A Strategy for Self-Sufficiency

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A Strategy For Self-Sufficiency

As more Gulf Co-operation Council countries look to develop a domestic defence industrial base and reduce their dependence on foreign military suppliers, a well-defined defence industrial strategy is needed to ensure forces are supplied with the right kind of capabilities.

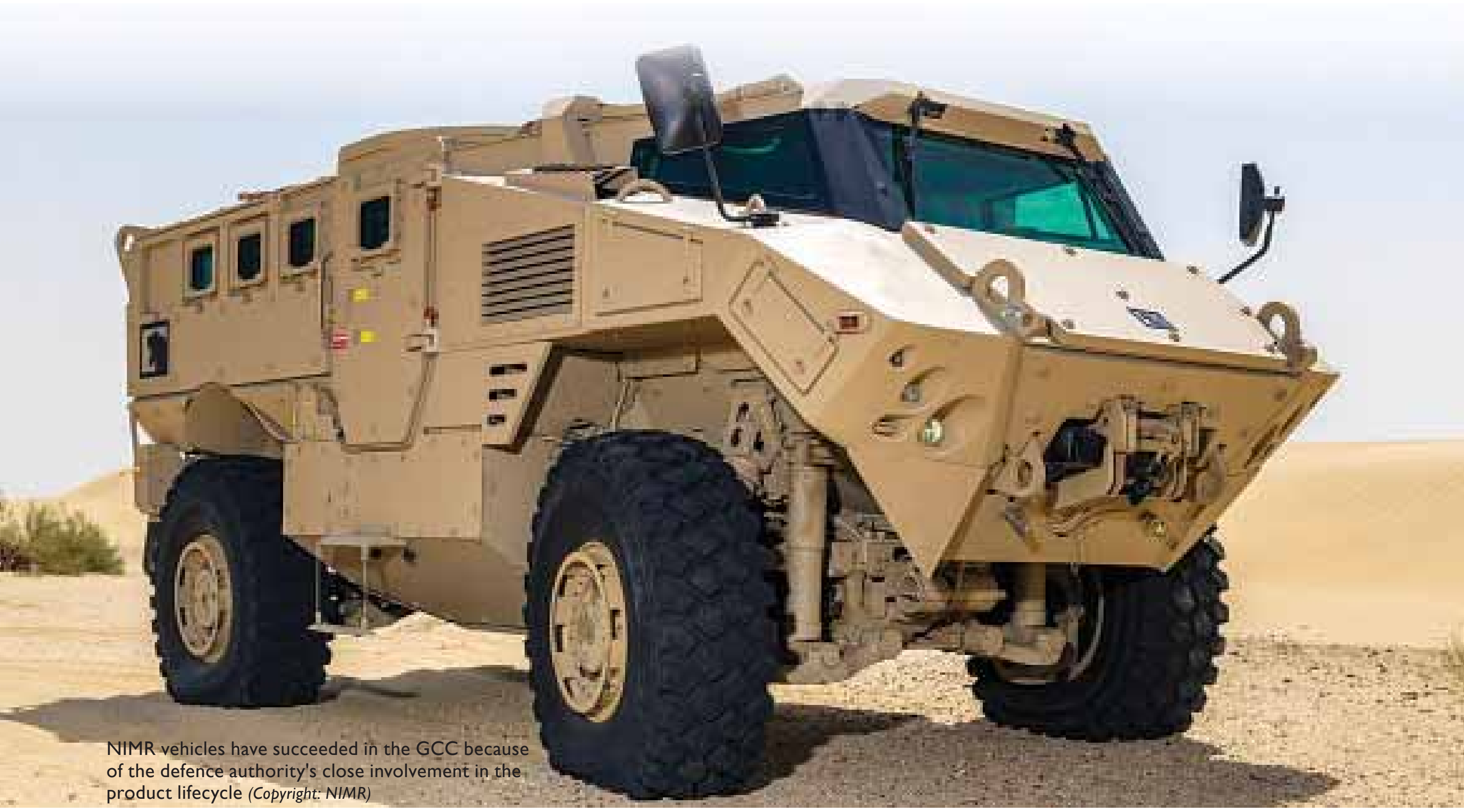
By Isa Aljeeran, John McCormack & Peter Antill

Armoured vehicle manufacturers (AVMs) of the Gulf Co-operation Council (GCC) operate at a disadvantage due to the absence of certain governmental policies and publications, such as a Defence Industrial Strategy (DIS).

In many countries, the DIS is a key part of a comprehensive National Defence Strategy (NDS), where the near-to-medium term military requirements of the government's defence policy are laid out. The DIS should be considered key to the formulation of each manufacturer's strategy so that it can fulfil the military's requirements as they are tendered by the defence procurement agency where the armed forces' requirements are specified. The DIS (or lack thereof) should have a significant impact on the each of the AVM's strategy.

Regardless of whether there is an overarching NDS/DIS or not, each vehicle manufacturer's strategy should focus on supplying the best value for their customers, providing an adequate return on investment to satisfy their shareholders and sustaining the organisation's position in the industry to be able to serve their current customers, as well as tender for new business.

However, this may be difficult for some manufacturers. There are several reasons for this, including the individual objectives of their owners, the lack of planning resources in AVMs as they tend to be



NIMR vehicles have succeeded in the GCC because of the defence authority's close involvement in the product lifecycle *(Copyright: NIMR)* small-to-medium size enterprises (SMEs) and the ambiguity of military requirements resulting from the lack of a DIS.

We will outline the findings of a piece of research into the availability (or not) of a published Defence Industrial Strategy within the GCC for AVMs, and the obstacles that hinder them from formulating an appropriate strategy. The article will also explore how the provision of a DIS could be fundamental in helping GCC countries realise their strategic objectives of greater self-sufficiency, economic development and operational effectiveness.

A COHERENT STRATEGY

The success of the NIMR vehicles in military operations by the Saudis and the UAE in Yemen, illustrates the value of close co-operation between defence authorities and defence manufacturers. "NIMR, which is 60% owned by the Abu Dhabi-based investment fund Tawazun, is largely known for the design, manufacture and support of larger, heavier wheeled, armoured military vehicles".[1] (NIMR is now a subsidiary of Emirates Defence Industries Company, which was formed by merging several state-owned defence companies.)

NIMR vehicles have succeeded for two main reasons: the involvement of the UAE military authorities in the conceptual design; and the ability of the platform to utilise a variety of different systems depending on the specific operational need.

The key element was the defence authority's close involvement in the product lifecycle, which should have been formally laid out in a published DIS. However, the UAE does not have an explicit DIS like other regional countries, and so the relationship between the UAE military authority and Tawazun implicitly reflected certain objectives one would expect to see in a DIS, informally agreed and implemented across the development lifecycle.

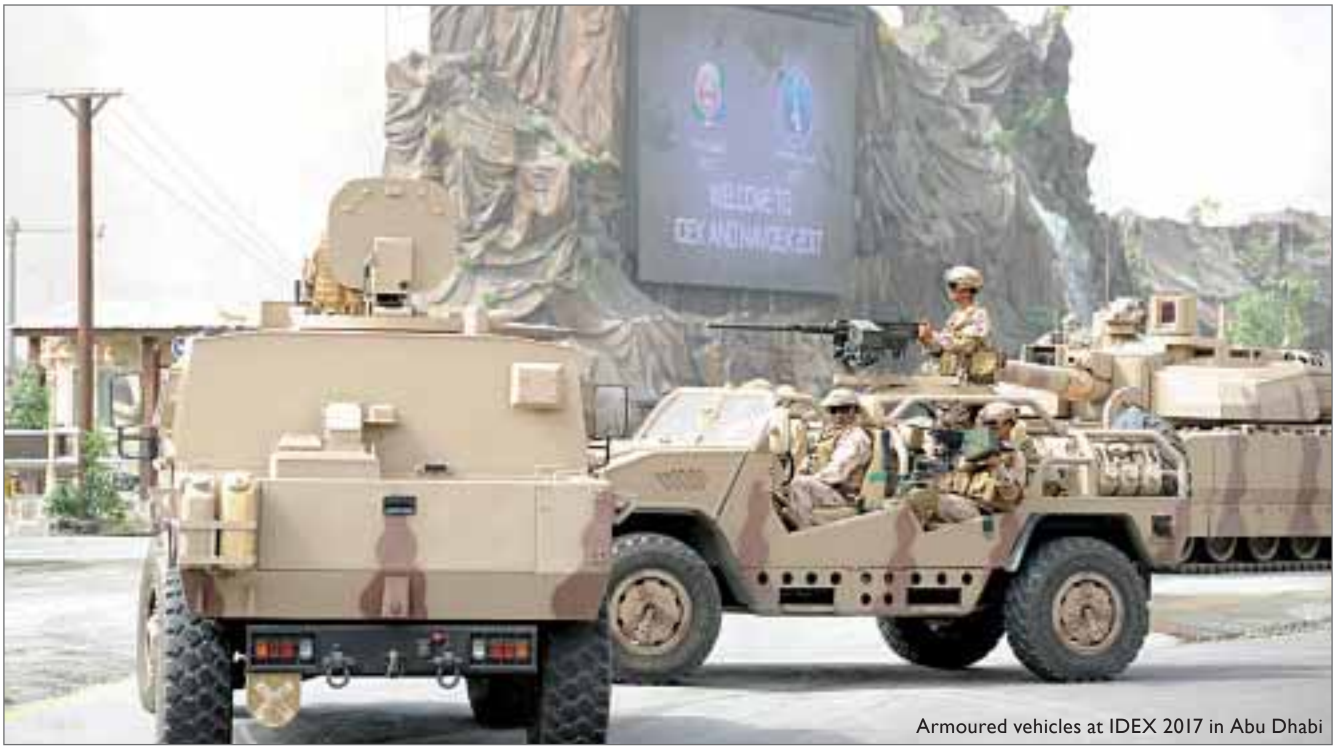
The Saudi military authority has the same close relationship with its existing local defence manufacturers such as Altadrea and AVF. A DIS should play a significant role in listing all the equipment needed to implement the National Defence Strategy. This equipment is then identified by different manufacturers (local, regional or international), which in turn prepare themselves to produce components of the requisite equipment.

This kind of transparent need identification helps manufacturers plan proactively and develop platforms against clearly stated objectives. AVMs in the Gulf are no different and would benefit equally from this kind of tool to link strategic goals to operational planning. So, what is the impact of not having a DIS covering the AVMs within the GCC?

First of all, one should ask why there is not a published DIS in the GCC? Experience in the field and research on the subject over the last two years suggests three main reasons:

(1) The historic relationships between high-ranking officers in the military and AVM owners has evolved into close, informal, but traditional working relationships;

(2) The military agencies are relatively



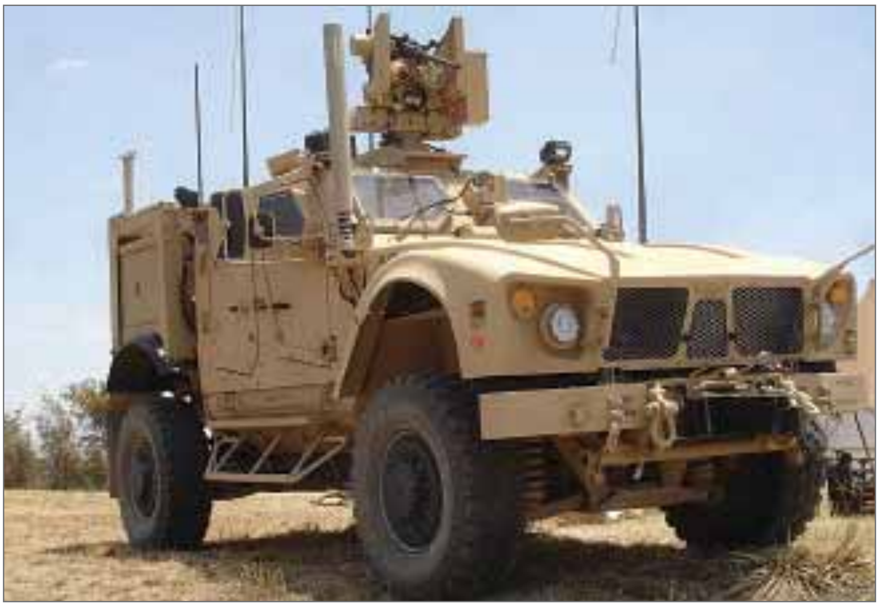
Armoured vehicles at IDEX 2017 in Abu Dhabi

new and dealing with massive equipment requirements, which tends to preclude the restructuring of relationships in the longer-term and;
(3) The dependency on foreign suppliers has resulted in a supply chain highly influenced by political factors. Nevertheless, the potential benefits of a DIS to the GCC would justify prioritising its development and use.

The UK Ministry of Defence outlines some of the DIS advantages as mentioned in a white paper issued in 2005:[2]

- For the country, the DIS ensures clarity about its future defence requirements and sets out the industrial capabilities needed to ensure it has the military capability to mitigate threats to its national security.
- For the defence industrial base (DIB), the DIS should guide it on what to produce in the near future and thus be able to prepare themselves to cover such requirements.
- For the customer or the end user (the armed forces), the DIS gives them a way to influence procurement policy so as to obtain the equipment best suited to fulfil their tactical and operational art.

In addition, a DIS is shown to have other benefits to developing countries, such as fostering growth in the national economy, improving forward contingency planning, encouraging development of a national technology base, improving the selection process of suppliers, enabling more sophisticated types of development and production consortia, and developing the national defence capabilities of emerging (developing) countries.



A US Army Oshkosh M-ATV sold to Saudi Arabia. The kindgom wants to develop more defence equipment, including armoured vehicles, locally.

PREPARED FOR CHANGE

The other issue to consider is the character of the vehicle manufacturers' strategies. AVMs in the GCC are mostly SMEs owned and managed by entrepreneurs who like to take risks. SMEs tend to have fewer planning resources available to them, which often results in uncertain outcomes. In this sector there are three primary approaches to planning strategies: a well-planned strategy with comprehensive and precise details; a partial strategy, one that doesn't cover all the possible activities and; no strategic planning, or only pro forma planning which is not integrated into operations.

Smaller organisations, with fewer resources and a higher risk tolerance, often fall into the second or third category. Therefore, SMEs are more vulnerable to dynamic change and would benefit disproportionally from strategic guidance and a more transparent system of medium to long-term requirements identification.

This is where a DIS can help. By clearly identifying what is needed, firms can focus their resources and better adapt to competition, identify key developmental trends in armoured vehicle technology, and plan against economic and demand uncertainty in the region.

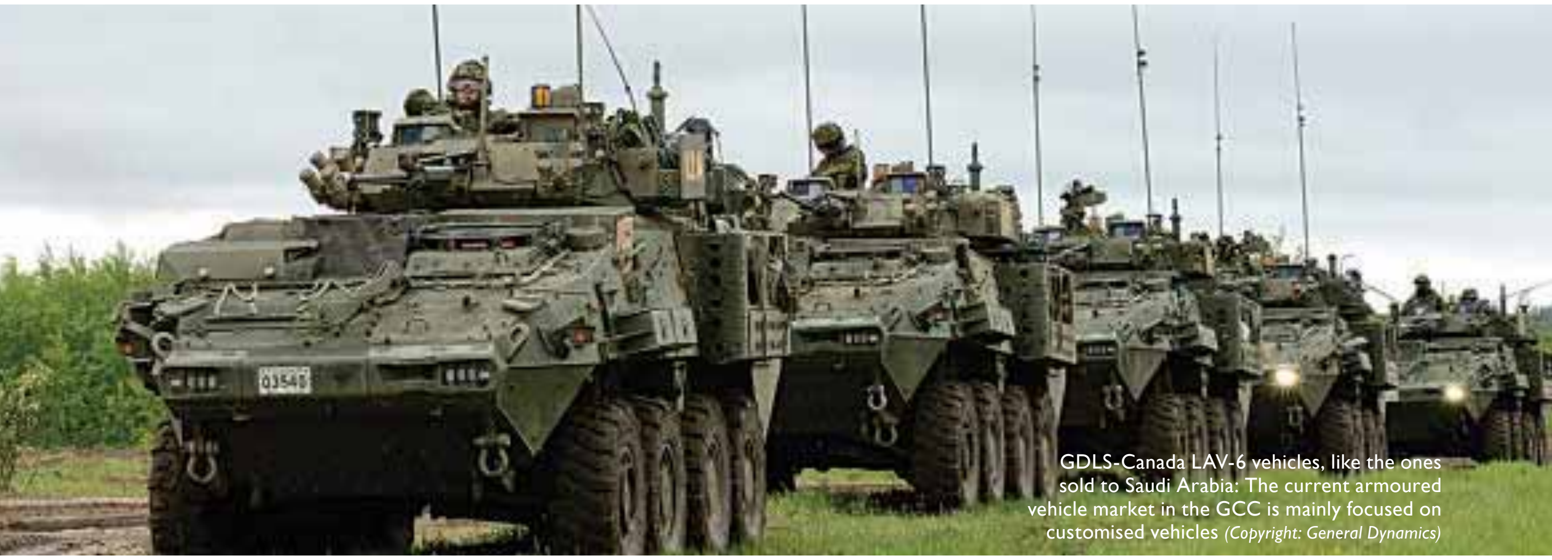
To reach their organisational goals, enterprises invest their limited funds trying to develop the right collection of tools, resources, capabilities and core competencies to attain a competitive advantage in their target market, what Michael Porter called "strategic fit".[3]

The armoured fighting vehicle (AFV) market is subject to prescriptive influences from nation states and understanding the sources and nature of these influences can help significantly in constraining the dynamics of the market, letting the AVMs better focus resources and compete more effectively with larger or more established global competitors.

From many years working in this sector, Isa Aljeeran found that AVMs in the GCC tend to be much less aware of or act to align themselves with external environmental factors than their peers in more developed markets. His research identified the following factors:
1. The absence of a published national defence strategy that enables, directly or indirectly, existing defence manufacturers to plan their future activities. The NDS usually identifies the type and quantities of required equipment for the coming period, in line with the needs of national security. However, the lack of such information would lead the country's DIB, including the AVMs, to be reluctant to create their own strategy, leaving the production line to fulfil immediate or short-term

requirements. The current high demand for armoured vehicles from the GCC encourages the AVMs to focus on short-term operational planning.
2. The current AVM market in the GCC is mainly focused on customised vehicles rather than in-stock platforms. This has pushed the AVMs to adopt a pure make-to-order delivery system, limiting their ability to anticipate the demand and control the corresponding costs. This situation encourages company decision-makers to be more reactive and correspondingly less aware of their options in terms of strategic planning.
3. The facilities offered by the host countries reduce the operational cost, which leads to local AVMs having advantages over their competitors (both regional and international), but limits their ambitions to investigate new markets. The facilities offered by governments, such as economic free zones in the UAE, should be identified explicitly in the DIS as a part of the NDS to encourage transparency and define the market parameters for potential foreign participants. Ambiguity on this point has been identified as a significant barrier to entry for firms.
4. The AVM market is highly customer focused, as a result firms structure their business models around managing client relationships. However, actual customer satisfaction is not easy to measure; the products are highly technical and many of the procurement agency's staff are highly reliant on the relationship with the AVMs, being unclear about the product's technical capabilities. As a result, satisfaction with the client/supplier relationship may not be a good indicator of product success and may actually inhibit the decision-makers' ability to objectively evaluate individual products or platforms.
5. The AVMs in the GCC have been targeting only the GCC market, with some exceptions. The local AVMs tend to enjoy a strong relationship in their host countries, which provides them with a relative advantage over suppliers from different parts of the world. This cosy relationship at home has the knock on effect of limiting their willingness or ability to move into other sectors or other national markets.
6. The risk generated from fluctuating demand is mitigated by the region's access to a very flexible technical workforce, which is largely composed of international contract workers. The dynamic structure of the labour force is generally very well aligned with the nature of the AVMs' development and production lifecycles. However, the dependence on foreign skills and labour mean that the improved predictability of the workload that a DIS would provide would allow firms to better forecast and plan against market changes.
7. For a number of reasons, AVM managers in this area are less likely to consider mission statements to be a vital component of their business success. This means they are less likely to have an integrated strategy or a procedure to co-ordinate operational planning. The knock on effect is a more reactive business model, focused on short-term business planning. A well-developed DIS would allow the DIB to communicate future intentions and requirements to stakeholders and facilitate integrated planning across the supply chain.
8. While managers in the GCC AVMs are aware of the need for strategic planning, they are hesitant to talk about their practice models and when questioned about strategy give responses focused on operational training, qualifications and compliance with standards. Again, this illustrates the tendency to emphasise short-term operational planning at the expense of strategic planning.

What Aljeeran wanted to know was what made the firms in this region distinctive and to try to understand what kinds of policy tools might be most


GDLS-Canada LAV-6 vehicles, like the ones sold to Saudi Arabia: The current armoured vehicle market in the GCC is mainly focused on customised vehicles *(Copyright: General Dynamics)*

effective in making them more productive and better prepared to participate in the long-term development of the economy and security of the region.

The one thing that kept being highlighted was the fundamental role of strong informal relationships between local firms and the government purchasing agencies. This is viewed as a major advantage, but Aljeeran wanted to point out how it can also limit growth and innovation.

As an alternative to informal agreements, the DIS encourages transparent co-operation by making clear to all potential participants in the market what the buying agencies really want, why they want it, and when. This enhances the use of planning, and enables more sophisticated and collaborative delivery teams and consortia, where smaller local players may be able to participate in a broader range of supply chain systems.

The pace of development for new equipment, weapon systems and platforms is rising, and next-generation research and development activities are going to get increasingly challenging for smaller players. Improved integration, greater collaboration and knowledge sharing with global partners may be the best way to ensure the survival of the local defence industry, preserving local capabilities and appropriate levels of industrial authority, supporting national economies and encouraging the development of local centres of industrial excellence.

In order to ensure the DIS is fit for purpose, defence authorities need to work with the defence industry to ensure the they create a realistic and appropriately targeted plan, which accurately identifies its needs and intentions and is aware of the capabilities it needs to keep or wants to develop. Recognising that local, regional and global firms have to be involved in delivering the plan will be essential for its success, and as many as possible should be consulted before and during its development.

Streit Group's armoured vehicle assembly line in the UAE *(Copyright: STREIT Group)*

It is inevitable that in a sector like this, that there will be formal and informal relationships between buyer and seller, but modelling them can help us better understand linkages between causes and effects. By implementing more formal guidance regarding their strategic objectives and buying intentions, government agencies can encourage certain types of behaviour in their industrial supply chains that may help local firms plan and engage more effectively with delivery partners and develop better production systems for the AVMs so they can produce platforms and systems that fit the actual requirements of the state's armed forces.

The publication of a DIS in the GCC states could make important contributions to the development of their domestic armoured vehicle industry, improve the equipment production process and ensure that the forces are supplied with the right kind of capabilities for the near-to-medium term. By encouraging greater transparency and predictability in the defence supply chain, government agencies can help their local industries grow, innovate and meet their evolving defence and security needs. ■

ABOUT THE AUTHORS

Col. Isa K. Aljeeran is currently undertaking a PhD at Cranfield University, sponsored by the Bahrain Defence Force (BDF). He already has an MSc in System Acquisition Management from the US Naval Postgraduate School. He worked in defence equipment maintenance engineering for 15 years and was head of the Bahrain Defence Force's R&D department for 10 years, where he was involved in the acquisition of military weapon systems, primarily armoured vehicles.

John McCormack is a Lecturer at Cranfield University. His research focuses on industrial performance and public-sector management practices.

Peter Antill rejoined Cranfield University at Shrivenham in June 2009. He graduated from Staffordshire University in 1993 with a BA (Hons) International Relations, gained an MSc Strategic Studies from Aberystwyth in 1995 and a PGCE (Post-Compulsory Education) from Oxford Brookes in 2005.

FOOTNOTES

1. https://www.defenceprocurementinternational.com/features/land/nimrs-rapid-intervention-vehicle-for-special-forces
2. Ministry of Defence. (2005) *Defence Industrial Strategy: Defence White Paper, Cm6697, 15 December 2005, available at* https://www.gov.uk/government/publications/defence-industrial-strategy-defence-white-paper, as of 18 October 2018.
3. Wikipedia. (2017) *Strategic Fit, last modified 29 August 2017, located at* https://en.wikipedia.org/wiki/Strategic_fit, as of 18 October 2018.