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UK Defence Acquisition Process for NEC: Transaction Governance within an Integrated Project Team

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UK Defence Acquisition Process for NEC:
Transaction Governance within an Integrated Project Team

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The Case Study

• First of a multiple case-based investigation into IPT Transaction Governance

• 19 open-ended interviews with key members of an Advance Military Vehicle IPT

• Demonstration Phase of CADMID

• Focus on the MoD-Prime Contractor bilateral exchange relationship
The Tectonic Conceptual Model

**Shaping of Structure**
- Industry recipe
- National business system
- Economic cycle

**Structuring of Action**
- tasks
- routines
- teams

**Level 1: Institutional Level**
- asset specificity
- uncertainty

**Level 2: Governance Level**
- frequency

**Level 3: Process Level**
- tasks
- routines
- teams
A Recent History of Defence Acquisition

Defence Acquisition From the 80’s onwards

Nationalised Defence Sector (Pre-80s)
British Aerospace, British Shipbuilders, Royal Ordnance Factories and Rolls Royce

Era of Privatisation
BAe (1981-5); RoF (1987); Rolls-Royce; (1988) BS (1989)

Levene Reforms (1984)
‘Competition and Collaboration’

Liberalisation
Divestments, Mergers & Acquisitions, and Joint Ventures

Consolidation
Industry Champions, Prime Contracting, Monopoly Vs Monopsony

A gradual change from the ‘cosy relationship’ between MoD-Industry to a competitive, yet adversarial, bilateral exchange relationship.
Defence Capability Acquisition

- Transition from Platforms to Capabilities
- Through-Life Capability Management
- Network-Enabled Capability
- Defence Equipment and Support
Transaction Governance in Defence Acquisition

Market Governance

Classical Contracting

Neo-classical Contracting

Trilateral Governance

Bilateral Governance

Relational Contracting

UK Defence Acquisition
Relational Contracting for Defence Acquisition

- Consolidation in the defence industry created a monopolistic supplier, in the case study
  - Feasibility stage started with competitive tendering between 5 consortia in 1990s
  - Successful bidder merges with pre-contract competitor in 2004, resulting in pre-contract asset specificities
  - Asset specificity creates a risk of opportunism (Williamson, 1979); thus, relational contracting remedies the hazards created by lock-in

- IPTs as a mechanism for relational contracting
  - Low transaction frequency negates the need for vertical integration by buyer (Unified governance vs. Bilateral governance)
  - Uncertainty/complexity in defence acquisition create the need for collaboration
  - IPT is the governance mechanism for a close partnership, enhancing communication, conflict resolution and requirement definition: e.g., Shared Data Environment
IPTs: Tasks, Routines and Teams

- IPTs are responsible for the delivery of defence capability to the end-use customer
  - Up to 120 personnel (civilians, civil servants and military personnel)
  - From key specialists in MoD (finance, requirement definition, logistics, etc.) and from prime contractors' business units
  - Engender collaboration and represent the relational contracting approach
  - [The IPT in the case study](#)

- Frictions in the IPT case
  - Competitive tendering process
  - Delivering technical requirements
  - Sharing information

- Public and Private teams
  - Civil Servant rotation
  - Cohesion and understanding
  - Conflicting goals and routines
The Breakdown of the Acquisition Structure

• Structuration problems
  • Change in responsibilities and accountability within the IPT structure
  • Constraints of budget and resources creates an overload of work for the team

• Process problems
  • Organisation ‘best practice’ routines culturally conflict
  • Rigidities in routines inhibit innovative systems thinking
  • Delays due to incomplete processes
  • Civil servant rotation creates team instability

• Domino effect
  • The MoD wants competitive tendering, but the industry is consolidating
  • Competitive tendering process creates unrealistic goals and milestones for the IPT
  • Lack of resources, time and money can create conflicts, delays and increased costs
  • Collaboration becomes difficult due to a weak (or problematic) mechanism—i.e., the IPT

• Need to rethink the acquisition structure with new policies, stronger mechanisms and an effective IPT process
Conclusion

• The Tectonic Model provides an effective way of analysing a highly complex transaction using a case study methodology.

• It seeks to understand the actions taken at the three tiers and how each level affects the next.

• Using the knowledge gained from the analyses, it is possible to reshape the structure of the three tiers in order to improve the flow of actions, and reactions.

• The UK defence acquisition process faces a number of new challenges, specifically concerning NEC. Our model provides the mechanism for finding solutions to the transactional problems.

• This study is the first attempt to understand the challenges facing defence acquisition using the three-tier model. Further case studies will be forthcoming.