

- We have to be more results-oriented and more concerned with getting the job done—ultimately making our organization more competitive and achievement-oriented.
- We have to improve the control and structure in this place, tightening up our formal procedures that should govern what our workforce does.

Using a 100-point scale, distribute the points into the pattern (Figure 3). This should help you intuit the complexity of the goal setting you are undertaking and help you assess balance among competing concepts. Try having others do the same and then compare patterns—perhaps now acknowledging

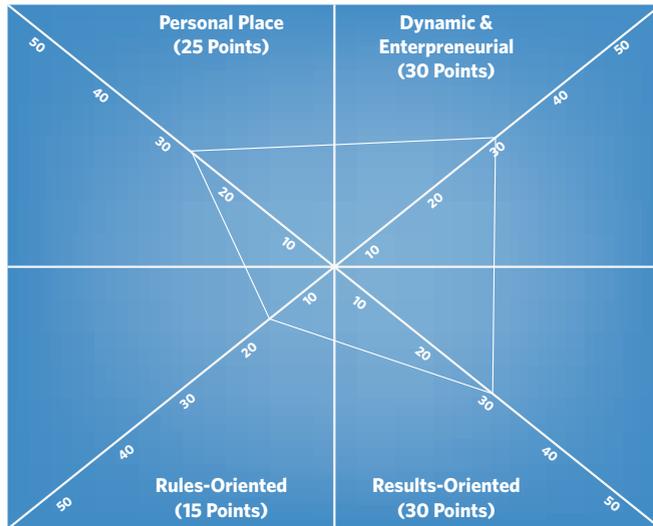


Figure 3. Judgment of Situational Balance

that others have differing views when faced with the paradox of competing values.

Brain researchers such as Ned Herrmann (author of the *Whole Brain Business Book*) claim that patterned thinking in most humans is limited to four competing concepts at a time. There are other studies that also indicate the human brain may at best be quadrifrontic (four-way looking [as outlined in Robert Quinn’s and Kim Cameron’s book *Paradox and Transformation*]), so I would not recommend exceeding the two-dimensional four-square approach—at least while getting used to the idea of patterned thinking.

The trick is to intuit about the right pattern that will make your organization more effective. There is no scientific logic to finding the right pattern, which is why intuition and building consensus are important as situations change. As organizations attempt to adapt appropriately to prevailing conditions, thinking in fours may help.

The author welcomes comments and questions and can be contacted at [christopher.paparone@us.army.mil](mailto:christopher.paparone@us.army.mil).

**Need for Balance**

I read Jaime Gracia’s article “Questioning Uncle Sam” in the September-October 2009 issue of *Defense AT&L* magazine. I thought the article made quite a few good observations and recommendations, but at the same time, I felt a little short-changed by the article.

I have no illusions that the acquisition system doesn’t need some fixing, but any complex system does. Gracia only provided two glaring examples (Alliant and KC-X) in condemning the whole acquisition system and its leaders (generally), while at the same time saying that some “companies are using protests as a strategic weapon to ensure they remain viable.”

The author made many good points, but I feel the article could have been more balanced by showing that of the 1,600 protests filed in 2008, what percentage of them were actually sustained.

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**Addressing EVM**

I had concerns with the scenarios and with other parts of an article that appeared in the September-October 2009 issue of *Defense AT&L*, “Advancing EVM and Government Contracting Efficiencies,” written by Daniel A. Zosh.

The article states, “In a typical DoD weapons system procurement, much of the cost of the system is expended during research and development and, therefore, there’s a large amount of profit consideration given to the contractors’ developing systems that exist only on paper as technical specifications.” This depends on how one defines “much of the cost of the system.” For most system programs, the amount for research and development is somewhere around 20 percent or less, while operations and support costs may exceed 50 percent.

What is clearly true is that decisions made early in a program’s development, before much of the life cycle cost has been expended, commit the government to expenditures throughout the total life of the system.

The article states, "On a \$1 billion contract with an 8 percent negotiated fee, the contractor profits \$80 million. If the contract grows (via amendments) to \$1.5 billion, the contractor profits \$120 million. Therefore, the contractor has an underlying motivation to grow the value of the contract with additional scope of work."

Although the total amount of profit or fee may relate to the size of a contract, the profit margin is not. According to FAR 15.404-4, profit "prescribes policies for establishing the profit or fee portion of the Government prenegotiation objective in price negotiations based on cost analysis." FAR 15.404-4 (d) Profit-analysis factors— establishes the factors to be considered. Size of the contract is not listed among them.

I suspect that for many, or even most, acquisition personnel, the article's first scenario is confusing because the calculation appears to be based on the government's share of the underrun, not the contractor's. As presented, the fee calculation is incorrect, as it mistakes the government's share for the contractor's share.

The Federal Acquisition Regulation clauses at FAR 52.216-10 Incentive Fee, FAR 52.216-16 Incentive Price Revision—Firm Target, and FAR 52.216-17 Incentive Price Revision—Successive Targets, do not provide for share ratios, but only how the profit or fee will be adjusted as a result of performance against the target cost, not "base value" as described in the article.

In the second scenario, it should be noted that contractors do not add modifications to contracts. Modifications, including changes within the general scope of the contract, are directed by the government.

A contractor does not reduce overhead rates for a single contract, but for all work in that pool. If there was only one contract, those would all be direct costs to the contract. However, one would certainly hope that the principal administrative contracting officer, corporate administrative contracting officer, or Defense Contract Audit Agency would be monitoring any changes in the contractor's indirect cost bases and be requesting a renegotiation of forward pricing rate agreements. Hopefully, all three would be doing so. This also confuses actual

overheard costs with absorption, while presuming that all overhead costs are fixed, and that none are variable or semi-variable.

Scenario 3 describes a contract structure that appears to be precluded by the Federal Acquisition Regulation because it has eliminated the adjustments to fee, essentially converting the contract to a cost-plus-fixed-fee contract. However, that change removes the cost incentive (or constraint) required by FAR 16.402-1 Cost incentives.

Regarding motivation for contractors, there are a number of motivations, including selling greater quantities over a longer period of time. In some cases, just to avoid program cancellation or a shift to lower cost alternatives. This affects the ability to compete for foreign military sales in the world market, which is fairly typical for U.S. systems over time. It also has an impact on how the contractor's past performance is evaluated. All of this becomes important to the original equipment manufacturer as they are looking to capture more business later, particularly support in the operation and maintenance phase after fielding.

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### The Author Responds

Thank you for your comments. It is good to see the article is encouraging some feedback and discussion. Please make sure you and your associates do not miss the true intent of the article: to promote thoughts and actions to change the way government DoD contracts are structured. The article will hopefully help stem the historical practices that lead to cost overruns and schedule delays on many government research and development type contracts. If the government can incentivize properly with millions of dollars, billions can be saved, and delivery of weapon systems can occur in a more timely manner. In addition, this article disregards operational cost assessments, and the intent is to address the research and development cost overruns and controlling the volume of contract modifications where the original baseline is lost over time. This is where dollars and time can be saved if contracts could be structured more appropriately.

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