thesis.[117] According to Moskos, traditional notions of military service as a "calling or vocation, to the nation by its citizens, legitimated by broadly based national values" ["institutional military"] has been giving way to a subjective definition of military service as an occupation in the labor market, involving the performance of work for civilian types of rewards under specified contractual conditions ["occupational military"]." Moskos, and subsequent analysts, claim that forms of civilianization have exacerbated a relative shift from "institutional" to "occupational" armed services, which risks a diminution of their military effectiveness. This erosion of military effectiveness, it is argued, stems from a perception that if support functions can be transferred to the private sector, then there is nothing distinctive about the military function, and "the armed services must not underestimate the effect on morale and discipline if their personnel see contractors responding to different codes of conduct and enjoying a better quality of life in a theatre of operation."[118] As service personnel can compare their terms and conditions with civilian contractors, then incentives for trained military personnel to seek potentially more lucrative employment with private firms might increase military outflow to industry.[119]

More specifically, critics argue that civilianization of home based support functions can have further adverse effects. One claim is that contractorization throughout the logistic pipeline means that uniformed personnel are "increasingly relegated to militarily essential, deployable activities," and limited homebase posting opportunities have negative impacts on force retention and morale.[120] Related concerns are that outsourcing erodes the armed services' skills base, reduces valuable training opportunities,[121] and erodes "core skills and low-level expertise and experience among military personnel . . . [that would] would require several years."[122]

Given these concerns about the economic and operational implications of outsourcing, some "too far" critics question why

MoD and other defense departments have pursued private sector solutions with such vigor.[123] Frost is illustrative of those who claim it reflects a conspiracy between:

> . . . cost-cutting governments enthusiastic to implement innovations that have led to greater efficiency in the private sector, but which cut across the grain of military culture . . . The accomplices in this process of institutional subversion are those at the senior levels within the Armed Forces who, for a variety of reasons, have failed to distinguish adequately between those reforms which are compatible with the military culture, those which are bound to damage it, and those who know perfectly well what is at stake but have chosen to remain silent.[124]

Other critics argue that because the UK government is ideologically committed to an expanded role for the private sector and as officials with "a stake in the process"[125] are tasked to implement outsourcing policies, then there are incentives and opportunities for government to overstate the financial and operational gains from military outsourcing. Several reasons have been suggested as to why MoD and other defence departments might pursue outsourcing strategies that "do not necessarily have anything to do with . . . gains in efficiency and effectiveness."[126] As Pollitt points out, officials might be required to respond to coercive central government imposition of outsourcing policies. Where direct coercion does not apply, officials might conclude that the safest strategy is to "copy whatever is in fashion" within other national defense departments ["mimic isomorphism"], or officials responsible for managing support capabilities may have been educated to assume outsourcing is more efficient than in-house alternatives during their professionalization and institutionalization ["normative isomorphism"]. There might also be individual or unit incentives for officials to be seen to be in the vanguard of outsourcing policy that could take the form of enhanced promotion prospects within the armed services or the enticement of subsequent "rolling door" employment with private firms in receipt of outsourcing contracts.[127] Given the political and bureaucratic market place in which outsourcing policies have been formulated and implemented, "too far" critics conclude that contractors on the battlefield are far from being an inevitable global trend.

"Too Little" Critique.

From the opposite extreme, MoD has also been criticized doing "too little" to harness the potential economic and operational gains from far more extensive private sector involvement in defense.[128] This "too little" perspective starts with the premise that the private sector could provide most defense support functions and concludes that bureaucratic barriers within the MoD and armed services have militated against outsourcing being pursued to its logical extreme. The outcomes of these bureaucratic barriers, it is argued, have been missed financial and operational opportunities to the armed services themselves and, ultimately, to the UK taxpayer.

The intellectual basis of the "too little" perspective is the sustained attack on government bureaucracy as a mechanism for public service delivery mounted by "Public Choice" theories.[129] Public Choice theorists share the assumption that all individuals and groups are self-interested maximizers of their own utility, and that fundamental differences in utility maximizing behavior exist between private firms and public sector organizations. They identify the motive force for managers of firms in competitive markets to be profits' maximization. Correspondingly, it is assumed that, in the absence of a profit motive, the instrumental goal for public sector bureaucrats is to maximize their bureau's budget. Public choice theorists claim that budget maximizing provides bureaucrats with instrumental gains that might include improved promotion prospects, enhancement of their agency's reputation among the bureaucrat's peer group, and the creation of organizational slack that provides extra resources that can be used to meet unusual risks or crises when they occur.[130] Moreover, bureaucrats are able to pursue budget maximizing strategies because they enjoy a near monopoly of information on the costs of service provision in their area of public service delivery, and because the politicians responsible for their bureau will generally support budgetary increases in their area.

"Too little" critics adapt Public Choice assumptions to assert that the MoD and armed services are fundamentally no different from all other public sector bureaucracies in that "they are goal-seeking and concerned primarily with growth, improvement, and, ultimately, their own survival."[131] In doing so, they tend to regard the

"noninstrumental" variables of military organization and culture as a disguise for the armed services to maximise the instrumental goals of budget maximization and the preservation of monopoly in-house delivery of defense capability.[132]

According to "too little" critics, the inherent budget maximizing tendencies of "military bureaucrats" have a number of implications. First, the monopoly of information the "military bureaucracy" has on the costs of delivering defense capability enables defense officials to lobby central government for funding levels that "characteristically produce a radical oversupply of agency outputs."[133] Second, there are few incentives for the "military bureaucracy" to seek efficiency improvements in defense delivery because any savings could lead to overall defense budget reductions. Third, the "military bureaucracy's" budget maximizing opportunities are enhanced when the armed services provide defense functions under in-house monopoly conditions because officials have a monopoly on information of delivery costs when negotiating budgets with policymakers. On this basis, critics claim that the in-house military provision is "axiomatically less efficient than market processes" because there are inherent disincentives for defense officials to look for cheaper modes of service delivery.

Consequently, according to critics, any central government-imposed requirement to outsource defense activities:

> . . . clearly threatens . . . [the "military bureaucracy"] . . . by greatly increasing uncertainty and risk for budget-maximizing officials, and creating a much more hostile and turbulent environment for them to operate in. Competition with private firms forces [military bureaucrats] to specify detailed trade-offs between budgets and outputs and explicitly to justify previously customary service standards. It enhances sponsors' power and erodes agencies' capacity to oversupply outputs.[134]

Under these circumstances, "too little" critics infer that if the "military bureaucracy" confronts externally imposed imperatives to outsource functions, officials are likely to respond with minimalist policies that imply compliance as a strategy to deflect government away from genuinely radical budget cutbacks.

"Too little" critics point to various manifestations of "façade privatization" in MoD's approach to outsourcing. They claim that,

despite rhetoric to the contrary, MoD has done little to change the market structure of defense support provision leading to a perpetuation of "excessive" in-house supply monopoly. This assessment is indicative of MoD's *Competing for Quality* program:

> Despite all the hype and promises, the program has been far too shallow in application and has not lived up to the expectations of industry. Most of the defence activities under scrutiny have remained on MoD premises, under MoD guise in one form or another. . . . Constrained by Whitehall rules and regulations the CFQ concept has lacked adventure, imagination, innovation and entrepreneurial spirit . . . There has been no real privatization, nor meaningful transfer of activities to industrial bases . . . [in-house provision flourishes] if without a true comparison against industrialization options. . . . This [is] a tragedy, for though MoD can point to having met identified financial savings targets, it has failed to reach possible and achievable goals that full integration with industry might bring.[135]

Similarly, others claim that, though competition between in-house units and the private sector has occurred:

> The opportunities for competition are far from exhausted. The possibilities include . . . the greater use of market testing, including its extension to activities traditionally excluded from such competition. Ultimately, the aim would be to identify those "core" functions of the armed forces which cannot be contracted out.[136]

In addition, critics claim that MoD exaggerated operational "necessities" as a strategy to retain the vast majority of support functions within the military chain of command.[137] The conclusion they draw is that MoD has pursued such a "façade privatization" program that has limited the scale and scope of outsourcing, along with the economies, efficienciess and operational gains that greater private sector involvement could generate.

It could be argued that the force of the "too little" critique has been eroded by the scale of MoD's program of market testing and PPPs since the early 1980s, and more recent initiatives to use contractors for deployed operational support. However, since private sector delivery of defence support functions remains the exception rather than the rule, and given the "too little" proposition that "anything

not directly involved in warfighting should be outsourced," then analysis is required into whether MoD policies and procedures deliberately militate against private sector involvement.[138]

MoD POLICY IMPLEMENTATION: EVIDENCE AND ISSUES

The survey of MoD orthodoxies, and the "too far" and "too little" perspectives, identify the major claims and counterclaims surrounding contractor support to deployed operations. In doing so, they reveal the general areas of controversy and the questions that need to be addressed if the performance of MoD outsourcing policy is to be evaluated (Figure 5). Despite these major controversies, no systematic and independent assessment of MoD policy has yet emerged. In part, this reflects the newness of contractors on deployed operations and MoD's acknowledgement that it is still "feeling [its] way on this."[139] It also reflects the limited amount of information on the cost and performance of contractors that has so far entered the public domain. However, sufficient detail is available for a preliminary assessment of the key issues in the debate.[140]

The Bureaucratic Dimension.

Have bureaucratic factors within the MoD and armed services encouraged or militated against PPPs in UK defence? As the previous section demonstrates, MoD has been under sustained criticism from those claiming it has pursued ill-conceived privatization schemes and others who consider it has failed to exploit outsourcing potential. However, actually assessing whether MoD has gone "too far" or done "too little" is fraught with theoretical and empirical difficulties. At the theoretical level, there is a range of inherent difficulties in producing criteria to measure any optimum level of outsourcing that MoD should undertake. At the empirical level, "commercial-in-confidence" caveats surrounding MoD contracting processes preclude a detailed case-by-case analysis of how officials have resolved whether to outsource or retain functions in-house. However, what can be said is that a broad program of UK defence management reforms since the 1980s appear to have created structures, a "corporate culture" and

The Bureaucratic Dimension: Have bureaucratic factors within MoD and armed services encouraged or militated against PPPs in UK defence?

The Financial Dimension: Are PPPs cheaper or more expensive than direct military provision of defence support function?

Can cost savings be attributed to competitive tendering, contractorization and "partnerships" with private sector?

How effective are MoD measures to minimize the scope for ex post rent extraction on defence support contracts?

How are transaction costs factored into MoD assessments of financial effects outsourcing?

The Resource Redistribution Dimension: What are MoD assessments of the funding and military personnel that have been released/re-directed as a direct result of outsourcing?

What form has the redistribution of funds/personnel taken?

Has resource redistribution reduced military "overstretch"?

The Operational Dimension: How effective are MoD C2 arrangements to manage contractors on deployed operations?

Has MoD outsourcing "augmented" or "replaced" in-house military capabilities, and how effective are MoD measures to manage the operational risks of potential contractor withdrawal?

How effective are MoD procedures to evaluate the impact of defence PPPs on the morale, cohesion, ethos, and professionalism of the armed services?

Figure 5. Criteria for Evaluating MoD Outsourcing Initiatives.

organizational incentives for MoD officials at all levels to evaluate the scope for private sector involvement across the defense support sector.

Until 1980, MoD's management philosophy had two key tenets. First, as former Secretary of State Malcolm Rifkind observes:

> . . . resources were bid for on a very strong single-Service basis, and success in the annual Long Term Costing (LTC) exercise was judged on the ability to protect the level of budget, or ideally increase it at the expense of the other Services. There was little attempt to measure the cost of individual elements of the [UK defence] program and relate this

> directly to outputs. Thus we were in no position properly to judge the *value for money* of our annual investment in defence; nor could we assess whether everything we did contributed to the delivery of front line forces.[141]

Second, it was assumed that MoD should retain in-house capabilities across the spectrum of front-line and defense support functions.

Since the early-1980s, MoD concerns about a "funding gap" between defence budgets and stated military commitments[142] have been reflected in programs intended to ensure "more efficient management" of defence resources. The MoD's strategy to achieve "more efficient management" has followed a UK central government-imposed "New Public Management" (NPM) reform agenda, emphasising performance management, devolved financial management, greater decentralization of authority and responsibility within government departments, greater recourse to the use of market-type mechanisms such as internal markets and contracting out, and privatization of market-oriented public enterprises.[143]

In MoD's case, the imperative to adopt NPM-style reforms has been particularly acute. Inherent difficulties in defining the final outputs of defense expenditure, post-Cold War pressures to realize a "peace dividend," and the scale of MoD capital expenditure compared to other government departments have created incentives for MoD to be in the vanguard of UK public sector management reform and a "culture of continuous improvement."[144] As a former MoD Permanent Under Secretary acknowledges:

> The degree to which we [MoD] can demonstrate efficiency is important to us when we make the case for the defence budget in the public expenditure survey each year; we have to show that we are spending it wisely. We need to continue to pursue efficiency therefore, *first*, to produce the cash savings needed under the government's wider efficiency program; *second*, to sustain the maximum output within a given level of resources; and *third*, to underpin our budgetary case in competition with other government departments, for the scarce resource of taxpayer's money.[145]

Evidence suggests that MoD's NPM-style reform program has created the managerial context, organizational framework, and culture to provide incentives for officials to pursue private sector involvement when it is assessed to be more efficient than in-house

provision. This has been achieved through MoD's adoption and consolidation of six key central government-imposed NPM-style reforms.

First was the imposition of a quasi-contract between MoD and central government, whereby MoD delivers an agreed defence strategy, program, and military capabilities ("defence outputs") in exchange for its budget allocation ("defence inputs"). The MoD's output targets are currently codified in a "Public Service Agreement" (PSA), or "a contract between MoD and the centre" which contains a 5-year review cycle for all defence activity.[146] Responsibility for delivering the defence strategy set out in the PSA resides with MoD's Defence Management Board (DMB), the membership of which is summarized in Figure 6.

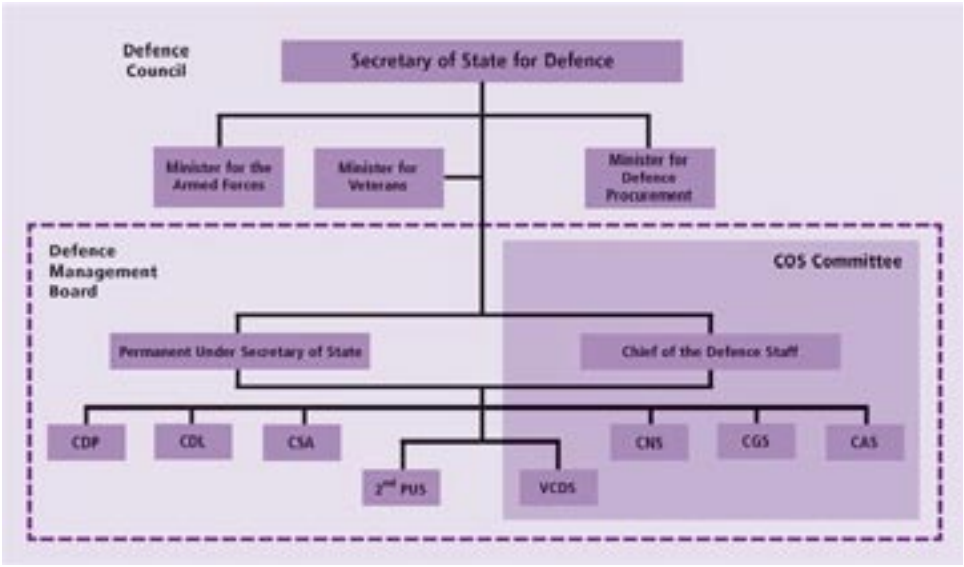


Figure 6. MoD Defence Management Board.

Second was DMB's adoption of output-based strategic management planning. In effect, DMB acts as "the main corporate board of MoD, providing senior level leadership and strategic management of defence," which is reflected in its responsibility for defining the role of UK defence by providing strategic direction, vision, and values; setting objectives and targets that establish the key priorities

and defence capabilities necessary to deliver MoD's departmental objectives; resource allocation and strategic balance of investment to match defence priorities and objectives; and, performance management and "driving corporate performance."

Third was delegation of authority and accountability at all levels within MoD and the armed services. Delivery of the DMB's "Departmental Plan," and the financial resources intended to meet it is made to 11 "Top Level" budget holders (TLBs) (see Figure 7), who then delegate resources for the implementation of their output-based plans to subordinate budget holders. Budget holders at all levels in this hierarchy have become "cost-centre" managers with "individual accountability and responsibility, and the concomitant authority to take decisions within clearly-defined parameters without constant reference up the line management chain,"[147] in a system of vertical customer-supplier contracts between each tier of the budget chain.

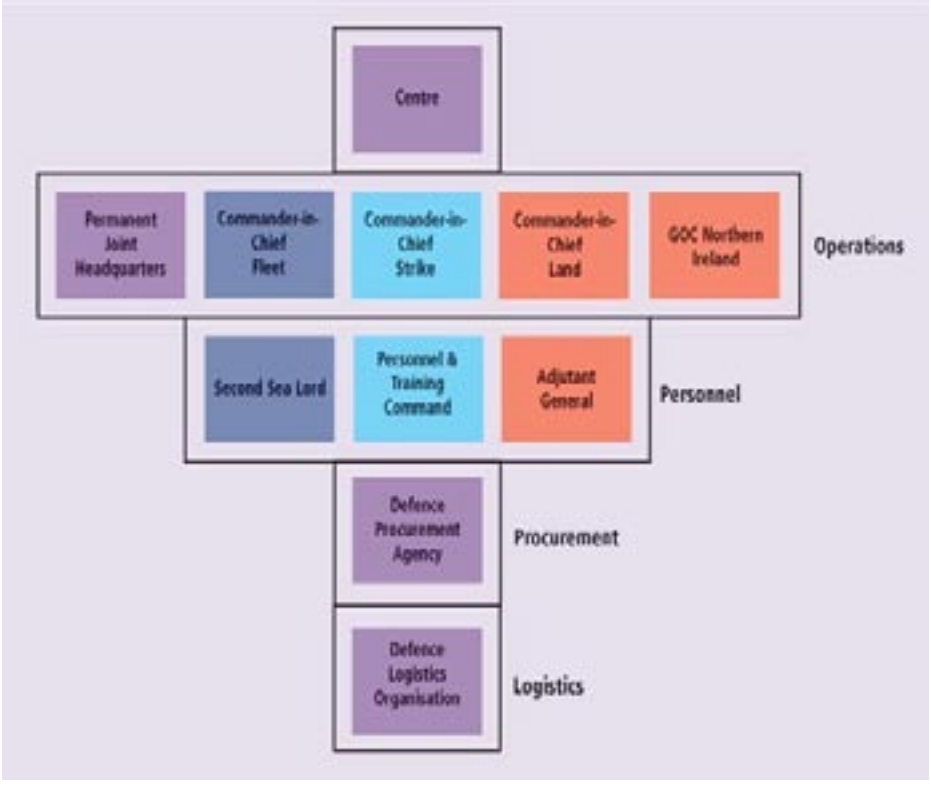


Figure 7. MoD Top Level Budget System.

Evidence suggests this delegated management structure has generated incentives for all budget holders to pursue private sector partnering opportunities within their area of delegated responsibility. When delegation was first introduced in the early 1990s:

> lower levels of budget holders had the authority to look for value for money wherever it could be found. By so doing, they were therefore relieved of the requirement of having to go through "authorized" channels as in the past. The military were free to use the market place to purchase what they needed, and in essence the wider defence market began to be opened up to the private sector.[148]

In essence, the combination of vertical delegation and MoD's stated commitment to greater private sector provision seems to have created a framework where budget holders have been able to outsource functions in the knowledge they will gain higher-level endorsement. Moreover, outsourcing incentives seem to have been enhanced in 1998 when MoD policy became that certain receipts and efficiency savings from PPPs could be retained by budget holders and redirected to meet their management planning targets.[149]

Fourth was the creation of discrete "businesses" embedded within MoD and the armed services located either within the TLB structure, or operating as freestanding trading funds. This stemmed from the UK government's 1988 *The Next Steps* report, which recommended the establishment of semiautonomous agencies to carry out the "executive" service delivery functions of government departments.[150] The MoDs operate under frameworks setting out their policy parameters, budgets, targets, and degree of delegated authority. Strategic control of agencies remains with Ministers, but once the policy and framework are set, agency chief executives have the authority to decide how agency objectives are met.[151]

The MoD's "Defence Agencies" currently employ 60 percent of MoD's civilian workforce and 11 percent of total uniformed personnel, and their operating costs account for approximately 35 percent of MoD's overall resource cost.[152] Each agency is mandated to provide defined services that are enshrined in quasi-contractual Customer Supplier Agreements (CSA) and Service Level Agreements (SLA) to "customers" elsewhere across or vertically within the TLB hierarchy. The MoD's stated rationale has been to ensure that "Throughout

our business, there is an increasing emphasis on defending the relationship between internal 'customers' and 'suppliers' and, in doing so, strengthening the hand of the customer."[153]

Like MoD budget holders, defence agency chief executives have incentives to meet their CSA and SLA delivery targets by identifying partnering opportunities with the private sector.[154] For example, the Defence Communication Services Agency (DCSA), responsible for providing satellite communications and information delivery to deployed headquarters, is attempting to meet its financial targets by retaining "only those military posts where military expertise is essential" and identifying functions "which can be done perfectly well and probably more cheaply by industry."[155] The Defence Aviation Repair Agency (DARA)—which is responsible for aircraft repair, maintenance, modification, and complementary logistic supply chain support services—has chosen to meet its financial targets by partnering with Agusta Westland and BAE systems.[156] The tri-Service Defence Transport and Movement Agency (DTMA), charged with the acquisition and allocation of freight and passenger movement capacity and movement plans and advice to the armed services, has extensively engaged contract-based capability and capacity.[157] Similarly, the Naval Recruitment and Training Agency (NRTA) has developed a comprehensive approach to meeting its performance targets that has included outsourcing noncore activities, partnership sourcing, and PFI arrangements for capital investment in its training estate.[158]

The fifth reform area has been in the weapons acquisition and logistics fields. Reflecting MoD's wider management reform philosophy, incentives exist for officials to look for private sector partnering in initial weapon procurement and the equipment's through-life support. Under the current "Smart Acquisition" procedures, responsibility for the acquisition and in-service support of individual items of equipment or platforms is delegated to "Integrated Project Teams" (IPTs). The IPTs are located in MoD's Defence Procurement Agency (DPA) until new equipment is brought into service, then they migrate to the Defence Logistics Organization (DLO) to oversee in-service support.[159] An outcome of "Smart Acquisition" is that individual IPTs are tasked with producing cost-effective through-life solutions to capability requirements. Individual

IPTs are required to "seek to harness innovation and industrial power to facilitate optimized and integrated commercial solutions" when considering in-service equipment support except in cases where this would "cause unacceptable risk to the front line."[160]

The sixth reform area has been MoD's adoption of a plethora of management tools and techniques originally developed in the private sector. The most significant has been the introduction of "Resource Accounting and Budgeting" (RAB), which measures the financial implications of vertical and horizontal "customer-supplier" transactions, and the cost to MoD of stocks and capital assets ownership.[161] The significance of RAB in the context of MoD outsourcing is two-fold. First, it has enabled MoD budget holders to compare the costs of its in-house activities on an equivalent basis to the private sector, and to identify where private sector provision is more cost-effective.[162] Second, depreciation charges imposed on MoD under RAB have created incentives for budget holders to consider greater reliance on leasing and other modes of PPP service delivery rather than retaining assets and facilities on the Defence Vote.

Consequently, at the strategic level, MoD's management approach since the early 1980s has been informed by a belief in the benefits of competition and contracting, whether internal or external. The overarching theme of MoD internal management reform has been to replace "traditional" bureaucratic structures and processes with a quasi-internal market of customers and suppliers. Here,

> The intended modus operandi of quasi markets is that central [MoD] decision makers determine the output they wish agencies to produce, and then "contract" with [its subordinate civilian and military] agencies to purchase those outputs for an agreed price. Fundamental to this has been the attempt to stimulate a purchaser/provider split, with formal "contracts" governing the terms upon which providers receive payment for the provision of defined outputs.[163]

At the same time, MoD's output-based management planning, delegated management structure, and adoption of new management tools have provided incentives for defense officials at all levels to harness private sector capability.

The available evidence suggests that MoD's NPM-style reform program has drawn contractors closer to the front line "in areas that—

a few years ago—[were] thought to be the exclusive preserve of the Services."[164] However, more information is required before "too far" and "too little" concerns about the incentive structures surrounding deployed support outsourcing can be fully addressed. On the one hand, more data on the precise criteria employed by MoD officials in evaluating the relative costs and benefits of in-house and private sector alternatives are necessary to evaluate "too far" assertions that battlefield outsourcing reflects an ideological predisposition towards privatization. On the other hand, the release of information on, for example, the relative scale of deployed outsourcing between the various TLBs or the criteria employed to declare certain functions as "no go" areas for outsourcing is required, if "too little" concerns are to be allayed or confirmed.

THE FINANCIAL DIMENSION

Have PPPs Reduced UK Defence Support Costs?

Reports by MoD spanning 2 decades all conclude that competitive tendering and contracting-out have generated cost savings across a range of *nondeployed* defence support functions. Audits of the "Competing for Quality" program and other initiatives suggest market testing and strategic outsourcing have produced 23 percent gross average savings on previous in-house delivery costs. According to MoD, when transaction costs "of the competitive process" are deducted, average net savings of approximately 18 percent have been achieved.[165] These results are similar to the average net 20 percent cost reductions the U.S. DoD has identified from the A-76 outsourcing program.[166] Evidence suggests that with "Competing for Quality" and similar programs, MoD has been able to define precise service requirements and contract management regimes prior to the competitive tendering process and attract the multiple private sector bidders necessary to make genuine "market testing" viable.[167]

Correspondingly, the financial outcomes where *deployed operational support functions* have been outsourced are less clear. In part, this reflects that more limited cost data have entered the public domain. It seems that MoD contracting procedures generally impose "value for money" mechanisms and reduce scope for contractor

"ex post rent extraction." MoD procedures dictate that contracting authorities should select suppliers following a competition process, and that subsequent variations to service delivery requirements are dealt with through "open book accounting" and at pre-agreed profit rates.[168]

However, evidence indicates that *de facto* contracting processes for deployed support sometimes have been less robust. First, difficulties have been encountered in imposing rigid contract specifications and fixed price contracts for deployed functions where precise future deployed requirements are not known. Limited warning and preparation timescales for unforeseen operational deployments have also meant that MoD contracting authorities have approached "preferred suppliers" rather than employing open competitive tendering. Second, difficulties in predicting precise deployed support requirements have resulted in the award of "indefinite delivery, indefinite quantity" contracts, where MoD informs potential suppliers of the funds available for a particular deployed support function, and the latter submit bids with estimates of profit margins and risk. Under these conditions, questions remain about whether MoD has adopted the most cost-effective contractual framework and what the relative costs of military and civilian provision actually are.

Third, wider questions remain about the extent to which MoD can exploit competitive tendering to meet its deployed support needs. With large equipment-based PFI contracts, which currently include the Army's Heavy Equipment Transporter and the Royal Navy's Roll-On Roll-Off Ferries, the limited potential supplier base has forced MoD to estimate the relative costs of conventional procurement and private sector alternatives using a "Public Sector Comparator" (PSC) rather than market competition. The PSC is a hypothetical estimation of what the project will cost to design, build, and operate, normally based on historical data, and concludes that PFI deals offer a 10 percent saving against the cost of delivering services in-house. However, a concern remains that "calculation of the PSC is a contentious issue and some commentators claim that the difficult task of accurately compiling the PSC leads to [MoD claims of cost] savings that are not realistic."[169]

Consequently, no overwhelming evidence has entered the public domain to prove that the outsourcing of deployed support

functions necessarily has been cheaper than direct military provision. Questions remain about whether MoD is engaging contractors in the most cost-effective contractual framework, and also what the relative costs of military and civilian alternatives are. Until detailed information is released on the methods used by MoD to compare the costs of military and outsourced alternatives, including how transaction costs are factored into such calculations, then the true financial implications of outsourced deployed operational support are likely to remain contested. It may be the case, as MoD suggests, that deployed support contracting has generated economies and that information on the scale and scope of these savings will enter the public domain in due course. Until this occurs, however, then "too far" claims that MoD has an ideological predisposition towards privatization and "too little" concerns about "missed" outsourcing opportunities are likely to persist.

The Resource Redistribution Dimension.

What are MoD assessments of the funding and military personnel that have been released/re-directed as a direct result of outsourcing? Whether outsourcing has provided additional resources that have enhanced the UK's overall defence capability remains contested. Despite MoD claims that resource reallocation has occurred, surprisingly little information has entered the public domain. No details have emerged on how or where the purported savings from contracting out have been reinvested across other defense priorities. Moreover, only anecdotal information is available on the redeployment of military personnel released from deployed support functions where activities have been transferred to the private sector.[170]

During Operation TELIC, for example, some 500 KBR personnel and its subcontractors were contracted to construct 10,000 units of temporary accommodation under a contract valued at £120m. However, in this case, it is not clear whether KBR's involvement reflected a calculated decision on MoD's part to release trained military manpower, or whether the UK armed services simply lacked any in-house capability to meet the requirement in the first place.

The resource redistribution dimension is clearly a central variable in the overall impact of military outsourcing. Consequently, until MoD

quantifies these aspects of deployed contractor support, controversy is likely to remain. This suggests the need for detailed survey work within MoD to identify both the extend to which resources have been reallocated within defence, and the degree to which any savings have been clawed back by UK central government.

THE OPERATIONAL DIMENSION

How Effective are MoD C² Arrangements to Manage Contractors on Deployed Operations?

By the late-1990s, MoD had some limited experience in using contractors on deployed operations. "Urgent Operational Requirement" contracts had been let for military vehicle upgrades in the 1991 Gulf War, camp construction and operation in Bosnia, and road transport from the UK to the Second Line in Theatre in Kosovo.[171] However, MoD officials recognized that the approach at that time had major deficiencies. In the absence of an overarching policy, operational support contracts were let on an unsystematic one-off basis, and issues including the status and security of contractors had not been resolved.[172] Moreover, officials recognized that:

> Short-term perspectives on contracting can restrict timely delivery of operational capability and can be wasteful of resources. This has entailed the drawing up of contracts from scratch, with optimistic timeframe and quality targets. Where these targets are not met (e.g., Bosnia) the effects on the deployed force, particularly on morale and confidence in the system of support, can be particularly detrimental.[173]

A further limitation was that contracts were generally "limited in scope and not buttressed by a solid foundation of policy and doctrine."[174] At the same time, industry's concern was that firms were involved in deployed operations on a "pretty *ad hoc* and frankly risky basis. Much of it was policy on the hoof. But worst of all, there [was] huge opportunity there for misunderstanding, misalignment, and hence failure of the support."[175]

In response, MoD began formulating what were intended to be coherent policy and doctrines to codify contractor battlefield support

during 1997. From the outset, MoD sought to ensure partnership with contractors in policy formulation. The "Contractors on Deployed Operations" Partnering Support Steering Group (PSSG) was established which included MoD officials, senior industry representatives, and uniformed engineering and logistics staff. Policy was developed by three PSSG working groups: "Capability Definition and Development," responsible for identifying the scope for contractor involvement and devising mechanisms to measure the risks involved in using contractors in-theatre; the "Personnel Working Group," looking at the legal status of contractors and their position related to the military commander; and, "Contractual and Commercial," which focused on devising differentiation criteria between multifunctional logistic providers and specialized equipment maintainers.

Three major MoD initiatives have emerged. First is the "Contractors on Deployed Operations (CONDO)" policy, intended to harmonize procedures governing all contracts requiring contractors to "deploy in support of operations."[176] Second is MoD's "CONLOG Contract," a single-source enabling commercial support contract covering a range of Combat Support (CS) and Combat Service Support (CSS) capabilities. Third is the "Sponsored Reserve" (SR) Concept, whereby "services normally provided [to MoD] in peacetime by contractor staff are provided on operations by staff drawn from the contractor's workforce who are reservist members of the Armed Forces."[177] With these initiatives, MoD assumes it has measures in place to provide "an assured capability for the military commander" under arrangements that are "profitable for the contractor while demonstrating value for money for MoD," that ensure operational deployments are "as safe and secure as possible for the [contractor] workforce."[178] Evidence suggests that these MoD initiatives have identified and addressed many of the C^2 concerns raised by "too far" critics.

Before the CONDO policy, a limiting factor on UK military deployments arose from the dislocation between MoD arrangements for deployed support contracts and the actual control of contractor capability by military commanders in theatres of operation. The MoD management philosophy of delegation has "empowered" DPA IPTs and DLO Equipment Support Business Units (ESBUs) to

contract for logistics functions or equipment support on behalf of the Army, RAF, and the RN, or the Single-Service Front Line Commands (FLCs). Before CONDO was developed, MoD's PJHQ had limited visibility or control over deployed commercial support arrangements entered into by the various contracting authorities. In theory, the PJHQ was the focal point at the "coupling bridge" into operational theatres for all commercial capabilities to support the FLCs. In reality, the PJHQ was bypassed because the FLCs, via the DPA and DLO, maintained direct control over "their" contractor support. The outcome was that PJHQ joint commanders lacked an overall picture of contractor capability available in theatre, or information on the scope of contracts with individual suppliers. Consequently, before CONDO, "too little" concerns about operational constraints arising from "management by contract" seemed valid.

The CONDO policy has introduced various measures to rectify these C^2 deficiencies that increase the oversight that commanders have over contractor capacity at their disposal. In procedural terms, the FLCs, DPA, and DLO now pass their in-theatre contractor support requirements to the PJHQ Chief of Joint Operations for authority to deploy. This now ensures full PJHQ visibility of all contractor personnel and assets within the Joint Operating Area (JOA) at any one time, and the opportunity to exploit "best value for money by avoiding duplication of contracts and personnel within the JOA."[179] The CONDO policy also succeeds in integrating contractor support into the PJHQ operational planning process, thereby reducing "too far" concerns about measuring contractor readiness and capability. The PJHQ's Logistics Division[180] has an embedded and permanent "CONLOG Plans" unit that continually identifies and manages actual or potential future requirements for all contractor support, and a "CONLOG Operations Team" responsible for specific planning and implementation of commercial support to particular operations.

In addition, CONDO includes mechanisms to standardize the treatment of contractors and their personnel that apply to all categories of deployed support contracts (Figure 8) to ensure they are "adequately prepared for operational deployments."[181] These measures include training and briefings for contractor personnel on safety and security, discipline arrangements, insurance and

indemnity, and detailed guidance intended to educate commanders on the legal aspects of employing contractor capability on deployments. Finally, CONDO includes detailed decisionmaking algorithms for PJHQ and FLC commanders considering the use of contractor support, providing criteria for identifying circumstances when commercial contractor support is optimal, and evaluating the potential operational impacts of contractor withdrawal.

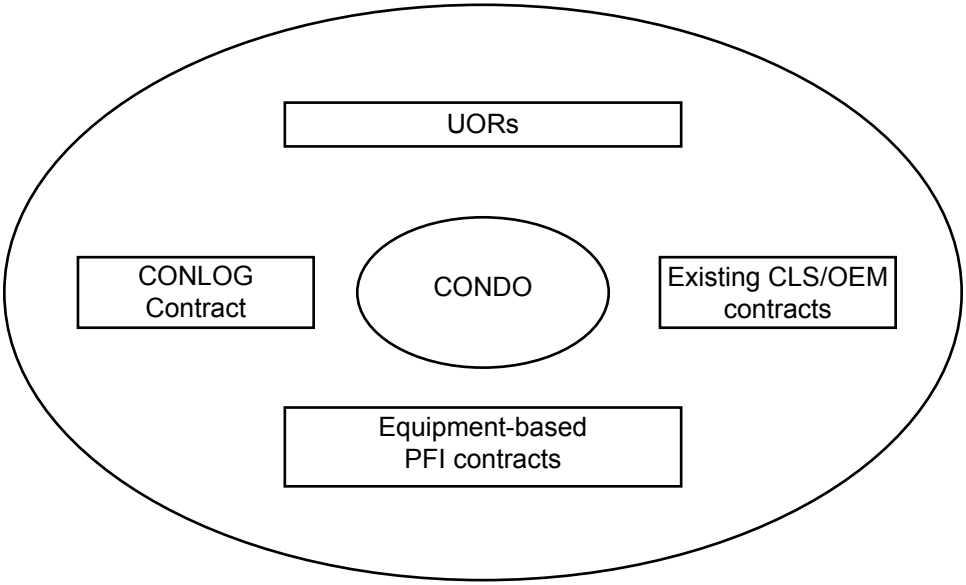


Figure 8. Scope of the CONDO Concept.

The MoD claims its "CONLOG Contract" has further enhanced operational C^2 by providing "an efficient and cohesive contracting process for elements of support on operations."[182] The CONLOG is a nonexclusive 7-year contract with KBR to provide advice on the employment of contractor capability and to act as a potential single source for a broad range of deployed commercial support traditionally contracted through ad hoc UORs. Unlike other deployed support contracts, the CONLOG is "owned" by the PJHQ,[183] and the PJHQ "CONLOG Plans" organization includes embedded KBR personnel who provide continuous advice on commercial support potential and availability.

According to MoD, the PJHQ's embedded partnership and "mutual understanding" with KBR enhances deployed C^2

arrangements in several ways.[184] The CONLOG Plans organization and its "CONLOG Operations Team" are involved in each stage of deployed operations from initial "Logistic Estimate" production to the direction, deployment, sustainment, and recovery phases. Consequently, embedded KBR's expertise and capabilities can be exploited at the earliest possible opportunity to prepare detailed schedules of contractor support requirements, to rapidly mobilize a coherent package of commercial capability, and to deconflict similar military and CONLOG capabilities throughout an operation.[185] The terms of the CONLOG Contract, which required KBR to provide detailed deployed commercial package costings within 90 hours of a PJHQ request, ensure operational tempo can be maintained. Moreover, according to MoD, the enabling nature of the CONLOG contract provides joint commanders with flexibility, as private sector support taskings can be added or subtracted at short notice, and the "partnership" enables the PJHQ's to focus on defining its requirement and KBR to use its commercial expertise to focus on meeting the military needs.[186] This close cooperation also extends to the theatre of operation. When circumstances require it, the PJHQ can form a "Deployed CONLOG Operations Team" to support the deployed Force Commander, who manages KBR and subcontractor personnel in the theatre of operation.

Consequently, the CONDO and CONLOG initiatives do identify and address a range of C^2 concerns highlighted by "too far" critics. Measures are now in place to provide military commanders with enhanced visibility of contractor assets that should increase flexibility in planning and deployment. Procedures have been established that ensure both commanders and contractors understand the legal scope and limitations of private sector involvement. Indications are that MoD's decision to engage contractors in the formulation of CONDO/CONLOG policy, and to embed contractors in PJHQ operational planning and execution, have paid C^2 dividends.

However, evidence suggests important residual C^2 constraints remain to be addressed. First, though CONDO and CONLOG have introduced more robust protocols, MoD has a complex matrix of some 7,000 stand-alone "legacy" deployed support contracts entered into by the DPA, DLO, and FLCs.[187] Moreover, MoD's management philosophy of delegation means that the plethora of DPA and DLO

IPTs can continue unilaterally to sign deployed support contracts on the basis of their individual "value for money" calculations. Though CONLOG does introduce a prime contractor to facilitate and integrate packages of deployed logistics support, this contract currently accounts for just 10 percent of MoD deployed support expenditure. Indications are that MoD intends to rationalize these fragmented contracts over the next 5 years by clustering together under a smaller number of large new prime contracts, but until the contractor supply chain is rationalized in this way, it is likely that C^2 arrangements will remain suboptimal.

Second, analyses into the UK's 2003 intervention in Iraq suggest that "although some positive steps have been taken over recent years to define MoD CONDO policy," there are still areas for improvement. One residual area of concern is that CONDO does not fully identify and reduce the key contractor risks on deployed operations in the areas of personnel security and safety, insurance cover, and corporate reputation. Other concerns are that CONDO fails to establish systems for addressing the impact of operational unknowns on contracts with industry, and that measures to assess the contractor's surge capabilities, availability and readiness for deployed operations could be strengthened.[188]

Has MoD outsourcing "augmented" or "replaced" in-house military capabilities, and how effective are MoD measures to manage the operational risks of potential contractor withdrawal? The MoD's stated policy is that contractor support "is not intended to replace core military manpower in the Order of Battle, but to augment that established when circumstances permit and thus reduce the pressure on deployable, organic logistic support for all three Services."[189] The MoD's objective is to take contractors "as close to the front-line as possible," but not "in circumstances where the operational effectiveness of the Armed Forces would be put at risk."

In response to "too little" concerns, MoD claims that mechanisms are in place to ensure contractor support is only used to "augment" military capability and adequate safeguards to militate against the risk of potential contractor withdrawal. The MoD's first assumption is that its CONDO deployment algorithms provide the necessary criteria and guidance to ensure that commanders only employ

commercial capability in circumstances where military alternatives are available, as a safeguard, throughout deployments. The second assumption is that the risk of potential contractor withdrawal is minimized through its SR policy, which is intended to provide "value for money without an unacceptable diminution of capability [by making use of] skills found in the civilian sector to provide support to operations in nonbenign areas."[190]

The SR initiative stems from MoD's 1992 "Regular/Reserve Forces Mix Study," which recommended exploration of the feasibility of using civilians with Reserve status for operational support functions, and was legislated for in the 1996 Reserve Forces Act (Part V).[191] The SR concept enables MoD to contract with private suppliers for support functions provided by staff working as civilians in peacetime or in nonbenign deployed areas, but where the contractors' employees continue to provide services as an integral part of the deployed force in nonbenign areas as trained reservists. According to MoD, the SR model guarantees an assured and integrated contractor service beyond the "benign edge" that is more cost-effective than in-house military provision. In C^2 terms, the fact that contractor personnel become members of the Reserve forces on operational deployments means they are fully integrated into the military chain of command. In conceptual terms, MoD views as such, SRs as "the manning bridge between the service that a contractor may readily provide routinely using civilians, but could not provide routinely using civilians during certain operational deployment." (See Figure 9 and compare with Figure 4.)[192]

Despite these measures, evidence suggests that MoD has used contractors to "replace" military capability, and that "too far" concerns about potential contractor withdrawal have not been fully addressed. As the House of Commons Defence Select Committee has pointed out, MoD has not produced "a clear set of criteria to define what constitutes the 'front-line' for the purposes of assessing the potential for using PFI" and CONDO.[193] When pressed on the issue of criteria MoD officials have made it clear that:

> we do not believe that such an approach would be possible . . . we do not believe that such a definition, even if one could be produced, would lead to different or better quality decisions on the use of PFI [and CONDO]. Decisions on projects need to be taken *case-by-case*, so that any impact on operational capability can be considered on its merits.[194]

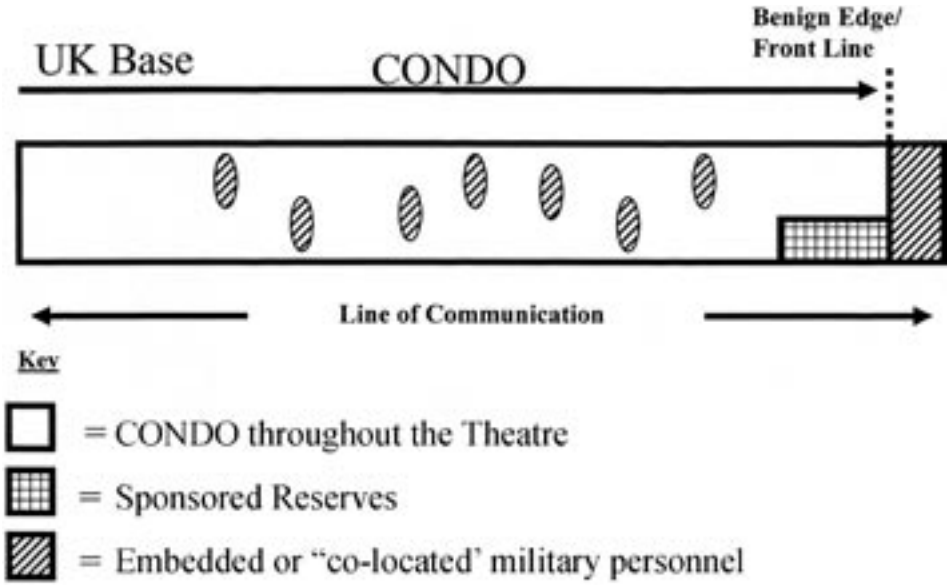


Figure 9. Sponsored Reserve Capability.

When asked what potential "no-go" areas might be, MoD officials have defined the "front-line" as "fighting,"[195] and the only areas explicitly excluded from private sector provision to date are armed security, provost, secure couriers, and marine hydrography.

Evidence suggests that this remaining ambiguity about what constitutes "front-line" military capability and MoD's commitment to case-by-case contracting for deployed support does risk a situation where military capability may be replaced rather than augmented. Under MoD's delegated contracting regime, the DPA, DLO, and other contracting authorities are still required to make "value-for-money" calculations when acquiring new equipment or support capabilities. A danger remains that these contracting authorities might look for value for money by cutting in-service support costs, with little thought about actual deployment implications, leading to "real replacement [of military capability with contractor capability]."[196] Similarly, studies suggest that industry is being used to bridge military capability gaps to the extent that "augmentation has gone out of the window."[197] In short:

> . . . there is clear evidence that CONDO is not only being used for military requirements as a "force multiplier," such as in the case of the CONLOG contract, but it is also being used by many of the Equipment Support Business Units to fill military capability gaps, and especially by Equipment Support, Contractor Logistic Support contracts within the Joint Operational Area, and furthermore, on occasions during armed conflict. The extensive use of CONDO has resulted in the creation of additional risk for MoD and of a concern to them that the contractor will deliver the service on time and that he will remain on contract, irrespective of the operational situation, and, above all, that he will provide an assured service to the military commander.[198]

Despite the operational flexibility and assured capability that the SR concept provides, practical developments to date have been limited. There are currently just 335 SRs available to the UK armed services linked to contracts with the Meteorological Office (Mobile Met Unit), crewing for six PFI-procured Strategic Sea-lift RO-RO vessels, ground support personnel for 32 Squadron BAe 125 communications aircraft with SERCo Aerospace, drivers/maintainers for the Army's new generation PFI-acquired heavy equipment transporters (HET), and hydrographic systems engineers for new generation survey vessels with Vosper Thorneycroft (UK) Ltd. Though MoD intends to increase the number of SRs in response to lessons from the UK's deployment in Iraq, indications are that the future scope will be limited to marine salvage support, MoD Fire Services, and the Royal Fleet Auxiliary.

This reflects various barriers to the more widespread application of the SR concepts. One factor has been cost: MoD contracts employing the SR models are funded out of the Defence Budget, whereas contractor provision through the UOR process is funded by the Treasury Contingency Fund at no cost to MoD, creating disincentives for MoD to invest in capability that otherwise would be paid for by the Treasury.[199] Moreover, it has been suggested that DPA and DLO IPTs have been reluctant to look for SR-based commercial support on new contracts because "there is still a general feeling that the SR concept is new and untried,"[200] and because there are legal difficulties in retrospectively incorporating SR provision into the array of existing CLS and OEM contracts. Finally, the armed services have been reluctant to replace organic military manpower with

SRs because of concerns that the latter are less flexible and reliable on deployments.[201] Consequently, despite the assured capability that the SR model offers, the bulk of MoD deployed support is provided through potentially less reliable CONDO and CONLOG arrangements.

The MoD has responded to these concerns by claiming that the risk that contractors might fail to support deployed operations is remote, citing that of the 180 firms employed to support the UK armed services in Iraq during 2003, just two refused to deploy.[202] However, ongoing concern is that MoD currently lacks mechanisms to evaluate the "cumulative effects of the risks" involved in using contractors to fill capability gaps and "the impact this will have on military operational capability,"[203] the limited number of SR contracts and evidence that contractors are being used to support gaps in military capability, suggests that the ability of commanders to rely on an assured contractor service remains questionable.

It has been suggested that MoD has various potential courses of action to allay the residual "too far" concerns about contractor reliability.[204] One is the appointment of a high-level "champion" for CONDO policy within MoD who is able to identify all the operational capability gaps currently met by contractors, and thereby manage the cumulative effects of the risks associated with deploying CONDO capability. Another is a detailed assessment of which battle-winning capabilities should be provided through the less risky SR model, rather than CONDO arrangements. Finally, there is a requirement for commercial capability to be integrated with ongoing work by the DLO into its longer-term logistic architecture and design, "in order to maximise the potential of CONDO and thereby reduce the risks to MoD and the contractor."[205]

How effective are MoD procedures to evaluate the impact of defence PPPs on the morale, cohesion, ethos, and professionalism of the armed services? The MoD has addressed aspects of the debate concerning the impact of outsourcing on the professionalism, ethos, and morale of the armed services. Current MoD policy dictates that the DPA, DLO, and FLCs should evaluate the potential effects on military personnel when the introduction of commercial support or SRs is under consideration. Moreover, acquisition officials are advised that

military trade structures, promotion prospects, and intervals between roulement tours for military personnel should be "taken into account when putting together the detail of the [deployed support] proposal and in making the value for money decision."[206]

However, information on the extent to which these "impact on personnel issues" are factored into individual outsourcing assessments and how MoD actually monitors the cumulative effects of outsourcing on the armed services have not entered the public domain. The ongoing controversy surrounding the cultural impact of contractors on deployed operations suggests a need for MoD to conduct more extensive analysis. This should include officer attitude surveys addressing perceptions about the cultural impact on the three armed services and specific branches and trades within them. Data also might be collected on the effects of outsourcing, if any, on the outflow of trained military personnel. Finally, given MoD's "partnering" philosophy, further research needs to be conducted into the perceptions of contractors and their personnel working with "military partners" on deployed operations. Studies into these aspects of civilianization would enable firmer conclusions to be drawn on whether battlefield outsourcing has beneficial or detrimental effects on military morale, ethos and professionalism.

THE RELEVANCE OF MoD OUTSOURCING STRATEGY FOR THE U.S. ARMED SERVICES

There is close similarity between UK and U.S. military outsourcing philosophy. In contextual terms, both countries have transformed their post-Cold War defense policies, military doctrines, and force postures along similar lines. Moreover, MoD and DoD have both adopted NPM-style defense management reform trajectories. The MoD's "Executive Agency" program, for example, shares similarities with the DoD's development of "performance based organizations," of which the Defense Commissary Agency is representative. The DoD's "government-owned contractor-operated" approach affecting the U.S. Navy Military Sealift Command closely resembles MoD contracting for commercial management of UK government-owned dockyards. Similarly, DoD "public/private partnerships" and "joint

ventures" for functions that include the Norfolk Port Facilities are a variant of MoD's PFI initiative.[207]

Outsourcing has become a core defense management tool in both countries, and the trend has been for MoD and the DoD to pursue closely aligned policies and copy "best practice" from each other.[208] The 1966 Office of Management and Budget Circular A-76 required the U.S. armed services to subject support activity to private sector competition. In the 1980s and 1990s, MoD vigorously applied this approach in its "market testing," CFQ and BQS initiatives during a period where the "Nichols Amendment" meant that few U.S. competitions were completed. Since the 1997 *Quadrennial Defense Review*—which recommended that the U.S. armed services compete, outsource, or privatize functions—the U.S. Army "has outlined an aggressive program of public-private competition" that closely resembles MoD's post-1980 agenda.[209] Policies on contractor support for deployed operations have followed a similar pattern, reflected in MoD's decision to formulate its CONLOG contract with principles laid down in the early 1990s by the U.S. Army for its Logistics Civil Augmentation Program (LOGCAP).[210]

Consequently, there are no fundamental differences in overarching MoD and DoD outsourcing philosophy. Both defense establishments share core assumptions about why contractor support is necessary in basic policy parameters. To the extent that variations do exist, this reflects different levels of practical experience in employing contractors on the battlefield, and the differing national military structures, contractual practices, and legal frameworks within which deployed contractor support has been engaged. It is at this level that DoD and MoD policymakers have scope to learn from each other.

On the one hand, MoD has practical lessons to learn from the DoD and U.S. armed services' accrued experience with deployed support contracting. The MoD decided to formalize its policy for the employment of contractors on deployed operations in 2000. In contrast, the U.S. armed services have routinely employed both deployed service and equipment contracts since the 1960s. The U.S. Army has relied heavily on its LOGCAP contract and many "original equipment manufacturers" during all phases of operations, and the LOGCAP program alone is worth between $3-10 billion per year.[211]

Moreover, DoD officials and contractors have stated that "it has taken a decade or more to establish their relationship and the ability to deliver the precise capability with availability that guarantees the service while demonstrating value for money and significant savings."[212] This, coupled with the extensive array of operational risk analysis tools, contingent pricing regimes, contractor management techniques, and doctrine innovations developed by the DoD and U.S. armed services,[213] suggests that MoD has much to learn from detailed monitoring and analysis of U.S. procedures and experiences.

On the other hand, MoD has made a series of conceptual, organizational, and procedural innovations that offer potentially useful lessons for the DoD and U.S. armed services. According to MoD officials, strengths of the UK's approach are that ownership and control of the CONLOG Contract resides with joint operational commanders at the PJHQ, and that this "reduces the supply chain and duplication of activity by contract."[214] Correspondingly, the U.S. approach is to maintain three single-service equivalents: the Army's LOGCAP, the Navy's Construction Capabilities Contract (CONCAP), and, the Air Forces' Air Force Contractor Augmentation Program (AFCAP) contract. In 1997, the U.S. General Accounting Office (GAO) concluded that "it might be more 'effective and efficient' if one service acted as the lead executive agent" or that "a joint civil augmentation program (JCAP) contract be established that will meet the needs of [each service] while eliminating duplication of effort."[215] Similarly, the GAO reiterated its concerns in June 2003 that:

> there are no DoD-wide policies on the use of contractors to support deployed forces. As a result, there is little understanding among the services as to the government's responsibility to contractors and contractor personnel in the event of hostilities. This lack of understanding can cause confusion at the deployed location and makes managing contractors more difficult because commanders often have contractors from several services at their location with different requirements, understandings, and obligations.[216]

These observations suggest that the DoD should analyse the C^2 and other benefits the U.S. armed services might obtain from a single joint overarching contractor support policy based on MoD's CONLOG model.

Like MoD's DPA and DLO, the U.S. armed service program offices and material commands have delegated authority to write battlefield support contracts independently. However, MoD is unique in having an overarching CONDO policy that codifies and standardizes C^2 and other contractor-related procedures for all deployed commercial support. The GAO has recently expressed its concern that:

> Broader oversight is lacking in key areas, making it difficult for commanders to manage contractors effectively . . . Guidance at the DOD, combatant-command, and service levels regarding the use of contractors to support deployed forces varies widely, and mechanisms for managing these contractors are inconsistent, creating challenges that may hinder the efficient use of contractors.[217]

This suggests the DoD should consider adopting a CONDO-type policy to enhance U.S. commanders' awareness of contractor assets at their disposal and to codify contractor support arrangements.

A key element in MoD's approach to CONDO and CONLOG has been its emphasis on "partnership" as a mechanism to align military and private sector expertise and aspirations in policy formulation. This philosophy also has extended to policy implementation, reflected in the embedded KBR team located at the PJHQ. British officials have suggested that a key difference between U.S. and UK approaches is that implementation of "LOGCAP is left very much to the [U.S.] deployed commander, whereas in the UK, the PJHQ has control and the ability to plan and go for reach-back because KBR is embedded in the planning process."[218] Consequently, analysis of MoD's approach to establishing "partnerships" could offer valuable insights to DoD policymakers.

Finally, an innovative aspect of MoD policy is the SR concept, which is intended to bridge contractor provision and organic military capability. Indications are that the U.S. Air Force became interested in the SR concept during the mid-1990s, and the U.S. armed services continue to monitor MoD policy through the British Defence Mission in Washington.[219] Though the U.S. armed services currently lack dedicated legislation to develop this category of reserve forces, the SR concept may provide a useful template for the DoD to extend its relationships with the private sector in the future.

CONCLUSIONS AND RECOMMENDATIONS

The author identifies three major conclusions and associated recommendations for consideration by MoD and DoD officials. The first is that the use of contractors on deployed operations is likely to remain a controversial aspect of UK and U.S. defense transformation unless steps are taken to address a range of unanswered questions. On the one hand, MoD and DoD officials claim that contractor support reduces defense costs and provides a crucial "force multiplier" to meet contemporary operational needs. They assert that the policy agenda has become one of refining procedures to engage private firms in the most cost-effective and operationally advantageous manner rather than any further questioning of the utility of contractors *per se*. On the other, "too far" critics continue to argue that MoD and DoD have a flawed ideological preference for outsourcing, and "too little" critics raise concerns about bureaucratic barriers to more extensive private sector solutions. This analysis suggests that controversies, myths, and emotions will remain unresolved until MoD and DoD release more data on the performance and impact of deployed operational outsourcing into the public domain. On this basis, the first recommendation is that MoD and DoD provide greater clarification by releasing more information, with accompanying assumptions, on:

- The detailed mechanisms employed to evaluate the relative financial and operational implications of in-house and outsourced provision of deployed operational support, including the treatment of transaction costs.
- The internal MoD and DoD policy guidance, organizational arrangements and institutional incentive structures under which officials evaluate the merits of in-house and private sector delivery.
- The precise mechanism employed to ensure that private contractors are precluded from extracting "excessive" profits on defense support contracts.
- The financial and personnel resource redistribution and reinvestment implications of deployed support outsourcing.

- The detailed methodology adopted by MoD and DoD in differentiating between force "augmentation" and "replacement" resulting from outsourcing on a contract-by-contract basis, and in terms of cumulative force posture impacts.
- The mechanisms in place to measure and evaluate the impact of defence outsourcing on the morale, cohesion, ethos, and professionalism of the armed services and the contractors' personnel supporting them.

Greater transparency on these issues will enable independent appraisal of the full range of benefits, limitations, and trade-offs associated with contractor support and a better-informed public policy debate.

The survey of MoD policies and doctrines indicates that sophisticated mechanisms are in place to manage contracting for UK deployed operations. The CONDO policy codifies contractor support and deployed C^2 arrangements, the CONLOG Contract has rationalized contractor supply chain management, and the SR Concept provides commanders with an interim option between regular military and civilian contractor personnel. Despite these innovations, the second conclusion is that there are still implementation issues that MoD needs to address and that "much needs to be done to better exploit commercial capability."[220] These implementation issues are equally relevant to future DoD reviews of the coherence and effectiveness of U.S. policies and doctrines towards deployed contractor support. The recommendations that emerge are that MoD and DoD should:

- Review the coherence of current guidance provided to individual contracting authorities when entering into commercial deployed support arrangements to ensure consistent contractor support arrangements are in place for military commanders. This should include analysis of the robustness of frameworks intended to regulate the approaches adopted by individual contracting authorities and the "end-to-end" effectiveness of existing contracts.[221]
- Review the states of "availability and readiness" for existing contractors and their sub-contractors to deploy, the extent

of "planned and unplanned" contractor surge capacity, and the measures that contractors can expect MoD and DoD to provide to prepare them for deployed operations.

- Review key MoD/DoD and contractor risks on deployed operations in the areas of personnel security and safety and insurance and corporate reputation.
- Identify and review all operational capability gaps currently met by contractors as a basis for understanding and managing the cumulative risks associated with relying on commercial capability.
- Review the current and longer-term ability of MoD and DoD contracting authorities to act as "intelligent customers" when contracting for deployed support. At issue is whether commercial officers are receiving appropriate training for deployed support contracting, whether contracting authorities have the ability to determine where and how best to use contractors, and whether they understand the operational environment and have the skills to develop "imagination and flexibility in determining an appropriate contracting solution."[222]
- Review the current and potential longer-term ability of the U.S. and UK armed services to remain "intelligent managers" of contracted deployed support. This should include analysis, for example, of the extent to which current and future commanders are educated in contractor management issues during their command and staff courses and precommand training.
- Review the scope for joint risk assessments and greater "habitualization" with industry when planning long-term commercial support arrangements.
- Review and clarify the distinction between benign and nonbenign operational conditions where contractor support options are under consideration.
- Identify the relative strengths and weaknesses of CONDO and SR-type arrangements for foreseeable deployed operational contingencies through the use of cost-benefit analysis.

- Review and quantify the likelihood and risk of contractor withdrawal on the armed services' ability to meet mission objectives.

The third conclusion is that the DoD and MoD have developed innovative mechanisms to harness private sector capability for contemporary operations, and that both organizations have scope to learn from each other. On the one hand, the U.S. armed services' tried-and-tested approaches to contracting for deployed operations over a number of decades suggest that MoD policymakers and practitioners have much to learn from DoD processes and procedures. On the other hand, though MoD's practical experience in employing contractors on deployed operations is more limited, it has developed coherent concepts that potentially have applicability with U.S. armed services. A final recommendation is that U.S. officials evaluate the content and performance of MoD's CONDO policy, CONLOG Contract, and SR Concept in terms of their potential utility for the U.S. armed services.

Officials at the DoD and MoD claim it is inevitable that all future UK and U.S. military operations will rely on a degree of contractor support. From their perspectives, the debate is no longer about whether there will be private firms on deployed operations; rather, the issue is when and where contractor support offers the most cost-effective solution in financial and operational terms. As this analysis shows, complex economic, operational, and policy implementation considerations are likely to dictate the future scale and scope of contractor involvement. This suggests the need for ongoing policy and doctrine refinement by defense officials, as well as greater independent scrutiny of developments, not least because the use of contractors on deployed operations has an important impact on government expenditure choices, public accountability, the efficiency and effectiveness of the military establishment, and the conduct and outcome of armed conflict.

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139. House of Commons Defence Select Committee, Fourth Report, Session 2001-02, July 3, 2002, Para. 54.

140. This section draws from interviews with PJHQ and Defence Manufacturers Association personnel.

141. M. Rifkind, "Front Line First," *RUSI Journal*, December 1994, p. 3.

142. For a discussion, see K. Hartley, *The Economics of Defence Policy*, London: Brassey's, 1991, Ch. 1; and D. Greenwood, "Expenditure and Management," in P. Byrd, ed., *British Defence Policy: Thatcher and Beyond*, London: Philip Allan, 1991, pp. 36-66.

143. See T. Bovaird, "The Changing Context of Public Policy," in T. Bovaird and E. Loffler, eds., *Public Management and Governance*, London: Routledge, 2003, p. 17.

144. I. Andrews, "Managing Change," *Defence Management Journal*, Issue 22, April 2003, p. 26. Ian Andrew is MoD's Second Permanent Under Secretary.

145. M. Stewart, "Future Resource Management in Defence," *RUSI Journal*, April 1993, p. 75.

146. K. Tebbit, "Delivering a Coherent Defence Policy," *Defence Management Journal*, Vol. 2, No. 4, 1999, p. 10.

147. Rifkind, p. 3. See also J. Williams and N. Holland "Developing Wider Market Opportunities Through Public Private Partnerships," *Defence Management Journal*, Issue 18, February 2002, pp. 62-63.

148. M. Edmonds, "Defence Privatization: From State Enterprise to Commercialism, *Cambridge Review of International Affairs*, Autumn-Winter 1999, Vol. XIII, No. 1, p. 123.

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150. See P. Kemp, "Can the Civil Service Adapt to Managing by Contract?" *Public Money and Management*, Vol. 10, No. 3, Autumn 1990.

151. Ministry of Defence, Performance Report 2000/2001.

152. M. Stewart, "Future Resource Management in Defence," *RUSI Journal*, April 1993, p. 74.

153. E. Mellon, "Executive Agencies: Leading Change from the Outside-in," *Public Money and Management*, Vol. 13, No. 2, April-June 1993.

154. Chief Executive Rear Admiral Rees Ward, quoted in M. Harte, "Information Anytime, Anywhere," *Defence Management Journal*, Issue 21, December 2002, p. 18.

155. Chief Executive S. Hill, "DARA Spearheads a Radical Change," *Defence Management Journal*, Vol. 4, Issue 2, Spring 2001, p. 6.

156. P. Cunliffe, "A Driving Force for Transport," *Defence Management Journal*, Vol. 3, Issue 2, Spring 2000, p. 27.

157. Chief Executive Rear Admiral J. Chadwick, "Pioneers of Partnering: NRTA Flagship," *Defence Management Journal*, Vol. 2, Issue 4, Autumn 1999, p. 92.

158. Following the 1998 Strategic Defence Review, single-service Land Maritime and Air acquisition and logistics organizations were amalgamated into the joint Defence Procurement Agency and Defence Logistic Organization.

159. Ministry of Defence, *The Smart Acquisition Handbook*, p. 16.

160. See J. Oughton, "The Defence Logistics Organization—Transforming Logistic Support to the Armed Forces," *World Defence Systems*, Vol. 3, No. 2, July 2001, pp. 97-99.

161. Hedley and Busby, p. 40.

162. M. Robinson, "Contract Budgeting."

163. Jackling, p. 93.

164. Cabinet Office, *Competing for Quality Policy Review: An Efficiency Unit Scrutiny*, London: HMSO, 1996, p. 6.

165. Withers.

166. Cabinet Office, *Competing for Quality Policy Review*, p. 6.

167. Interview, SO1 J4 Contractor Logistics CONLOG. Open book accounting procedures allow MoD to scrutinize contractors' receipts for expenditures incurred in meeting additional MoD requirements not specified when the contract was originally awarded.

168. S. W. Davies, *Private Finance Supporting the Trigger: An Examination of the Private Finance Initiative to Deliver Operational Capability*, unpublished Master of Defence Administration thesis, Cranfield University, 2003-04, p. 2-7.

169. Interview, Defence Manufacturers Association CONDO Representative.

170. See J. Oughton, "The Sinews of War," *Defence Review*, Spring 2002, p. 62.

171. Brigadier T. Cross, "Logistic Support for UK Expeditionary Operations," *RUSI Journal*, February 2000, p. 74.

172. Joint Doctrine and Concepts Centre, Joint Doctrine Pamphlet 4/01, *Contractors on Deployed Operations*, December 2001, p. 1-4.

173. General Sir Sam Cowans, "Perspectives on Current MoD Policy," *RUSI Journal*, February 2000, p. 65.

174. Smart, p. 70.

175. Ministry of Defence, *JSP 567*.

176. *http://www.mod.uk/business/ppp/reserves.htm*, October 1, 2003. The Sponsored Reserve concept originated from the 1992 "Regular/Reserve Forces Mix Study," and legislation was put in place in the 1996 Reserve Forces Act, Part V.

177. Ministry of Defence, *JSP 567*, p. 6.

178. *Ibid*., p.12.

179. The J1/J4 Logistics and Personnel staff are responsible for all logistic aspects of the planning, deployment, and sustainment of UK-led operations.

180. Ministry of Defence, *JSP 567*, p. 14.

181. *Ibid*., p. 21.

182. The PJHQ "contract owner" is the Assistant Chief of Staff ACOS J1/J4.

183. Ministry of Defence, *JSP 567*, p. 21.

184. Ministry of Defence, Defence Council Instructions Joint Service, Contractors on Deployed Operations, *DCI JS 62 2003*, April 11, 2003, p. 41.

185. Interview, SO1 J4 Contractor Logistics CONLOG.

186. Interview, Directorate of Broadening and Deepening Smart Acquisition—Sponsored Reserves, Joint Services Command and Staff College, December 19, 2003.

187. Higginson Associates, *CONDO Risk Assessment: Final Report*, March 2004.

188. Ministry of Defence, "The Current MoD Policy for Using Contractors on Deployed Operations," *http://www.ams.mod.uk/ams/contents/docs/condo.htm*, October 1, 2003.

189. Interview, Directorate of Broadening and Deepening Smart Acquisition—Sponsored Reserves.

190. MoD, Public Private Partnerships, *Changing the Way We Do Business: Sponsored Reserves*, *http://www.mod.uk/business/ppp/reserves.htm*.

191. ACDSRP, *Defence Policy on Contracting for Sponsored Reserves*, July 27, 2000, p. 2. According to MoD, the SR model provides the additional benefits of enabling commanders to focus regular Service manpower resources on tasks or skills that can only be undertaken or maintained by regular servicemen and women both in peace and on operations, and the ability to transfer of the risks of equipment ownership to the civilian sector.

192. House of Commons Defence Select Committee, Fourth Report, Session 2001-02, July 3, 2002, Para. 58.

193. House of Commons Defence Select Committee, Ministry of Defence Memorandum in Response to the House of Commons Defence Committee's Report on Major Procurement Projects, Sixth Special Report, October 16, 2002, Para. 29.

194. House of Commons Defence Select Committee, Fourth Report, Para. 55.

195. Interview, SO1 J4 Contractor Logistics CONLOG.

196. Interview, Defence Manufacturers Association CONDO Representative.

197. *Ibid*.

198. Higginson Associates.

199. Interview, Directorate of Broadening and Deepening Smart Acquisition—Sponsored Reserves.

200. *Ibid*.

201. Interview, SO1 J4 Contractor Logistics CONLOG.

202. Higginson Associates.

203. *Ibid*.

204. *Ibid*.

205. ACDSRP, *Defence Policy on Contracting for Sponsored Reserves*, July 27, 2000, p. 3.

206. For detailed discussion of these initiatives, see M. Hynes, S. N. Kirby, and J. Sloan, *A Casebook of Alternative Governance Structures and Organizational Forms*, Santa Monica CA: RAND, 2000, pp. 1-10.

207. For recent surveys of U.S. defense outsourcing initiatives, see, for example, A. Markusen, *The Case Against Privatizing National Security*, paper presented at the 2001 Meeting of the International Political Science Association, University of Oklahoma, Norman, OK, March 2001; and Spearing.

208. See Pint and Hart, pp. 2-3.

209. Interview, SO1 J4 Contractor Logistics CONLOG.

210. Data derived from Higginson Associates.

211. *Ibid*.

212. The detailed content of the DoD's current approach under these headings is covered in R. King, DCS G-4 DSN, *Sustaining the Transforming Army*, presentation at the DMA MoD Contractors' Support to Deployed Operations Seminar, London, March 15, 2005.

213. Interview, SO1 J4 Contractor Logistics CONLOG.

214. M. J. Dowling and V. J. Fleck, *Feasibility of a Joint Engineering and Logistics Contract*, Wright Flyer Paper No. 7, Maxwell Air Force Base, AL: Air Command and Staff College, September 1999, pp. v-vi. See also D. M. Devens, *A Jointness Concept for the Future: Civilians, Contractors and Soldiers in SYNC*, Carlisle Barracks: U.S. Army War College, 1998.

215. U.S. General Accountability Office, *Military Operations: Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DOD Plans*, GAO-03-695, June 2003, p. 35.

216. *Ibid.*, p. 3.

217. Interview, SO1 J4 Contractor Logistics CONLOG.

218. Interview, Directorate of Broadening and Deepening Smart Acquisition—Sponsored Reserves.

219. MoD Director of Logistic Operations, *CONDO Policy and Implementation*.

220. Indications are that MoD's Defence Logistics Organization has recently recognized that reform in this area is required, and potential mechanisms to ensure greater regulation in contracting for the "Support Solutions Envelope" are now being evaluated. MoD Chief of Defence Logistics, *The DLO Mission: To Deliver Logistics for Operations*, Presentation at the DMA MoD Contractors' Support to Deployed Operations Seminar, London, March 15, 2005.

221. A. Higginson, *MoD Contractors' Support to Deployed Operations (CONDO) Post Seminar Summary*, unpublished, March 18, 2005.