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## SOLO FLIGHT – A SEPARATE PROCUREMENT AGENCY IS NOT REQUIRED

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### JCSP 41

#### *Exercise Solo Flight*

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### PCEMI 41

#### *Exercice Solo Flight*

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EXERCISE *SOLO FLIGHT* – EXERCICE *SOLO FLIGHT*

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REQUIRED**

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The Canadian government has embarked upon an unprecedented procurement initiative. Large projects, such as the National Shipbuilding Procurement Strategy (NSPS) and the F-35 fighter replacement, are incredibly complex and massive undertakings which will require expert procurement abilities for all stakeholders. The Government's track record for large procurement projects is not good. One only has to look at the Sea King helicopter saga or the F-35 debacle to confirm this view. The reasons for these types of delays and re-starts are many, some of which this paper delves into. One solution which has been suggested is the creation of a separate procurement agency within the Government of Canada (GoC)<sup>1</sup>. The focus of this paper will show that Canada does not need a separate procurement agency for major capital projects. Instead, the government should engage industry more directly in order to make the seemingly byzantine procurement process more open and transparent. The only thing the creation of a new agency would do would be to increase bureaucracy and lengthen the time it takes to complete a project. It is a transformation which is beyond the scope of the government to handle. Instead, the government should modify existing procurement practices in order to make them more industry-friendly and transparent. A separate procurement agency will not solve the problems that most major capital projects face: cost overruns, delayed delivery and non-compliant equipment.<sup>2</sup> As well, the military should develop professional project development skills in select portions of its officer corps.

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<sup>1</sup> Canadian Association of Defence And Security Industries, *Canada's Defence Industry: Supporting Canada's Economic and National Interests* (Ottawa: CADSI,[2009]).  
[https://www.defenceandsecurity.ca/UserFiles/File/IE/Military\\_Procurement\\_Main\\_Report\\_March\\_09\\_2010.pdf](https://www.defenceandsecurity.ca/UserFiles/File/IE/Military_Procurement_Main_Report_March_09_2010.pdf).

<sup>2</sup> J. C. Stone, "A Separate Defence Procurement Agency: Will it Actually make a Difference?," (February 2012, 2012), 2.

This paper is divided into three main sections. The first part will examine the academic theory of transformation by relating the concepts in John P. Kotter's *Leading Change*<sup>3</sup> article and relate it to the concepts that would apply in the Canadian government context. The second section of this paper will analyze two recent reports concerning the defence industry in general and defence procurement more specifically: the 2009 Canadian Association of Defence and Security Industries (CADSI) report: *Canada's Defence Industry: A Vital Partner Supporting Canada's Economic and National Interests*<sup>4</sup> and the 2012 Canadian Defence and Foreign Affairs Institute's report: *A Separate Defence Procurement Agency: Will it Actually Make a Difference?*<sup>5</sup> The last section of this paper will look at the recommendations made in the 2013 report of the special advisor to the Minister of Public Works and Government Services: *Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities*.<sup>6</sup> This section will also make further recommendations on how the procurement process can be improved.

### **Transformation Theory**

Undergoing change is a huge undertaking for any organization. Change is hard to do, it is difficult accomplish and it is even harder to maintain. Enterprises in the private sector have difficulties transforming themselves into leaner and more efficient organizations. Expecting a large governmental organization to transform part of itself so

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<sup>3</sup> John P. Kotter, "Leading Change: Why Transformation Efforts Fail," in *On Change Management*, ed. Harvard Business Review (USA: Harvard Business School Publishing Corporation, 2011), 1-16.

<sup>4</sup> Canadian Association of Defence And Security Industries, *Canada's Defence Industry: Supporting Canada's Economic and National Interests*, 1-28

<sup>5</sup> Craig Stone, "Defence Procurement and the Need for Disciplined Capital Investment," in *The Public Management of Defence in Canada*, ed. Craig Stone (Toronto, ON: Breakout Educational Network, 2009), 93-109.

<sup>6</sup> Tom Jenkins, *Canada First: Leveraging Defence Procurement through Key Industrial Capabilities* (Ottawa: PWGSC,[2013]).

that a separate procurement agency can be created would be a fool's errand. Even if there was a will for the Canadian Government to create a separate procurement agency (which there is not<sup>7</sup>), the chances of it succeeding would be very small. This section of the paper examines the theory of transformation efforts as it would apply to a separate procurement agency. More specifically, John P. Kotter's rubric of transformation efforts as per his article *Leading Change: Why Transformation Efforts Fail*<sup>8</sup> will be used to show that the GoC would not be able to transform its current defence procurement system into a single procurement agency. Although the Kotter method generally applies to private organizations, the main themes of it will be used in the governmental context. There are eight main errors which organizations make when trying to transform. A brief explanation of each them follows, along with an idea on how it applies in the single procurement agency context.

Error one is "Not Establishing a Great Enough Sense of Urgency."<sup>9</sup> This step requires the "aggressive cooperation of many individuals."<sup>10</sup> To say that a new procurement agency would require the cooperation of many individuals is an understatement. Defence is the largest department in the GoC and any change which involves the transformation of its procurement would require the cooperation of many other government departments, let alone many other individuals. Getting cooperation is a crucial step in the transformation process. Not getting the necessary buy-in would make the effort moot.

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<sup>7</sup> Laura Payton, " **New Federal Procurement Agency Not in the Cards**," CBC News, <http://www.cbc.ca/news/politics/new-federal-procurement-agency-not-in-the-cards-1.1125800> (accessed April 19, 2015).

<sup>8</sup> Kotter, *Leading Change: Why Transformation Efforts Fail*, 1-16

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

The second error is “Not Creating a Powerful Enough Guiding Coalition.”<sup>11</sup> In order to prevent this error from occurring, a group with “shared commitment and enough power to lead”<sup>12</sup> is required. Transformation efforts without a powerful coalition will appear to be successful for a while, but eventually the effort will wither away because sufficient opposition will mount. Since there is no GoC will to create a separate agency,<sup>13</sup> the chance of an internal department being able to mount any credible effort to do so is negligible. The concept of a strong guiding coalition can be shown in the quick procurement of the C-17 Globemaster. There was an urgent need for these heavy lift aircraft to support the mission in Afghanistan.<sup>14</sup> With the strong support and direction of the GoC, the aircraft were purchased and put into service much more quickly than the standard 15.8 year project cycle time.<sup>15</sup> This shows the power of a strong coalition in effecting change. However, this concept would be much more difficult to apply in a complex undertaking such as the creation of a separate procurement agency.

The third error is “Lacking a Vision.”<sup>16</sup> A clear vision is crucial because failed transformations are filled with “plenty of plans, directives, and programs.”<sup>17</sup> An organization may create very detailed procedures, plans and processes for the transformation but without a clear vision success will not occur.<sup>18</sup> In the case of the separate GoC procurement agency, what would be the vision? For instance, uniformed

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<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Payton, *New Federal Procurement Agency Not in the Cards*.

<sup>14</sup> The GoC does not have an ‘urgent’ procurement process. It does have an ‘emergency’ procurement process which would drastically reduce the procurement timeline. However, buy-in from the top level of the GoC is required in order for this to occur. Source: Project Approval Course at the Canadian School of Public Service which the author of this paper attended in April 2009.

<sup>15</sup> Stone, *A Separate Defence Procurement Agency: Will it Actually make a Difference?*, 10.

<sup>16</sup> Kotter, *Leading Change: Why Transformation Efforts Fail*, 8.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

defence planners would view the agency as a vehicle to quickly obtain the equipment that is needed for deployed forces, whereas the Government would see it as a vehicle to ensure that Canadian companies are always the winning bidders. The National Shipbuilding Procurement Strategy (NSPS) is an example of this. The Royal Canadian Navy may view the NSPS as a way to get the new ships it needs. However, in reality this is not the overall goal: “[the Government is] committed to creating jobs, growth and long-term prosperity for Canadians.”<sup>19</sup> Although very a very important consideration, new naval ships are not the priority. This lack of common understanding of the purpose of a separate agency would create a situation where the stakeholders would be disappointed in the apparent lack of direction of the procurement agency. Its legitimacy would be very low.

The fourth error is “Undercommunicating the Vision by a Factor of Ten.”<sup>20</sup> In order for successful change to occur, the leaders need to use every means of communication available in order to ensure the message is received by all levels of the organization. “Transformation is impossible unless hundreds or thousands of people are willing to help.”<sup>21</sup> A transformation such as the creation of a separate procurement agency would definitely need the help of thousands of people. The vision would need to be instilled from the very top as well as horizontally and vertically between all of the other procurement stakeholders. Diverse departments such as Public Works, Industry Canada, PCO and DND would have to be willing to seamlessly join forces in order to

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<sup>19</sup> National Post, "The Tories seem More Interested in Buying Votes than Buying Ships," *National Post*, sec. Opinion, 26 January 2015, 2015. <http://news.nationalpost.com/full-comment/national-post-view-the-tories-seem-more-interested-in-buying-votes-than-buying-ships>.

<sup>20</sup> Kotter, *Leading Change: Why Transformation Efforts Fail*, 10.

<sup>21</sup> *Ibid.*

create a successful agency. This would mean that some core functions (and their reasons for existence) of these departments would be assimilated into the new agency or disappear altogether. Having buy-in from these departments would be exceedingly difficult. As Kotter notes: “[E]mployees (or in this case, departments) will not make sacrifices, even if they are unhappy with the status quo, unless they believe that useful change is possible.”<sup>22</sup> This buy-in is made more difficult if the new procurement agency involves job losses. Under the recent Deficit Reduction Action Plan (DRAP), 5 500 public servants were given notice that their jobs may be made redundant.<sup>23</sup> The prospect of a separate procurement agency would add to this anxiety as the respective employee unions would declare that it would be another attempt by the Government to eliminate more jobs. Achieving buy-in would be very difficult.

The fifth error is “Not Removing Obstacles to the New Vision.”<sup>24</sup> This error is based on the very real fact that there will be a good chance that any sort of change will be opposed by certain people or groups within the affected organization. In the case of a separate procurement agency, the possibility of opposition from affected departments is real. What would the role of PWGSC be in the new organization? Are they not the overall lead agency for procurement since authority for all contracts rest within the department? Even if the Minister of PWGSC was fully onboard with the procurement agency, there could possibly be very real opposition from public servants within PWGSC whose whole careers are built around contracting and procurement. In fairness, not all

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<sup>22</sup> Ibid.

<sup>23</sup> Stephanie Levitz, "Public Service Cuts: Jobs Slashed in Canada's Federal Government," Huffington Post, [http://www.huffingtonpost.ca/2012/04/11/public-service-cuts-jobs-canada\\_n\\_1418178.html](http://www.huffingtonpost.ca/2012/04/11/public-service-cuts-jobs-canada_n_1418178.html) (accessed April 28, 2015).

<sup>24</sup> Kotter, *Leading Change: Why Transformation Efforts Fail*, 11.



opposition would be from non-DND departments. The Associate Deputy Minister of Materiel (ADM(MAT)) organization within DND could also put up vigorous opposition to the change. This organization's whole reason for being is to be the procurement lead for DND. If the plan is to turn over this role to another department, this change could be perceived to mean layoffs. Job loss is not a good motivator for buy-in.

The sixth error is “Not Systematically Planning for, and Creating, Short-Term Wins.”<sup>25</sup> In order for successful transformations to occur, people involved in the process must see ‘compelling evidence in 12-24 months’<sup>26</sup> that the changes are producing the expected results. In the case of a creation of a new procurement agency, this would be almost impossible to achieve because GoC procurement is a long and bureaucratic process. Even if the new agency streamlined the overall procurement process, it would still be impossible to obtain significant successes within 12 to 24 months. In its report on procurement, the Canadian Defence and Foreign Affairs Institute (CDFAI) estimates that at best, the procurement cycle time can be reduced to 9.5 years (from the current 15.8 years)<sup>27</sup>. This time frame is too long to satisfy this tenant of Kotter's theory.

The seventh error is “Declaring Victory Too Soon.”<sup>28</sup> The election cycle encourages governments to declare victory where often none has occurred. The irresistible allure of getting re-elected creates situations where perceived positive outcomes, no matter how insignificant it is in reality, are trumpeted and exploited for political gain. Going overboard inevitably creates a sense of malaise once the initial

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<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> Stone, *Defence Procurement and the Need for Disciplined Capital Investment*, 10.

<sup>28</sup> Kotter, *Leading Change: Why Transformation Efforts Fail*, 14.

euphoria wears off.<sup>29</sup> This decline in enthusiasm is then an invitation for resisters to increase their resistance and contaminate the rest of the change process. Although not a direct example of a transformation process in itself, George Bush's pre-mature announcement of 'Mission Accomplished' regarding the Iraq War in 2003 is an example of what can happen when victory is declared pre-maturely. In the GoC procurement agency context, any perceived victory would be exploited no matter how small or insignificant. Once the initial enthusiasm wears off, resisters to the new agency would gain a stronger foothold and would contribute to its demise.

The eight and last error is "Not Anchoring Changes in the Corporation's Culture."<sup>30</sup> In order for transformation to occur, it "has to become the way we do things around here."<sup>31</sup> Once the pressure for change is no longer present, the new way of doing things will go by the wayside unless such changes are rooted within the very fabric of the organization. An example of this is former Chief of the Defence Staff General Rick Hillier's reorganization of the Canadian Armed Forces into what was known as the 'dot coms': Canadian Expeditionary Command (CEFCOM), Canada Command (CANADACOM), Canadian Special Operations Forces Command (CANSOFCOM) and Canadian Operational Support Command (CANOSCOM). These changes violated almost all of Kotter's tenets of successful transformation. With the exception of CANSOFCOM, these changes did not become 'anchored' in CAF culture. These changes were made by fiat by a strong-willed General who imposed his view upon the CAF. Soon after Hillier's tenure ended, the operational side the CAF was once again reorganized

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<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

(e.g. the creation of the Canadian Joint Operations Command (CJOC) and the elimination of the other commands, with the exception of the re-branded CANSOFSOM into SOFCOM). Another example of change not becoming anchored is LGen Andrew Leslie's Report on Transformation.<sup>32</sup> Although the Transformation team spent ten months on it, the report faced heavy criticism and its recommendations have not been implemented.

This section of the paper examined the idea of a separate procurement agency by applying John P. Kotter's theory that failed transformations generally exhibit eight common errors. Although Kotter's theory is usually used as a post-mortem examination of why a particular transformation failed, his theory can be used to reasonably predict the errors that would be made during an incredibly complex and difficult process such as the creation of a new procurement agency by the GoC. This section of the paper showed that due to the incredibly bureaucratic, cumbersome and political machinations of governmental departments, almost all of Kotter's errors would be committed. This would make the creation of a separate procurement agency a bad idea. The next section of the paper will examine the idea of a separate procurement agency by taking a detailed look at two recent reports about the state of the defence industry in Canada.

### **Procurement Reports**

This section of the paper examines two recent reports that have been written concerning the Canadian defence industry and defence procurement. The reports will be

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<sup>32</sup> Laura Payton, "Leslie Fires Back Over Defence Transformation Report," CBC, <http://www.cbc.ca/news/politics/leslie-fires-back-over-defence-transformation-report-1.1075434> (accessed April 2015, 2015).

used to demonstrate that the overall defence industry is not helped by a Canadian government which either does not understand defence industries in general or are so risk adverse that the procurement process currently in place proceeds at an excruciatingly slow pace. The first report which will be examined is the 2009 Canadian Association of Defence Industries report *Canada's Defence Industry: A Vital Partner Supporting Canada's Economic and National Interests*<sup>33</sup> (referred to from now on as the CADSI report). The second report will be the Canadian Defence and Foreign Affairs Institute's *A Separate Defence Procurement Agency: Will it Actually Make a Difference*<sup>34</sup> (which will be referred to as the CDFAI report). These reports are chosen because they form the most recent canon regarding defence procurement in Canada. (Another important report, *Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities* will be examined in the next section of this paper). Moreover, the CADSI report argues for a creation of a separate procurement agency while the CDFAI report states that it is not necessary. Regardless of their differences, they both make relevant recommendations on how to improve the overall relationship between government and the defence industry. If implemented, most of these suggestions would go a long way in improving the procurement process.

The CADSI report contains three main recommendations. The first recommendation is for the government to “create a defence industrial policy supported by implementation strategies aligned with the Canada First Defence Strategy (CFDS)

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<sup>33</sup> Canadian Association of Defence And Security Industries, *Canada's Defence Industry: Supporting Canada's Economic and National Interests*, 1-28

<sup>34</sup> Stone, *A Separate Defence Procurement Agency: Will it Actually make a Difference?*, 1-17

procurement priorities and sovereignty and key national objectives.”<sup>35</sup> This recommendation argues for a leveraging of the economic returns from the government’s commitment to rebuild the equipment needs of the Canadian Forces so that the required industrial capabilities needed within Canada can be nurtured and developed.<sup>36</sup> This recommendation would encourage industry to make research and development investments because such a financial commitment from the government would make the risk for industry more tolerable. As well, it would provide a rubric for measuring progress and success in the implementation of policy.<sup>37</sup>

The second recommendation of the CADSI report is “enabling an environment where the procurement process and its operating culture result in effective program delivery.”<sup>38</sup> This recommendation criticizes the redundant, opaque, inconsistent and confusing procurement process.<sup>39</sup> The inconsistent way in which the procurement process is handled can be very frustrating for companies. It does not allow them to properly plan out their budgets or production cycle. This results in increased and unnecessary risk for defence contractors.

The third main recommendation of the CADSI report is “overall accountability for the combined responsibilities of defence equipment and the defence industrial base should reside at the Cabinet level in one Minister.”<sup>40</sup> CADSI argues that the lack of a single Minister slows down the procurement process and weakens the ability of the

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<sup>35</sup> Canadian Association of Defence And Security Industries, *Canada's Defence Industry: Supporting Canada's Economic and National Interests*, vi.

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

Government to “achieve a strong economic return on investment.”<sup>41</sup> CADSI identifies three options to cure this problem: “a separate defence procurement agency, a new defence production department; or assigning joint responsibility with a Minister already within the Government’s departmental structure.”<sup>42</sup> All three of these options do not take into consideration the understanding that the current bureaucracy and political system is not set up for anyone person to be held accountable. The byzantine rules, regulations and red tape make it almost impossible for proper accountability to occur. In a background paper published in 2008 by the Library of Parliament, a prescient observation was made: “...when administrative errors are uncovered and controversy ensues, ministers rarely accept responsibility or resign...it is often not clear who is responsible for the error and should be held to account.”<sup>43</sup> This is quite a statement coming from the Government’s own Library of Parliament. It shows that the Government readily admits that holding anyone to account is nearly impossible. Making one Minister responsible for procurement will simple not happen in the Canadian Government. This negates the possibility of any of the three CADSI options from coming to fruition. In fact, the GoC has emphatically stated that a separate procurement agency is not going to happen.<sup>44</sup> Even the NDP says that a separate agency is not needed. Their party’s defence critic is quoted as saying : “...well that better be one hell of an agency. There's got to be one powerful minister in charge of this to ensure some one person is accountable to the people of Canada.”<sup>45</sup> This demonstrates that there is consensus from a broad and diverse cross section within the

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<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

<sup>43</sup> Alex Smith, *The Accountability of Accounting Officers before Parliamentary Committees* (Ottawa: Library of Parliament of Canada,[2008]).

<sup>44</sup> Payton, "New Federal Procurement Agency Not in the Cards."

<sup>45</sup> Ibid.

Government that a separate agency would not have the desired effect. The next part of this section of the paper will examine the CDFAI report.

The CDFAI report's main thesis is that the creation of a separate procurement agency will not fix the problems Canada faces.<sup>46</sup> The report also looks at the experiences of other countries which do have a dedicated procurement organization (UK and Australia) and one which does not, the United States. This part of the paper will examine this report and relate them to the Canadian context.

The CDFAI report initially identifies two reasons why some would argue that a separate procurement agency is not the answer to Canada's defence procurement problems: "politics associated with industrial regional benefits and the desire of politicians to have money spent in their ridings."<sup>47</sup> The CDFAI report states that there is more to the problem than "just politics"<sup>48</sup>, however politics are a major consideration in all types of procurement decisions because those making the decisions are politicians. It is important for procurement professionals to realize that politicians always take politics into consideration when making decisions.

In Australia, the Defence Material Organisation (DMO) is the organization responsible for the management of major projects.<sup>49</sup> However, the single procurement agency concept in Australia was not perfect. In 2000 and 2008, the Australian government initiated reviews of the DMO. The first review found that the DMO had to become "more business-like and outcome driven" and that it needed "to become an

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<sup>46</sup> Stone, *A Separate Defence Procurement Agency: Will it Actually make a Difference?*, 1-17

<sup>47</sup> Ibid,4.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid,8.

executive agency responsible for project management.”<sup>50</sup> This is despite the fact that the creation of the DMO provided a “single point of accountability for ...the acquisition...of Defence equipment.”<sup>51</sup> Therefore the Australian creation of the DMO established a single point of contact for defence procurement, yet it still did not create the streamlined organization originally envisaged. A significant recommendation of the second review of the DMO stated that a charter should be established between Defence and the DMO which would make clear the responsibilities of each organization. This would not work in Canada because of the lack of inherent accountability which would be embedded into a new agency. In the United Kingdom, a single agency is the preferred model.<sup>52</sup> However, it was approached differently than what Canada would probably do. The U.K.’s defence review in 1998 turned the procurement executive into a defence agency.<sup>53</sup> This is the exact opposite direction the GoC has taken with regards to procurement as there is no indication that a procurement agency will ever be embedded within DND.<sup>54</sup> In the United States, the procurement process is “viewed as a system of systems where every weapon system is built to satisfy a specific requirement, must be paid for by the federal budget, and is designed and built within an acquisition system.”<sup>55</sup> There is no appetite for a single procurement agency in the U.S. despite recent attempts at reform. A separate agency would be difficult in the U.S. because of the power of Congress to control the federal budget. Unlike in Canada, there is no such thing as a non-confidence measure. As well, the U.S. system of checks and balances would negate the power of any separate agency.

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<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid,7.

<sup>53</sup> Ibid.

<sup>54</sup> Payton, "New Federal Procurement Agency Not in the Cards."

<sup>55</sup> Stone, *A Separate Defence Procurement Agency: Will it Actually make a Difference?*,5.



Although Canada and the U.S. do not have separate procurement agencies, it is for entirely different reasons.

The next section of this paper will look at another recent report about the defence industry. The report will be used to show that Canada should concentrate on making the procurement process more open and transparent. As well, the section will make further recommendations on how the procurement process in general can be improved.

### **Recommendations**

This section of the paper will provide recommendations on how the procurement process can be improved in Canada. It looks at several key recommendations in a report written in 2013 entitled *Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities*<sup>56</sup> (referred to as the Jenkins report) and also provides new ones. These key recommendations will demonstrate that they are a better alternative to the creation of a separate procurement agency.

The main recommendation of the Jenkins report is for the GoC to identify and support “key industrial capabilities (KICs) to enable Canada’s defence-related industries to better meet the operational requirements of the Canadian Forces while generating sustainable economic growth”.<sup>57</sup> The latter portion of this statement is the most important. The idea that the goal of major capital defence projects such as the National Ship Building Strategy is to provide the military with the exact equipment it needs should be banished from the thinking of senior military planners. What should replace it is an

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<sup>56</sup> Jenkins, *Canada First: Leveraging Defence Procurement through Key Industrial Capabilities*, ix-xix

<sup>57</sup> Ibid, ix.

understanding that the GoC invests in large defence procurement projects in order to benefit the Canadian economy. Ensuring that the military gets the equipment it wants is important, however, it is not the primary objective. What military planners should do is begin a project with a deep understanding of how much money is available for a particular project and build the best set of requirements within the fiscal restraint.<sup>58</sup> The former portion of the main Jenkins recommendation (i.e. supporting KICs) is important also. The report indicates that all successful Canadian based defence contractors got their start with a DND contract.<sup>59</sup> This makes sense since the primary (and usually only) customer for a defence contractor is government. Therefore the GoC has an important role to play in helping Canadian defence companies prosper. A properly let and supported defence contract is very valuable to a company as it supports its growth. In fact, as the Jenkins report finds, there is no such thing as a large scale “self-generated” Canadian defence company.<sup>60</sup>

The Jenkins report identifies several policy and program issues on the demand side of defence procurement: DND’s lack of transparency with industry, the concept of value for money is interpreted narrowly, procurement practices discriminate against Canadian companies, long-term economic benefits are sacrificed in favour of performance risk mitigation, a lack of specificity regarding industrial objectives and industrial related benefits (IRBs) are not rated in the overall bid evaluation.<sup>61</sup> These observations succinctly sum up the overall problems that Canadian companies have when

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<sup>58</sup> Credit for this thought came about from a classroom seminar discussion at the Canadian Forces College in April 2015.

<sup>59</sup> Jenkins, *Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities*, x.

<sup>60</sup> Ibid.

<sup>61</sup> Ibid.

dealing with government. As mentioned earlier in this paper, accountability within the government is difficult to achieve. The current risk-averse and cumbersome procurement process in Canada is a monument to unaccountability. The system makes it impossible for one person to be assigned the blame if something goes wrong.

The Jenkins report's recommendations on improving the procurement process are all focused on key industrial capabilities. It states that the best way to achieve the full benefits of key industrial benefits is to modify the existing procurement policies and programs. More specifically, the report makes four recommendations regarding this particular issue: require a bidder's proposed added value to Canada's economy a rated requirement, encourage Canadian industrial innovation through procurement policy reform, review the idea of a Single Point of Accountability (SPA) embedded in one contractor, and In-Service Support (ISS) contracts should be led by Canadian companies who maintain reasonable access to intellectual property.<sup>62</sup> The recommendations show that the procurement process is rather opaque and cumbersome. The next section of this paper makes further recommendations on how to improve the process.

As the Jenkins and CADSI reports demonstrate, there is a general lack of understanding on the part of public servants concerning private enterprise. A private sector company's mission is to make money for shareholders. The government's mission is the exact opposite. It spends money in order to provide services and protection for its citizens. Whereas a private sector manager is rewarded when s/he does not spend all of the money in their respective budget, a government manager is not. The lack of 100%

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<sup>62</sup> Ibid, xvii.

budget depletion is not looked upon favourably within the government. It is viewed as a failure on the manager's part and means that there is a good chance that their respective budget will be reduced the following fiscal year. The CADSI report states that on several occasions, PWGSC analysts said that a zero percent profit was appropriate.<sup>63</sup> This complete lack of understanding on the part of public servants charged with procurement files is unacceptable.<sup>64</sup> In order to help reduce this lack of understanding, it is recommended that relevant public servants be seconded to private sector companies to conduct an internship. As well, private sector employees should be seconded to relevant departments with the government in order to increase their understanding of the procurement process. This mutual 'cross-pollination' will help both stakeholders understand the other's perspective. With a clearer understanding of each other's perspective, the procurement process will hopefully be more transparent. A problem with this idea may be the perception of favouritism. However, if properly managed, this recommendation could go a long way in improving the procurement process.

Public servants are not the only ones to blame for procurement woes. The military can improve its overall appreciation and understanding of the procurement process. The current military posting cycle does not aid in the development of procurement specialists. Although the CAF does have military officers who spend a great portion of their time in the project management world (i.e at ADM(MAT)), there is a

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<sup>63</sup> Canadian Association of Defence And Security Industries, *Canada's Defence Industry: Supporting Canada's Economic and National Interests*, 13

<sup>64</sup> During a break on a course I was taking at the Canadian School of Public Service several years ago, I had a conversation with a civilian DND public servant concerning private sector companies' practice of setting up general information meetings with military officers who were in a position of importance when it came to procurement. At the end of my conversation, the DND employee stated with disgust that "all these companies ever want to do is make money!"

dearth of experience in the project director (PD) realm. PD's are a vital resource since they are the ones who navigate the byzantine project approval process to get projects started. The major problems with defence procurement occur even before the projects start. Once a project has been approved and has commenced, the military is very good at working within the imposed constraints as the military's project managers are very good. However, knowing how to get a project approved in the first place is of primary importance. Navigating the minefield of getting a project approved takes a great deal of skill. Major capital projects are not short term affairs, in a lot of cases they span a time longer than most military careers. It makes sense for the military to develop a competency amongst its officer corps. Project development should become a sub-trade specialty. Major projects are going to take a very long time to complete. As an example, the last combat ship under the National Ship Building Procurement Strategy is expected to be delivered in 2040. Twenty-five years is plenty of time for an officer to have a full and rewarding project development career.

## **Conclusion**

In the examination of whether a separate procurement agency is needed in Canada, this paper first examined an academic theory of transformation and why it is so difficult to do. John Kotter's *Leading Change*<sup>65</sup> was used to show that the GoC would almost certainly commit the eight errors of transformation if it tried to create separate procurement agency. The second section of the paper examined two recent reports concerning the state of defence procurement in Canada. The CADSI and CDFAI reports

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<sup>65</sup> Kotter, *Leading Change: Why Transformation Efforts Fail*, 1-16

were used to demonstrate the current problems of procurement and whether a separate procurement agency is the avenue of approach required to solve the problem. The CDFAI showed that a separate agency is indeed not needed. The last section of the paper examined the recommendations in the Jenkins report to show that there is a general misunderstanding within the GoC concerning the issues facing defence companies. In addition to supporting the concept of key industrial capabilities, this section of the paper also made further recommendations on how the overall procurement process can be improved. This paper has shown that the best way to improve the defence procurement process in Canada is to focus on key industrial capabilities so that a robust, vibrant and prolific defence industry can flourish. In addition, public servants involved in procurement should conduct an internship in private sector companies in order to gain a perspective that they lack. A reciprocal opportunity should be afforded to private sector employees. They should be invited to spend quality time in a government department so that they may gain an appreciation of the constraints in which the government is required to operate. The military also has room for improvement. Large capital projects are multi-decade events in which the future of military capabilities lie. Correctly starting a project is the single most important thing the military can do to guarantee success years down the line. Therefore it makes sense for the military to ensure that its project directors are properly trained and prepared to operate in the very complex project procurement environment.

A separate procurement agency is not needed in Canada. The fundamental issues which derail projects, namely political pressure to spend money in a particular riding and

the politics associated with industrial regional benefits,<sup>66</sup> will not be erased through a separate agency. Elements of the three departments which are usually involved in large procurement projects DND, PWGSC and Industry Canada, would still be present in any new procurement agency. Therefore the compatibility problems currently in place would still occur. Nor would a new agency provide a single point of accountability, as this paper has shown, accountability in the GoC is hard to come by. Any new procurement agency would certainly not be set up to make a single Minister the fall guy for any problems. Therefore the problems which affect most complex projects; cost overruns, delivery delays and not compliant equipment will still occur.<sup>67</sup>

This paper has provided another examination of the procurement problem in Canada. It has shown that a separate procurement agency is not the answer, instead it has shown that improving upon the current process is the route to follow. Large capital projects are extremely important to future military capabilities. It is important that these projects are started correctly so that the Canadian Armed Forces can continue to perform at the level that the Canadian public expects.

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<sup>66</sup> Stone, *Defence Procurement and the Need for Disciplined Capital Investment*, 4.

<sup>67</sup> *Ibid*, 2.

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