



## AVIATION WEEK PROGRAM MANAGEMENT ROUNDTABLE:

### CONTRACTUAL AND OPERATIONAL PRIORITIES

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***AVIATION WEEK'S Program Management Roundtable convened for its second annual meeting October 29, 2007. The Program Management Roundtable was created on the basis of industry leaders wanting more focus placed on program performance and excellence. Part of the initiative resulted in development of the AVIATION WEEK Program Excellence Awards; a second was creation of the Program Management Roundtable. The goal of the roundtable is to identify critical issues affecting program performance that are of common concern across all commercial, space and defense programs. More importantly, the roundtable participants identify specific underlying issues and actions to resolve them. This year's event, sponsored by KPMG, was held following the Program Excellence Seminar. This year's Program Excellence chairman, Steve Goo, hosted the Program Management Roundtable with Joe Anselmo, Aviation Week & Space Technology business editor. Goo is vice president of program management and business excellence for Boeing Integrated Defense Systems.***



The 2007 AVIATION WEEK Program Management Roundtable, hosted by KPMG, was shaped around three priority issues for program managers: defining recommendations for the formation of Defense Dept. Configuration Steering Boards (CSBs), increasing program management core competency in virtual/global teaming, and assessing what is needed to reach balance in industry and customer expectations surrounding fee structures, value and risk on programs.

Roundtable participants represented commercial, space and defense programs. Organizations participating included the Office of Secretary of Defense, Boeing, Lockheed Martin, Northrop Grumman, Honeywell Aerospace, Rockwell Collins, Raytheon, GE Aviation, Moog, NASA, Defense Acquisition University, Stevens Institute of Technology, and KPMG.

Key actions developed by the more than 40 people participating in the roundtable included:

- Communicate recommendations for CSBs to John Young, (Acting) Dep. Undersecretary of Defense for Acquisition, Technology & Logistics.
- Evaluate and bring to bear best practices for virtual and global teaming to the aerospace and defense industry; assure incorporation of commercial and non-A&D industry best practices.
- Work with government customers to incorporate prototyping phase to development contracts.
- Identify best practices in terms of incentivizing program performance that beats schedule or cost while assuring capability.

### ***Configuration Steering Boards***

Discussions about the CSBs emanated from a memo issued by Young that called for establishment of CSBs with the goal of minimizing requirements changes or scope creep. This top priority issue for program managers results in unplanned risk, replanning on a continuous basis, and overrun of budget and schedule.

As proposed by Dep. Undersecretary Young, the CSBs would be designed to hold the line on changing or increasing the requirements for a given program. The format follows closely to that of the Joint Strike Fighter Executive Board, which required that all board members agree to any change with full visibility to the increase in cost, schedule and impact to the end user prior to decision.

The major concern voiced by Program Management Roundtable participants was creation of an additional layer of bureaucracy versus the intended positive outcomes. Recommendations concerning the CSBs or Dep. Undersecretary Young provided by participants included:

- Establish a core team of government and contractor personnel to perform CSB function for each affected program and involve domain experts as needed.
- Gain full understanding of the root cause of present situation.
- Establish pilot phase for CSBs in each service branch and develop an exit strategy to “turn it off” if CSBs don’t meet the intended goals; this infers establishment of some type of metric to determine if the CSB adds value.

- CSBs need funding authority and responsibility to assure no unfunded requirements are introduced; CSBs should not be advisory in nature but responsibility, authority and accountability for program.
- Include customer, government and industry membership.
- Define plan to institutionalize and roll out in logical fashion should it prove successful.
- Define relationship between CSBs and Joint Requirements Oversight Committees.
- Establish CSB prior to RFP and program award.

### ***Establishing Role of Virtual Teams and Virtual Program Team Leaders***

Participants indicated that currently the U.S. A&D industry has adopted a tactical approach to forming global collaborations versus long-term strategic organizational approaches. While this implies structural changes for corporations, it also shifts the thinking from the need to “buy some labor” or “build to print” toward acquiring intellect and shifting ownership risk and responsibility to a wider base.

The group noted the activities of Boeing and Airbus commercial operations in establishing these types of collaborations on a global basis to achieve current record orders and production.

Among the tactical issues identified requiring an industry solution is incorporating the hidden cost of establishing a global team -- relationship building, which inherently requires time, as well as tool sets to facilitate virtual meetings, design capabilities, and process alignment. This cost should be institutionalized as part of the bid process. In addition, the program managers noted that there is a difference in establishing partnerships and a supply chain; partners adopt identical processes. Establishing the global team membership and operational procedures in green field (all-new) circumstances took approximately six years with the Joint Strike Fighter team.

It was also noted that global, virtual teams expose system and process weaknesses that may not be evident in a domestic-based program.

Key issues to resolve for global, virtual teams were identified as:

- Data sharing capability and data rights through the life cycle of a program.
- Visibility at all levels of the supply chain regarding cost, risk, asset restrictions, etc.
- The need to study and adopt best practices from outside the A&D industry.
- Push for streamlined and coordinated ITAR process that combines State Dept., Commerce Dept. and Defense Dept. priorities.
- Assure understanding among workforce, customers and other stakeholders that virtual, global teaming provides access to additional markets, technology, labor and innovation.

### ***Contractual Balance to Serve Customers and Industry***

Clearly the program leaders believe that the contracts should be developed to fit the realities of the 21<sup>st</sup> century versus the contracting processes and practices of the 1900s. The contract, instead, is a vehicle for articulating the common expectations, vision and mission to meet the customer's mission. For the most part, in this discussion, that customer is the warfighter and satisfying their needs should be paramount.

One key ingredient of this evolution is the introduction of contract incentives. The example provided was of restoration of the Los Angeles Freeway following earth quake damage. The construction contractor was motivated by millions of dollars worth of incentives to complete the project ahead of schedule, while still providing the defined capability and achieving prescribed quality.

Further recommendations regarding contract balance to achieve customer and industry value include:

- Use each contracting type appropriately. Government development contracts require a degree of flexibility and customer involvement that would be expensive in a firm, fixed-price environment.
- Use prototyping phase to allow for experimentation, refinement and weed out possible failures early in development.
- Remove spiral development from initial contract to increase simplicity.
- Establish prime contractor and government joint accountability.
- Recognize that in the past military innovation led and was then transferred to commercial applications; today commercial is leading innovation but restrictions inhibit transition to defense.

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Enhancing program management and performance is critical in dealing with typical conflicts between customer budget and time constraints and the contractors' profitability. One approach is to structure contracts and risk/reward models that ensure that each vendor is motivated in the way that best suits the requirements of the program. It is here that KPMG can help by analyzing programs and providing advice on how companies can integrate processes to manage risk—and share in functional performance incentives. Our multidisciplinary team and integrated approach also help us address client needs—across the spectrum of their programs and the lifespan of their businesses. It all adds up to a team that can help you move beyond reports and achieve measurable results. Results that can go right to the bottom line. [Douglas Gates, KPMG LLP, 345 Park Avenue, New York, NY 10154-0102, \(678\) 472-0137, dkgates@kpmg.com or \[www.kpmg.com\]\(http://www.kpmg.com\)](mailto:dkgates@kpmg.com)