

Contractor

- Reasonable-Firm Government Commitment
- Reward for Accepting Additional Risk
- Enhanced Corporate Reputation
- Reduced Debt Service
- Government Assistance in Becoming More Lean
- Share in Cost-Reduction Savings.

Recommendations

For successful contracting, Harris and LAI noted that the status quo of perpetuating adversarial relationships and conflicting goals must immediately make way for a jointly beneficial environment where contractor and customer develop a joint cost model and negotiate contracts that meet mutual goals. Toward that end, the LAI recommends the following:

Customer and contractors jointly create shared goals in an environment of mutual respect, trust, and commitment.

By doing so, both sides let go of an “us vs. them” way of thinking and can better focus on shared goals. The first step, said Harris, is ensuring that information is shared openly between respective organizations.

Develop a Joint Cost Model (JCM) for the system in production, as appropriate.

Cooperative teams that utilize current information within known processes and tested technology can better identify procurement costs. LAI suggested using JCMs in all major defense acquisition

programs and that both customers and contractors be well-versed in the benefits of JCMs.

Customer and contractor negotiate the contract that meets mutually defined goals while remaining responsive to future uncertainty. With the cultural changes recommended by LAI, contractor and customer can negotiate contracts that meet both of their goals and needs. LAI specifically identified program managers using insight vs. oversight, being committed to a long-term relationship, and sharing the benefits and risks.

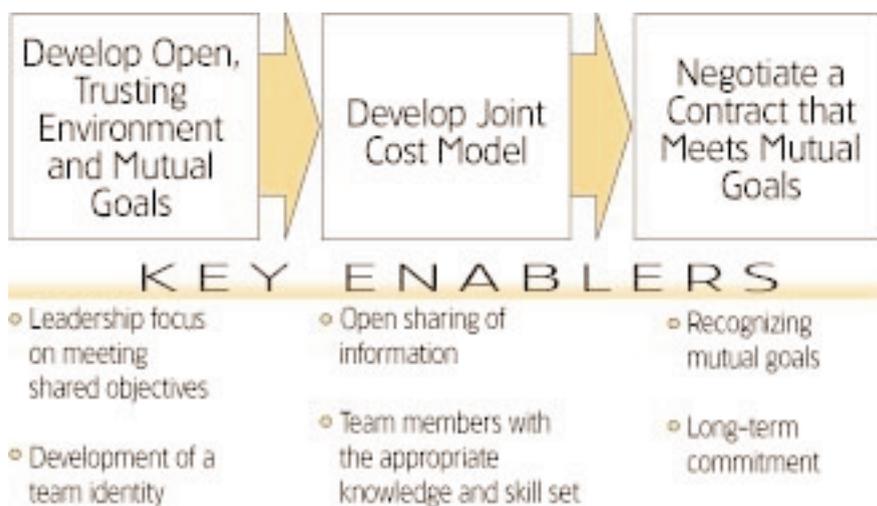
Successful Economic Incentives Result From a Chain of Events

Cultural change or common sense – playing on the same team, and fostering solidarity – breeds fantastic benefits.

“An open, trusting environment between customer and contractor could yield a number of tanks or missiles or aircraft or ships at significantly reduced price and related cost savings,” said Harris. “An open, trusting environment is priceless. It is the only glue that can [bind] customer and contractor and produce a win-win outcome.”

Editor’s Note: Professor Harris welcomes questions or comments concerning this article. Contact him at weslhar@MIT.EDU. You may also view the thesis, case study, write-ups, and results briefing at <http://lean.mit.edu/lean>.

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OSD UPDATES RULES OF THE ROAD

The Under Secretary of Defense for Acquisition, Technology and Logistics; and the Assistant Secretary of Defense for Command, Control, Communications and Intelligence (C3I) recently published online a revised edition of the 1995 *Rules of the Road: A Guide for Leading Successful Integrated Product Teams*.

Designed to assist the Program Manager (PM) and supporting acquisition community in developing and executing high-performance Integrated Product Teams (IPT), this Oct. 1, 1999, update incorporates four years of experience the Department has gained in the IPT process. It also provides guidelines for more effective IPT operations.

In a memorandum to all PMs and IPT members, Dr. Jacques S. Gansler, Under Secretary of Defense for Acquisition, Technology, and Logistics described the Oct. 1 revision as "... a living document that facilitates organizing, leading, and participating in effective and efficient IPTs. The Director, Systems Acquisition, has updated this key guide, and I commend it to every PM and IPT member."

Editor’s Note: To download an updated version of *Rules for the Road*, go to <http://www.acq.osd.mil/ar/#satI> on the Defense Acquisition Reform Web site. For questions or recommendations to improve *Rules of the Road*, contact Dr. Joseph Ferrara, Deputy Director for Acquisition Systems Management, at (703) 614-5420 or E-mail Ferrarj@acq.osd.mil.