

Study suggests ways Pentagon can cut billions

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As with most government agencies, the US Department of Defense faces intense pressure to be more efficient in how it spends tax dollars.

Building greater trust with defense contractors might be the solution, according to a new study sponsored by the [US Air Force](#) and co-authored by professors from UT, Auburn University, and the University of Alabama.

Cutting unneeded [bureaucracy](#) could reduce costs by 20 percent, which would save about \$20 billion each year, according to the study, written by Russell Crook, a UT associate professor of management; David Patterson, executive director of the UT National Defense Business Institute; Dave Ketchen, a Lowder Eminent Scholar at Auburn University; and James Combs, a professor at Alabama.

The Department of Defense currently spends \$400 billion each year acquiring products and services from defense contractors. About \$100 billion of the money is spent on [administrative costs](#), according to eighty defense executives who were surveyed for the study.

The authors found that a lack of trust between the Department of Defense and its contractors is a major driver of red tape.

One solution could be “relational contracting,” a concept that has helped private industry dramatically reduce the costs of doing business, Patterson said.

Relational contracting requires buyers and suppliers to work together to build trust.

“As Department of Defense funding is reduced and the department seeks better buying power, establishing trust between the government buyer and the industry provider remains extremely important,” Patterson said.

Cooperation created through relational governance also can bring new opportunities, Crook said.

Suppliers for Procter and Gamble, for example, have collaborated with the consumer products giant to create a series of innovative products. This program has been so successful that Procter and Gamble’s executives now believe that half of their firm’s innovations can arise from ideas provided by suppliers.

“The Department of Defense could benefit by adopting Procter and Gamble’s approach in two key ways,” Crook said. “First, the Department of Defense and its suppliers could work together to develop more advanced technological innovations for defending our country. Second, the costs of these innovations could be lowered if unnecessary reporting and compliance costs could be trimmed.”

In the survey, one contractor contended that the Department of Defense needed to view contractors as partners—not as adversaries. The contractor added that his company was trying to help improve the way the Department of Defense does business, but the government stonewalled the efforts.

A big—and costly—aspect of this stonewalling is the Department of Defense’s monitoring of contractors’ activities, Ketchen said.

“From the contractors’ perspective, the Department of Defense requires

too many reports, and it micromanages how contractors do their jobs,” he said. “Contractors believe that everyone could save money if the Department of Defense would focus on outcomes rather than processes and let the contractors figure out the best way to deliver good results.”

Provided by University of Tennessee at Knoxville

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