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Alternate Service Delivery:
“Managing to get it done right”

By /par Colonel Glynne Hines

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Alternate Service Delivery:
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Abstract

Alternate Service Delivery (ASD) – the corporate policy framework that provides for programs, activities, services and functions necessary to achieve government objectives to be provided using non-traditional methods or in cooperation with the private sector is now a fact of life within the Department of National Defence (DND). Initiated as part of a broader Government of Canada program, within DND, ASD has come to be synonymous with contracting for services or outsourcing.

The Department of National Defence has placed most service contracts within the same management structure that is in place for equipment acquisition projects. In doing so, the Department has failed to recognize the responsibility of the service chiefs’ (army, navy and air force) for force generation and the key function that these operational support contracts play in enabling the service chiefs to train, prepare and support operational forces. The traditional lines of authority and unity of command have been blurred by an environment of horizontal accountabilities and matrix management to the degree that the commander on the ground has little opportunity to influence the contracted operational support that he or she requires in order to execute his or her responsibilities.

This paper investigates the management of major operational support service contracts and proposes a management and organizational framework that moves away from an equipment acquisition model to a functional service delivery paradigm focused at the user level. In this investigation, four major service contracts are compared and the impact of a new management framework on those contracts is described.

***Alternate Service Delivery:
“Managing to get it done right”***

SECTION 1 – RATIONALE AND METHODOLOGY

Introduction

The Department of National Defence (DND) has embraced Alternate Service Delivery (ASD) as a means of freeing Canadian Forces (CF) members for essential military activities while continuing to provide support to operations. One of the principles behind ASD has been to demonstrate “...*better value for the defence dollar in delivery of required services...to achieve a minimum goal of 30% reduction in operating costs.*”¹ While DND’s definition of ASD is not limited to “contracting out” a major thrust has been to contract for services and support from industrial suppliers. There continues to be debates as to how successful the ASD initiatives are. Many of these debates are founded on the question of governance and management accountability for the arrangements that have been put in place.

DND has used its own methodology and well-defined process for deciding whether or not to implement an ASD solution.² However, once the decision to contract-out is taken, the Department lacks a governance and accountability framework for contracts once they have been awarded. As a result, in many cases, the contractor’s performance cannot be effectively managed. A common complaint from the “user” communities is that users have little influence over the contractors because of the inadequate administrative management arrangements between the contractor and the contracting authority.

¹ Canada. Department of National Defence. Vice Chief of the Defence Staff (VCDS) Instruction 2/96 1959-19-1 (VCDS) 21 March 1996: p 2/5.

[http://vcds.dwan.dnd.ca/go/ndhq_instr/1996/21mar96/2_e.asp]

² The ASD program within DND is to be rolled into a broader continuous improvement program as described in: *About ASD-The Way Ahead*. [http://www.vcds.dnd.ca/dgsc/asd/ten2_e.asp]. This notwithstanding, the review and recommendations of this paper remain relevant to any contracted service initiatives within DND.

The Department of National Defence requires a standardized management and accountability framework for ASD and other outsourced service initiatives to realize the projected benefits while continuing to deliver the required services. Until such a framework is in place, operational managers will be unable to exercise the required influence over operational support contractors and contractors will be slow to respond to operational requirements. The Department's contract management policies, framework and structures have long focused on the delivery of products and equipment and have not been adapted for operational support service contracts.* Assistant Deputy Minister (Materiel) [ADM(Mat)] manages the in-service phase of the contracts in the same manner that capital equipment acquisition and spares are procured or that third and fourth line repair and overhaul contracts are managed. However, while in the case of materiel and equipment it is ADM(Mat) who has the responsibility for effective materiel acquisition,³ the responsibility for force generation,⁴ of which all of the outsourced service contracts form a subset, rests with other senior members of the DND and CF; namely, in these cases the CAS and the DCDS.

This paper will develop and propose for implementation, a management framework to ensure contracted support meets the requirements and achieves the objectives for which ASD initiatives were implemented in the first place. The recommended framework will take into account, *inter alia*, the need for more clearly defined responsibilities at all levels, unity of command, clear delegation of authority and

* For the purpose of this paper, operational support services contracts – referred to as “service contracts” are considered to be those contracts in which the contractor directly supports operations and training through the delivery of service support that would have traditionally or previously performed by members of the military or public service. It does not include neither second or third line maintenance nor repair and overhaul contracts.

³ Canada. Department of National Defence. Organization and Accountability: Guidance for Members of the Canadian Forces and Employees of the Department of National Defence, Second Edition September 1999: Annex C.

⁴ Force Generation is defined as the transformation of the corporate plan into capability plans and force structure, applying doctrine and the allocation of resources to meet assigned readiness level, goals and tasks. It applies the full range of administrative, personnel and support and logistics necessary to ensure maintenance of combat capable multi-purpose forces. (Canada. Department of National Defence. B-GG-005-004/AF-004. Force Employment: Planning, Conduct and Review of CF Operations. June 1998.)

ease of coordination for the management of service contracts along functional lines. That is to say that, while there will remain a need for horizontal coordination across administrative lines, it will be argued that the accountability for delivery of contracted services should be aligned vertically, within the traditional functional chains-of-command of the army, navy and air force, in much the same way as in-service support is managed and delivered.

arguably, the one to which the greatest attention has been paid. Since 2001, the emphasis on outsourced services has moved from “economy” to “effectiveness” as DND attempts to rationalize the strategic objectives of the ASD program and provide better guidance and management of these initiatives.

Within DND, service contracts are managed by the Assistant Deputy Minister (Materiel) Group of National Defence Headquarters (NDHQ) as the principal procurement authority for the Department. ADM(Mat) works closely with Public Works and Government Services Canada (PWGSC) in soliciting bids, evaluating proposals and awarding contracts. Once awarded, while remaining under the legal contract authority of PWGSC, ADM(Mat) serves as very much the lead Departmental authority for in-service management of the contracts. Depending on the nature of the contract, ADM(Mat) contract management staff may be supported by functional expertise from the three environments (i.e. the army, navy and air force).

There are very few areas of defence support that are not being considered candidates for outsourcing. Most recent examples include: the provision of food services at many Bases and Wings, the provision of Airborne Combat Training Support, the maintenance and calibration of specialized test equipment, the provision of technical training, general administrative support in NDHQ, and general base support at various locations.

SECTION 2 – CASE STUDIES⁵

This paper will briefly examine four major service contracts currently in-place within the DND/CF. These four contracts were selected as representative of the different types of service that are being delivered under contract and the different structures being used to manage the contracts. They also reflect the most likely types of services to be delivered, under contract, in the future. The purpose of this brief examination of the

⁵ Background information about the four contracts discussed in this paper was obtained from official DND correspondence, websites and a questionnaire circulated to the respective requirements managers and contract managers. A copy of the questionnaire is included at the end of this paper.

existing contracts is to highlight both the positive and negative aspects of the contract management arrangements to provide a foundation for the recommendations that will follow. The management arrangements that exist for the four contracts described are depicted in Figures 1a through 1d and summarized in Table 1.*

North Warning System Operations and Maintenance^{6,7}

The North Warning System (NWS) has been supported by a contractor since the transformation from the Distant Early Warning Line (DEW Line) in 1988. The original contractor, ATCO Frontec⁸ has had the O&M responsibility for 14 years. The contract was opened for re-bid in 2001 and only ATCO Frontec submitted a proposal. Under the contract, the contractor is responsible for the operations, maintenance and support of northern radar sites and the maintenance monitoring and control facility in North Bay. This “end-to-end” responsibility includes facilities maintenance (including airfields), radar and communications support and technical training.

The NWS contract is managed by Assistant Deputy Minister (Materiel), through the Director General Aerospace Engineering Program Management/Radar and Communications Systems (DGAEPM/R&CS). Within the air force, operational support services are normally delivered at the Wing or Base level. Wing Commanders are responsible to the Commander of 1 Canadian Air Division (1 CAD) for the conduct of air operations, including the level of services delivered to both generate forces and to support operations. The Commander of 1 CAD is in turn responsible to the Chief of the Air Staff (CAS) for, among other activities, force generation, and resource management. In the case of the North Warning System, as the organization functionally responsible of airspace surveillance and control in the region, the staff at 22 Wing/Canadian Air Defence Sector (CADS) directs the contractor on a day-to-day basis in the performance

* Tables and figures are included in the report.

of scheduled and unscheduled maintenance. This direction is limited to determining when maintenance can be performed if it impacts operations rather than how it will be performed. The 1 CAD staff, in the capacity as NORAD Region staff, is advised of the status of systems but plays no role in the management of delivered services or support. This relationship is graphically depicted in Figure 1a. This has posed some problems in the opinion of the user community – 22 Wing/CADS, the organization responsible for the delivery of the operational services within the sector. This also places the contractor in the difficult position of being contractually accountable to NDHQ and operationally responsive to 22 Wing/CADS, with the operational response taking second place to the contractual accountability. In the words of the Telecommunications and Information Services Officer at 22 Wing/CADS: “...we now have two chains-of-command vice one. The operational chain reports from CADS to 1 CAD. The contractor reports daily issues to CADS but is responsible to NDHQ. This can cause confusion at times and did lead to dropping (some operational requirements) from the follow-on contract (by NDHQ)...”⁹

NATO Flying Training Centre^{10,11,12}

The 1984 Training System Review¹³ determined that the quality and quantity of pilots could be best provided by a training system that is capable of reacting to changing pilot production requirements. A contractor-supported training system has been established to train pilots for employment in the three general flying categories of the CF. This project was initiated before the formal ASD program was launched in 1995 and was therefore not subjected to the same decision process and methodology in determining a service delivery solution. One element of the contracted training system is the NATO Flying Training Centre (NFTC), established on 18 November 1997. The DND provides program management, existing infrastructure and air force flying instructor pilots. As the prime contractor, Bombardier supports NFTC and is responsible for the provision of services, equipment, aircraft and infrastructure support. Germane to this review is the

⁹ Response to Questionnaire from 22 Wing Telecommunications and Information Services Officer, Maj CJ Cowan, 16 Apr 2002.

¹⁰ NATO Flying Training in Canada Website: [<http://www.nftc.net>].

¹¹ Response to Questionnaire from 15 Wing Chief of Staff, LCol JB Degagne, 15 Apr 2002.

¹² Canada. Department of National Defence. ASD Capacity Check Assessment – Prepared for the VCDS by KPMG Consulting LP – 16 May 2001.

management framework that governs the day-to-day delivery of flying training through NFTC. The NFTC arrangement is considered by DND to be a partnership with industry, in this case, Bombardier. The flying training responsibilities are not limited to the provision of aircraft and instruction but extend to airside and groundside facilities and service support, meteorological services and some air traffic control services. Over its 20-year life, this contract has a value in excess of \$2.8 billion. This is a DND corporate account that does not form part of the air force's operating budget baseline however is managed by the Chief of the Air Staff, on behalf of the DND.

The Canadian Aerospace Training Project (CATP) project management office (PMO) within the Materiel Group manages the NFTC contract. NFTC planning, implementation and oversight is the responsibility of the PMO. Most contract performance monitoring is conducted by the PMO. The only measure of performance identified by the contractor is the number of pilots graduated in accordance with the schedule. It has been recognized that more qualitative measures are required however; there has yet to be agreement on what these might be. All changes to the contract must be processed by the PMO. Daily on-site management is vested in the Wings at which the training takes place – 15 Wing/Moose Jaw and 4 Wing/Cold Lake. The A4 and A1/Training staff at 1 CAD provides operational co-ordination of activities at the Wings. Allied nations that participate in the program also have a role to play in the process but this is not germane to this discussion. Similar to the difficulties experienced with the North Warning System contract management and requirements generation, NFTC suffers from not having requirements and contract management staff integrated within a single organization or chain-of-command. Similarly, while the requirements are identified by 1 Canadian Air Division A1/Training, they are paid for by Assistant Deputy Minister (Materiel) from a corporate account. The responsibility for Business (and financial) Planning for the 15 Wing/Moose Jaw and 4 Wing/Cold Lake activities is vested in the individual Wing Commanders. Thus there is little harmonization of requirements and local funding requirements leading the on-site management authority to note: "...CATP,

¹³ Canadian Aerospace Training Project Website. [<http://www.dnd.ca/catp/english/about.html>].

an ADM(Mat) organization, does not always understand the vagaries of cash management at the wing level and is slow to devolve funding in a timely fashion.”¹⁴

5 Wing/CFB Goose Bay^{15,16,17}

Canadian Forces Base (CFB) Goose Bay represents the largest single base support contract in place in Canada today. Initially signed for a five-year period, this contract has delivered support to the Goose Bay Foreign Military Training Centre (FMTC) since April 1998. The outsourcing of services at 5 Wing was undertaken to “...*reduce overhead costs...(and)...obtain cost reductions, achieve flexibility, and achieve added value*”¹⁸ in operating the Base. The contractor, SERCo of the United Kingdom, provides a wide-range of common base support services including air traffic control, airfield navigation aid maintenance, security, food services, airfield meteorological services, supply processing, infrastructure maintenance, provision of utilities, transportation and roads and grounds maintenance. Essentially, the contractor provides all of the support services found at a typical military base except the actual military operations, in this case combat flight training by CF and Allied air forces. The initial contract was awarded at a base cost of \$28 million per year. Some of these costs are recoverable from other government departments (OGDs) supported in the Goose Bay area while the remainder of the costs are shared, according to an agreed formula, between Canada and the four Allied air forces who are signatories to an international memorandum of understanding for use of the FMTC.

There are three major stakeholders involved in the management of the Goose Bay contract. At the NDHQ level, the contract is managed by Assistant Deputy Minister (Materiel). The CAS retains a Goose Bay Office (GBO) responsible to manage the relationship with the Allied participants through the intergovernmental memoranda of understanding and to market the Training Centre to other potential users. The GBO does

¹⁴ Response to Questionnaire from 15 Wing Chief of Staff, LCol JB Degagne, 15 Apr 2002.

¹⁵ Goose Bay Project Management Office Website. [<http://www.capitalnet.com/~pmogb>].

¹⁶ Response to Questionnaire from 5 Wing Contract Management Officer, LCol WD Cross, 15 Apr 2002.

¹⁷ Canada. Department of National Defence. ASD Capacity Check Assessment – Prepared for the VCDS by KPMG Consulting LP – 16 May 2001.

not have a formal contractual responsibility but serves as a vital interface between Canada and the Allies and is often the first point of escalation if the Allies are concerned about the service at Goose Bay. The A4 at 1 Canadian Air Division Headquarters monitors the delivery of services through 5 Wing in Goose Bay. The Goose Bay management organization is shown in Figure 1c.

The contractor's day-to-day performance in delivering the services is monitored by the clients: 5 Wing and Allied staffs. Formal monitoring is performed by the 5 Wing Contract Management Officer (WCMO) and an integral Quality Assurance (QA) team. Performance measurement is, in the words of the WCMO "very subjective."¹⁹ The contractor is encouraged to exceed minimum performance standards through an incentive award fee that represents approximately six percent of the annual value of the contract. Thus, the contractor is eligible to earn an additional \$1.65 million dollars per year for exceptional service. Over the term of the contract to date, the contractor has earned from fifty-four percent to eighty-two percent of the available incentive award fee. While the 5 Wing staff and Allies evaluate the contractor's performance, it is a board chaired by the brigadier-general responsible for support in 1 CAD HQ that actually determines the incentive fee earned by the contractor. As pointed out by the KPMG Assessment, this level of subjectivity and the management of the incentive award within the construct of the contract warrant greater attention however, are very positive features of this contract.²⁰ More importantly, there is a demonstrable line of accountability, if only for performance measurement, from the user to the intermediate headquarters and on to the contracting authority.

¹⁸ ASD Review at 5 Wing Goose Bay. [http://www.vcds.dnd.ca/dgsp/dsc/asd/rev-gsbay_e.asp].

¹⁹ Response to Question 5.3 in Questionnaire by 5 Wing Contract Management Officer, LCol WD Cross, 15 Apr 2002.

²⁰ Canada. Department of National Defence. ASD Capacity Check Assessment – Prepared for the VCDS by KPMG Consulting LP – 16 May 2001. pp. C62-66

Bosnia Contractor Support Project^{21,22,23}

The Deputy Chief of Defence Staff initiated a Balkans Theatre Rationalization Study in 1999. ATCO Frontec Logistics was awarded a contract for the provision of services including secure satellite communications, utilities, transportation, vehicle maintenance, fuel, facilities and grounds maintenance, fire safety, billeting, catering, supply and environmental protection at five installations in Bosnia-Herzegovina. The contract is managed by Assistant Deputy Minister (Materiel) and monitored in-theatre by senior members of Task Force Bosnia-Herzegovina (TFBH). This is an interim arrangement that was put in place as both a proof-of-concept and relief measure. As a follow-on initiative, DND will implement an omnibus contract for support to deployed operations. This contract, the Canadian Contractor Augmentation Program (CANCAP) is modeled after a similar United States initiative: Logistics Civil Augmentation Program (LOGCAP). The DCDS is designated to be the requirements manager for CANCAP with ADM(Mat) performing the contract management role.

Much can be learned about the management challenges of this type of arrangement from the interim contract that is in place in Bosnia-Herzegovina. To set the scene for the comments that follow, it should be understood that in the case of operations of this nature, the DCDS is fulfilling many of the roles accomplished by the service chiefs for routine operations in Canada. In effect, just as Base and Wing Commanders are responsible to the Commander of the Commands/ECSs for the provision of services at their installations during routine operations, Task Force and mission Commanders are responsible to the DCDS for similar services in their missions. The organizational relationship in place to manage this contract is shown in Figure 1d.

In an interview with a recent TFBH Commander²⁴ the most notable management problem that he experienced was the reticence of the operational chain-of-command

²¹ Director General Logistics/J4 Log Website. [http://www.forces.gc.ca/j4log/index_e.htm]

²² Response to Questionnaire from J4 Mat/DG Log Staff, LCol TA Gibbons, 14 May 2002.

²³ Canada. Department of National Defence. ASD Capacity Check Assessment – Prepared for the VCDS by KPMG Consulting LP – 16 May 2001.

(Director General Military Plans and Operations/COS J3) and staff within the DCDS Group to become engaged in issues that related directly to the contracted support of deployed forces. A feature of this contract that is becoming more common in service contracts intended to provide relief to stressed military occupations subject to high operations tempo, is the notion of embedding military personnel within the contractor's organization. Embedding offers the opportunity to maintain military skills should the contractor default or be otherwise unable to perform or should the operational situation worsen necessitating extrication of the contractor and replacement by the military. Military members form a critical part of the contractor's team but their command and control and leadership pose a challenge for the Commander in theatre. In effect, the Commander has military personnel who are technically under his command however are seconded to a contractor who is operating in a separate management structure. While, at the working level, the on-site contractor management team and the TFBH Command Team "make it work," the situation certainly leaves much to be desired for clarity in responsibility and accountability.²⁵ The contract is being managed by Assistant Deputy Minister (Materiel) staff very much as a traditional equipment acquisition, thus it is not seen as being responsive enough to the day-to-day challenges in an operational theatre. Because the TFBH members rotate every six months, there is insufficient time in-theatre for them to become knowledgeable and proficient in dealing with the contractor, thus limiting the effectiveness of the on-site management of service delivery. In situations of this nature, there is a higher reliance on the chain-of-command and supporting staff for continuity and direction. Yet this appears to be lacking as indicated by the DCDS operations staff (Director General Military Plans and Operations/COS J3) demonstrated reticence to become engaged in contractual issues. This is a common complaint when this contract is discussed with TFBH personnel who are only involved with the contract for a relatively short period of time. In their view, it is difficult to get those responsible and accountable for the service actively engaged in managing the outcomes of the contract. They appear willing to manage the mechanical and administrative aspects of

²⁴ Interview with Col C. Corrigan – Commander Task Force Bosnia Herzegovina – Apr-Oct 2001. May 2002.

²⁵ It should be noted that this is not merely a CF phenomenon. The contractor's on-site supervisor was often left in the same situation by the company's headquarters in Canada.

the contract in a legal sense but do not wish to become engaged in ensuring the results are what were intended.

Summary of Case Studies

The management arrangements that exist for the four contracts described is best summarized in Table 1. It can be concluded from the brief analysis of these four service contracts that DND has applied the same contract management approach for the provision of services that is commonly applied to the acquisition of materiel and equipment. That is to say that Assistant Deputy Minister (Materiel) manages the in-service phase of the contracts in the same manner that capital equipment acquisition and spares are procured or that third and fourth line repair and overhaul contracts are managed. However, while in the case of materiel and equipment it is ADM(Mat) who has the responsibility for effective materiel acquisition,²⁶ the responsibility for force generation, including services delivered under contract, rests with other senior members of the DND and CF; namely, in these cases the Chief of the Air Staff and the Deputy Chief of the Defence Staff. This ignores the Department's own accountability and responsibility principle established for force generation²⁷ and, more importantly, leaves Commanders in the field unable to exercise significant control over the outcomes for which they are responsible. Indeed, a Commander may spend a significant amount of his or her tour, either on a Base or Wing or in an operational theatre, just becoming familiar with the terms of the contract that he or she has to oversee.

Strengths and Weaknesses of the Current Approach

A variety of reviews of ASD management has been conducted over the past several years. The four most noteworthy reviews that apply to this analysis are: the Report of the Auditor General in 1999,²⁸ the ASD Capacity Check Assessment in 2001,²⁹

²⁶ Canada. Department of National Defence. Organization and Accountability: Guidance for Members of the Canadian Forces and Employees of the Department of National Defence, Second Edition September 1999: Annex C.

²⁷ *ibid.*

²⁸ Auditor General of Canada, *Report of the Auditor General* – Chapter 27, November 1999.

²⁹ Canada. Department of National Defence. ASD Capacity Check Assessment – Prepared for the VCDS by KPMG Consulting LP – 16 May 2001.

the Chief of the Air Staff Study of Contracted Services Governance and Management in 2001/02,³⁰ and the Standing Committee on Public Accounts (SCOPA) Report.

The focus of the Auditor General's audit was:

“...to determine how well National Defence is managing the Alternate Service Delivery program and the extent to which it has progressed toward ensuring that non-core support services (...) are delivered to core defence activities in the most cost-effective way.”³¹

With regard to the savings objectives of ASD, the audit concluded that projected savings would not be achieved in the foreseeable future, in part, because of inaccurate baseline estimates and changed requirements between the cessation of in-house support and the implementation of the outsourced solutions. Most of the management problems identified in the audit were not related to the day-to-day provision of services but with the initial decision process and analysis that led to contracting out. The audit recognized that DND has an adequate framework to manage ASD implementation but was not putting the framework into practice through the life of the individual initiatives. In short, the lack of “cradle-to-grave” management of outsourced services is impacting DND's ability to realize the maximum benefits of the initiatives. In the Department's response to the audit findings, DND recognized the need for an appropriate framework and committed to making improvements and adjustments to avoid the problems identified by the OAG. The VCDS sponsored ASD Capacity Check Assessment was initiated, in part, to address this issue.

The KPMG ASD Capacity Check Assessment was initiated to address both the issues raised in the Auditor General's Report and the Tenth Report of the Standing

³⁰ Chief of the Air Staff/Directorate of Air Comptrollership and Business Management, *Governance and Management of Air Force Contracted Services* – April 2002.

³¹ Auditor General of Canada, *Report of the Auditor General* – Chapter 27, November 1999. article 27.17

Committee on Public Accounts that also criticized DND's handling of contracted services. The stated objectives of the KPMG review included:

*“...improve the ASD management framework, including development of measures and systems to track performance and success of the ASD program...identify keys for enhanced organizational and management support for ASD...effective communication of the soundness of ASD management within DND.”*³²

While the review had a definite policy focus, and there were significant recommendations for cost and performance measurement, the management of service delivery, whether through new in-house arrangements or outsourced, merited equitable coverage and analysis. This was the most significant review of ASD undertaken since the program was initiated in 1995. At the strategic level, the review recommended improved monitoring and oversight of contracts during and after implementation to *“...ensure that the transition to the new arrangement maintains the integrity of the original intent...”*³³ Of import in this review is one of the high level guiding principles identified as critical in enhancing service delivery management. The review identified the need for managers to be held accountable for attaining service delivery performance targets.³⁴ This is clearly not being done, in part because of the diffused nature of accountability for each of the contracted initiatives. In addressing the issue of organizational support for ASD, the review again targeted managers to become accountable for service delivery improvements and to better understand their respective roles, rather than having responsibilities centralized at the top.³⁵ One of the detailed findings of the review identified the lack of vertical accountabilities within the Commands and the fact that post-contract award accountability and monitoring are

³² Canada. Department of National Defence. ASD Capacity Check Assessment – Prepared for the VCDS by KPMG Consulting LP – 16 May 2001: p.1.

³³ *ibid.* pp.39-40.

³⁴ *ibid.* p.67

³⁵ *ibid.* p. 80.

unclear as major shortcomings of the present governance structure.³⁶ The final finding of the review is the most telling with respect to the need for enhanced governance and organizational support for initiatives once implemented:

*“While there is much oversight and policy support, dedicated resources – both human and financial – to assess, implement and monitor service delivery initiatives have been inconsistent across programs, particularly at the local level. There is concern that some projects may not be adequately resourced.”*³⁷

This view is reinforced later in the summary of observations when the report goes on to declare that “...there has been little rigorous monitoring of ASD projects from a program perspective...” and “...monitoring is not given as much emphasis once a contract or ASD delivery option is put in place.”³⁸ Thus, while this was a comprehensive review aimed at the Departmental level, it is clear that outsourcing cannot be a “fire and forget” undertaking. The improvements being contemplated to enhance the initial decision-making process must also be incorporated into an improved governance framework for the solution once implemented.

The Chief of the Air Staff Study of Contracted Services Governance and Management was conducted in response to concerns expressed by the Assistant Chief of the Air Staff (ACAS) in December 2000 with respect to the management of five major service contracts within the air force. Two of them, NATO Flying Training (NFTC) and Goose Bay, were summarized earlier. The air force has embraced ASD and contracted service delivery as a means of enhancing operational effectiveness and therefore has a vested interest in “getting it right.” The Air Resource Management Committee expressed concerns that it was taking too long for the management of major contracts such as NFTC

³⁶ *ibid.* Appendix A, p 24.

³⁷ *ibid.* Appendix A, p.28.

³⁸ *ibid.* Appendix A, p.49.

to transition to “steady state” and requested the study make recommendations for transition to a common governance structure within the air force.³⁹

The CAS review addressed a broad range of management issues, virtually all of which are relevant to this discussion. They include:⁴⁰

- Poorly defined roles and responsibilities
- No single point of accountability
- Overly complex reporting relationships
- Lack of communications between levels resulting in slow response at the Wing
- Existing functional chain is ignored
- Lack of customer focus
- Lack of understanding of the terms of the contract and contractor responsibilities at the working level

Many of these comments were also reflective of the responses received to the questionnaires described previously even though only two of the case study contracts formed part of the CAS review.

Concern over the management of contracted services in support of military operations is certainly not limited to Canada. The Auditor General, while finding some of Canada’s principal Allies were further advanced in their outsourcing activities, also noted that there were some common problem areas, particularly in cost savings estimates. In an extensive article on the subject as it pertains to the US Air Force,⁴¹ Matthew Pausch notes the need to improve the management of contractors in support of military operations through single chains-of-command and centralized control under the organization predominantly responsible for the service being delivered rather than distributed across all of the units and at various levels of command.

³⁹ Canada. Department of National Defence. Report by Chief of the Air Staff/Directorate of Air Comptrollership and Business Management, *Governance and Management of Air Force Contracted Services* – April 2002. pp. 3-4.

⁴⁰ *ibid.* pp. 7-8.

⁴¹ Pausch, Matthew F. “Running out of gas? Issues and Strategy 2000.” *Air Force Journal of Logistics*, Spring 2000, Gunter AFS, Vol 24, Issue 1, pp 6-15.

In summary, all of the reviews point to the need for improved management of contracted services within DND. The fact that many of the findings were common throughout the three relatively diverse reviews precludes there having been a preconceived bias prior to the analysis. In all cases, the need for an appropriate management framework was recognized at both the “user” level and by the senior leadership. Thus, the stage is set to recommend a management framework that will apply Departmental organization and accountability principles to the management of outsourced service contracts.

SECTION 3 – ORGANIZATION AND ACCOUNTABILITY

As described in the DND capstone document on organizational accountability, Organization and Accountability: Guidance for Members of the Canadian Forces and Employees of the Department of National Defence,⁴² every Canadian Forces member and Department of National Defence employee has the right and responsibility to know how he or she relates to their organizational superior and how they function within the integrated National Defence Headquarters (NDHQ). The document stresses the need for clear responsibilities and accountabilities so that members and employees can serve Canada effectively. The Level 0 and Level 1 relationships are shown in Figure 2. However, as described in the brief case studies, the present ASD management structure fails to clearly identify responsibilities and accountabilities that lead to less than optimal results.

Within the integrated Department, there are two clear and distinct lines of authority that exist for the conduct of military operations and the management of Departmental affairs and implementation of Government policies:⁴³

⁴² Canada. Department of National Defence. Organization and Accountability: Guidance for Members of the Canadian Forces and Employees of the Department of National Defence, Second Edition September 1999: Preface

⁴³ *ibid*, page 3 of section 1

- “...the military chain-of-command deals with the conduct of military operations by the Canadian Forces through the appropriate military echelons (and).
- ...the line of departmental authority and accountability that extends from the Deputy Minister to every member of the Department and the Forces who exercises modern comptrollership, financial management, human resources management, contracting management or other authorities delegated from the Deputy (Minister).”

Within the command structure, the document goes on to define the roles and responsibilities, in broad terms, of the senior military members in the chain-of-command. Germane to this discussion are the roles of the Chief of the Defence Staff (CDS), Deputy Chief of the Defence Staff (DCDS), and the three Environmental Chiefs of Staff (ECS):⁴⁴

- The CDS exercises overall command and control of military operations in accordance with orders and directions issued by the Minister or the Government.
- The DCDS, on behalf of the CDS, is responsible to coordinate strategic level operational planning and provide operational direction to Commanders in the field. These Force Commanders exercise command over military units and elements at the operational level.
- The ECS (Maritime, Land and Air), exercise command over subordinate formations and have a direct responsibility for force generation and routine operational activities. Their principal role is that of generating and supporting the forces assigned to the Force Commander and providing the CDS with strategic advice on environmental, technical and operational matters. In this role, they work closely with the Assistant Deputy Minister (Materiel) [ADM(Mat)].

⁴⁴ ibid, page 4 of section 1

Below this level, the ECS each define their command relationships with respect to their intermediate Formations and subordinate Bases and Wings. For example, the Chief of the Land Staff (CLS) exercises command over Bases and units through the four Land Force Area (LFA) Headquarters; the Chief of the Maritime Staff (CMS) exercises command over Bases, units and ships through the three Formation Headquarters and the Chief of the Air Staff (CAS) exercises command over Wings and units through the 1st Canadian Air Division Headquarters. In the case of Air Command, and relevant in these discussions as three of the contracts being considered deliver support to the air force, the Wing Commanders are responsible to “...*provide base support to lodger units...to include the conduct of air operations; the coordination of taskings; and the coordination of the operational, functional and technical control of specific units within the wing.*”⁴⁵ In re-establishing the Wing construct in Air Command in 1993, the Commander recognized the importance of the Wing Commanders’ authority over all aspects of capability generation at that level:

*“The wing structure recognizes the critical dependence of air operations on infrastructure and support. The Wing Commander is responsible for conducting air operations while maintaining authority over those resources essential to the success of air operations.”*⁴⁶

This relationship is graphically depicted in Figure 3. The other ECS define similar responsibilities for their Base Commanders.

The Line of Departmental Authority and Accountability is defined in much more general terms.⁴⁷ All DND employees and CF members are:

⁴⁵ Canada. Department of National Defence. Air Command Order 104-6, Vol 1 Feb 1993 Annex A, para 5, pg A4-2

⁴⁶ *ibid* pg para 13, A4-5

⁴⁷ Canada. Department of National Defence. Organization and Accountability: Guidance for Members of the Canadian Forces and Employees of the Department of National Defence, Second Edition September 1999: page 4 of section 1.

“...accountable to the Deputy Minister, through their Environmental Chief of Staff or Group Principal, for the exercise of delegated statutory, policy and administrative authorities related to the management of funds, public service employees, property and other resources.”⁴⁸

In essence, as representatives of the Crown, all members and employees are accountable to their superiors, through their organizational chain, to adhere to government policies. Defining accountability, in the public domain, depends on the nature of the organization and the level to which one attempts to limit the definition. All public servants, who include members of the CF in this context, have accountability to the government and to the people of Canada. Within the context of this paper, accountability will be limited to the working definition offered by Kernaghan and Langford in The Responsible Public Servant – “...the obligation to answer for the fulfillment of assigned and accepted duties within the framework of the authority and resources provided.”⁴⁹ They go on to cite the Ontario government’s principles of accountability of public servants which are based on levels and positions in a hierarchy and the need to ensure that not only are authority and responsibility delegated to the individual being held accountable, but also that the resources are available to complete the activity.⁵⁰ It is this consideration of resources that is often omitted from institutions’ accountability frameworks.

In attempting to describe the working environment within the DND and CF, *Organization and Accountability* defines the terms “responsibility”, “authority” and “accountability” as they apply to CF members and DND employees. By the Department’s definition, responsibility includes both “...the authority and obligation to act” and to “direct or authorize others to act. It also means being accountable for how those responsibilities have been carried out in light of agreed expectations.”⁵¹ As an authority and accountability principle, the Department stresses the need for lateral or horizontal coordination within the hierarchy. This has, in the past, proven to be a

⁴⁸ *ibid.*

⁴⁹ Kernaghan, Kenneth and Langford, John. The Responsible Public Servant. The Institute for Research on Public Policy and The Institute of Public Administration of Canada. Halifax, 1990 p.160.

⁵⁰ *ibid* pp. 170-172.

difficult concept to embrace because of the desire to identify the single organization or individual responsible to take action or achieve results. Within the new authority and accountability framework, horizontal relationships are just as important as traditional hierarchical ones, but the accountability for overall results lies with those responsible for the overall results. This notion of accountability being dependent on horizontal relationships is reinforced in the report of the Lambert Commission on Financial Management and Accountability:⁵²

“...accountability relies on a system of connecting links – a two-way circuit involving a flow of information that is relevant and timely...(it) is that quality of a system that obliges the participants to pay attention to their respective assigned and accepted responsibilities.”

Placing this into the context of ASD and the management of outsourced services, there are six major stakeholders at the highest level within NDHQ.⁵³

- The *Vice Chief of the Defence Staff (VCDS)* both coordinates cross-boundary issues between areas within the Deputy Minister’s responsibility and those within the CDS’ responsibility and is the senior resource manager in NDHQ.
- The *Assistant Deputy Minister (Materiel)* is responsible to ensure material acquisition and logistics support, focusing on the Long-Term Capital Equipment Plan, the National Procurement Plan to sustain in-service equipment and logistics planning and support to operations.
- The *Deputy Chief of the Defence Staff* is responsible for the planning and execution of “non-routine” and contingency operations by the CF. The DCDS

⁵¹ *ibid*, page 2 of section 4

⁵² Ottawa. Royal Commission on Financial Management and Accountability, Final Report. 1979. p.9-10.

also has limited joint force generation responsibilities for those operational functions for which he has the lead (i.e. Joint Operations and Support).

- The three *Chiefs of the Environmental Staffs* are responsible for the planning and execution of “routine” operations and the generation of forces for routine, non-routine and contingency operations.

The remaining “Level 1 Advisors” in NDHQ, of which there are at least a further ten, are in reality just that, policy and program advisors with limited functional “production” or force generation responsibilities. In this context therefore, it should be noted that it is the DCDS and the three ECSs supported by Assistant Deputy Minister (Materiel) who have the responsibility to train, equip and generate forces to respond to Canada’s defence mission.

When the actual responsibilities summarized in Table 1 are compared to the accountabilities depicted in Figures 2 and 3, it is apparent that there is not a clear line of responsibility, through the chain-of-command, for the positions responsible to deliver services and the contractors who actually deliver the services. Based on this organization and accountability framework, and the dichotomy identified earlier between the role being played by Assistant Deputy Minister (Materiel) in managing service contracts and the responsibilities that the ECSs have for generating forces, it may be concluded that the current arrangement usurps the force generators responsibility by giving the authority for key service management to ADM(Mat). This has the effect of giving ADM(Mat) the responsibility for activities such as pilot production, airfield operation and aerospace surveillance, even though these are the specific responsibilities of the Chief of the Air Staff. Similar situations exist with respect to the Chief of the Maritime Staff and Chief of the Land Staff. It is this discrepancy that needs to be addressed by any framework that is put in place to manage contracted services.

⁵³ Canada. Department of National Defence. Organization and Accountability: Guidance for Members of the Canadian Forces and Employees of the Department of National Defence, Second Edition September

In a paper presented at the National Conference on Management in the Public Sector,⁵⁴ John Howard suggested that effective program delivery of contracted services were hampered by:

“...an excessive tendency to centralize decision-making; secondly too many layers of staff connected with policy, technical and legal advice which effectively constrain a manager’s decision-making discretion; thirdly, a proliferation of decision levels in the hierarchy that tends to diffuse responsibility, slow up decisions and lead to perceptions of unresponsiveness; and lastly, a hardening of the bureaucratic arteries evidenced by thicker manuals, more committee meetings and the paralysis created by countless advisory groups.”

Anyone who has worked within the matrix of NDHQ will recognize most if not all of these as characteristics of the organization that lacks a clear and distinct chain of accountability from strategic direction at the top to service delivery at the bottom.

In addressing the desired relationship and accountability of management for outsourced services, Jonathan Figg interviewed a number of internal auditors of major US companies.⁵⁵ His interview with Steve Goepfert, Chief Audit Executive for Continental Airlines best summarized the objectives of the relationship, noting the need for “top to bottom” accountability in the organization:

“...once you build in accountability

have the same sort of relationship that a department head has with an in-house manager or staff person.”

This is obviously the desired relationship to be developed in any DND outsourcing initiative.

SECTION 4 – MANAGEMENT FRAMEWORKS FOR SERVICE DELIVERY

In his extensive review of the evolution of Defence administration and organization in Canada, Douglas Bland identifies eleven structural criteria that should be considered when developing defence organizations.⁵⁶

- Definition of Responsibility;
- Unity of Command;
- Span of Control;
- Rational Assignment;
- Delegation of Authority;
- Accountability;
- Coordination;
- Division of Labour;
- Checks and Balances;
- Minimum Change Effect;
- Complexity.

⁵⁶ Bland, Douglas. Canada's National Defence: Volume 2 Defence Organization. School of Policy Studies, Queen's University, Kingston, 1998. pp 459-460.

While all of these criteria bear consideration when developing an organizational framework for the management of contracted services, the following, as described by Bland, are considered the most important in this application.⁵⁷

- *Definition of Responsibility.* The structure must permit the clear definition of the various responsibilities of individuals to ensure that there are neither gaps nor overlaps; that each part knows what has to be done; and that each functions to achieve the common objectives.
- *Unity of Command.* In management as in war, “all action towards the accomplishment of a given aim must be directed and controlled by one individual”. Each person should have only one immediate supervisor and should know both to whom and for whom he or she is responsible.
- *Rational Assignment.* “All functions required to accomplish the aim of the organization should be homogeneously grouped and specifically assigned in accordance with individual limitations”.
- *Delegation of Authority.* The structure must allow the necessary authority for decision and action to be delegated in accordance with the responsibilities assigned.
- *Accountability.* The structure must bind subordinates to account to their superiors for actions, inaction and resource management.
- *Coordination.* The structure must permit appropriate coordination to achieve the common goals and objectives.
- *Complexity.* Since a larger number of different types of jobs and units within a single organization create complicated command and management problems, the structure should minimize the number of different types of tasks and divisions within the organization.

⁵⁷ ibid

The management structures that are in place for all of the service contracts studied are slight adaptations of what was already in place or implemented for the bid evaluation and award of the contract, and do not appear to have taken into account the different demands of the *in-service* environment. As previously described, the contract management structures that are in place are very much extensions of the materiel acquisition processes and have not been adapted for the *service delivery* environment. In all cases, the *ad hoc* nature of the management arrangements fail to take into account the ECS's responsibility for force generation and the intrinsic need for clear vertical accountability for strategic direction, resource allocation and results. This was specifically identified in the air force review of contracted service management where it was concluded that:

*“...to effectively manage existing and future contracted services operations, there must be a governance and management structure that provides a fully integrated approach to the marketing, business management, contract management, technical/operational management and on-site delivery of Air Force contracted services.”*⁵⁸

Again, the problems of cross-functional responsibilities complicating the management of out-sourced services are not unique to DND. The US DOD has identified this as a potential threat to combat effectiveness. In an article in *Signal* magazine⁵⁹, James Ward notes that:

“The structure of program managers, cross-functional commands, evolving guidance from superiors, and the evolving nature of providing national defense...leads to a consensus, (that) has and will continue to serve the public interest because it affords all stakeholders a chance to provide input...would lead to reduced

⁵⁸ Canada. Department of National Defence. Report by Chief of the Air Staff/Directorate of Air Comptrollership and Business Management, *Governance and Management of Air Force Contracted Services* – April 2002: p. 10.

combat effectiveness, regardless of the efficiency it might temporarily create.”

In order to address this shortcoming, and adhere to both the Department’s organization and accountability principles and Bland’s organizational criteria, four management framework models will be presented. These models will then be discussed in the context of the organization and accountability framework and the criteria and then will be applied to the four sample contracts to determine which model best satisfies the management demands of service contracts.

To varying degrees, each of these models presents a variation of a new theme for project management that is evolving within DND, that of the *Integrated Project Team* or *IPT*. The IPT has been in use in the US for a number of years and was introduced to reduce the number of “hand-offs” between the various stakeholders by minimizing the amount of outside coordination that is required. Originally established for the equipment acquisition project management functions, the IPT has seen limited use in the management of contracted services. In brief, the IPT places representatives of all of those organizations accountable to contribute to the delivery of the “product” within a single organization, responsible to a single manager/commander. While they will access and coordinate activities with their parent specialist organization (i.e. Assistant Deputy Minister (Materiel) for contracting), it is clear to all members that their accountability for the services delivered is vertical. In most cases, the contractor is also represented in the IPT. This relationship must be managed carefully to avoid challenges to the impartiality of the key players.

The important discriminator of the four “IPT” models described below is the need to enhance chain-of-command vertical accountability to the office responsible for the desired outcome - the delivery of the service. In all but the “Hybrid” model, it is

⁵⁹ Ward, James H. “Outsourcing trend demands closer attention.” *Signal*, Falls Church, Nov 2000. Vol

assumed that an IPT of some sort is created to enhance unity of command within the contract management organization. It should also be noted that, except for the Hybrid, all models are focused more on alignment of responsibility than they are on the actual office that is accountable for service delivery.

Account Manager Model

In this model, the authority and responsibility to manage the contract is vested in the organization that controls the financial account. This is to say that for “Corporate” accounts, the contracts are managed by the VCDS or by a line organization on behalf of the VCDS. The appropriate Level 1 would manage other accounts, such as the ECS’s operating accounts. In all cases, suitably qualified contracting and “service” specialists support the contract manager. In the Account Manager Model, the contract management is led by an individual responsible to the Level 1 that has responsibility for the specific account. The management team includes functional representation from all of the disciplines listed in Table 1, reporting vertically from the Base or Wing, through intermediate headquarters, to the appropriate Level 1. The focus for this management framework is clearly business planning and fiscal accountability. If the Goose Bay contract, which is a VCDS Corporate Account, were managed in accordance with the Account Manager paradigm, it would resemble Figure 4a rather than the current Figure 1c arrangements. It should be noted that, while simplicity and unity of command are enhanced, the VCDS workload, overseeing all corporate accounts would significantly increase and output would be jeopardized by the fact that this is not “core VCDS business.” Running airfields and practice target areas is clearly the mandate of the air force thus this alignment is sub-optimal.

Contract Manager Model

This model is characterized as being “contract-centric.” That is to say that the contract is managed by the Departmental contracting authority, typically ADM(Mat). A contracting specialist, supported by functional “service” specialists representing all of the disciplines listed in Table 1, leads the management team. ADM(Mat) is responsible for the end-to-end management of the contract, establishing performance standards and

measuring the contractor's output against these standards. As in the case of the Account model, the contract manager reports vertically from the Base or Wing, to the appropriate Level 1; in this case ADM(Mat). The focus for this management framework is contract propriety. Again, using the Goose Bay contract as a proxy against which to compare the Contract Manager Model, it would resemble Figure 4b rather than the current Figure 1c arrangements. Again, while simplicity and unity of command are enhanced, the Assistant Deputy Minister (Materiel) workload would increase as this position is the Departmental procurement and contracting authority for most contracts. Furthermore, output would be jeopardized by the fact that this is not "core ADM(Mat) business." Again, running airfields and practice target areas is clearly the mandate of the air force thus this alignment is sub-optimal.

Functional Manager Model

In this model, management is focused on the service being delivered. In this case, experts knowledgeable about the service being delivered establish the standards and manage the contractor's achievement of these standards. Appropriate contracting and financial expertise support these functional experts. In this case, contracts would be managed from within the functional organizations typically responsible for the delivery of the service. Once again, if the Goose Bay contract were used as the example against which the models can be compared, in the Functional Manager paradigm, it would resemble Figure 4c rather than the current Figure 1c arrangements. Simplicity and unity of command are enhanced, the contract management workload is distributed across the Environmental Chiefs of Staff and the Deputy Chief of the Defence Staff, and the organizations most suited by training and expertise are managing contracts delivering core services. This is the optimal alignment for operational support to military missions where functional expertise is required.

The "Hybrid"

This model reflects the *status quo* or some version of it. It is a structure that combines two or more of the other models in such a fashion that each management function performed in support of the contract is done by the office best suited for the

individual function but there is not a clear line of accountability from the bottom (service delivery) to the top (strategic direction and oversight). This model relies heavily on horizontal coordination between organizations at all levels. The air force has in fact proposed a version of the hybrid to address the in-service contract management problems that were identified previously in this paper. The air force solution, depicted graphically at Figure 5, establishes a “Directorate of Contracted Air Services (DCAS)” within the Air Staff. Of note in this solution is the distinct delineation of line and staff functions with a clear line of accountability from the contractor delivering services at the Wing level, through the Commander of 1 CAD, to the Chief of the Air Staff. Unfortunately, the model introduces “dotted line” relationships between DCAS and Assistant Deputy Minister (Materiel) and could be the source of confusion in determining exactly who is accountable for specific functions. The horizontal accountability of staff to line within a single functional chain (i.e. Air Staff horizontally accountable to advise and respond to Wing and 1 CAD Commanders and functional managers) is much more straightforward than horizontal accountabilities that span other Level 1 organizations and other government departments.

Discussion of the Models

The nature of DND and the CF, or more specifically a characteristic of the people, is to “make it work.” By their very character, members and employees will strive to overcome organizational difficulties in order to get the job done. That said, if organizational confusion and impediments to clear accountability and responsibility are removed, organizations will function more effectively and the results will more closely match what was originally desired. Any of these models can be made to work. The key to success is determining the desired outcome and adopting a management model that best supports this outcome. The following analysis will compare the four models and suggest how they may fit the four representative contracts described earlier:

- *Account Manager Model.* This arrangement places the focus of management on fiscal accountability and, while not an unimportant aspect of any dealings that involve public funds, places the results or outcomes secondarily. More significantly, it removes the resources and ability to provide services from the

Level 1s normally responsible for force generation, the ECSs and DCDS and gives it to the Account Manager, the VCDS or delegated Level 1. If this is then delegated back to the ECS as is often the case, the ECS ends up serving two masters: the VCDS, a staff officer who is the “owner” of the corporate account and the CDS, for whom the ECS generates forces and capabilities. If the account were not delegated to the ECS, which would be the case in the pure Account Manager model, the VCDS would be running a parallel structure down to the local level where the contract is being executed. This structure would have to be supported by technical/functional expertise knowledgeable in the subject matter of the service being delivered and thus has the potential to require duplicate expertise at the Base/Wing level. This is neither a wise use of scarce resources nor does it conform to the need for unity of command. The ECS is accountable for the provision of services at the Base or Wing level but it is a VCDS contract management team that actually manages the resources and contractor activities. This model does have the advantage of reduced levels of command in that the VCDS does not have an intermediate formation headquarters but it would be just a matter of time before the contractual span of control grew to the point of needing additional staff and possibly a formation level to provide guidance and assistance to an extensive field force.

- *Contract Manager Model.* This arrangement places the focus on the actual management of the contract in much the same manner as equipment is acquired or repair and overhaul contracts are managed. This is normally the purview of ADM(Mat) and in this model, ADM(Mat) would be the lead for managing the delivered service. As in the case of the Account Manager Model, the Contract Manager Model removes the resources and ability to provide services from the Level 1s normally responsible for force generation, the ECSs and DCDS and gives it to the Account Manager, ADM(Mat). It has the effect of giving ADM(Mat) significant force generation and training responsibilities in a parallel structure down to the local level where the contract is being executed. As in the case of the Account Model, this structure would have to be supported by

technical/functional expertise knowledgeable in the subject matter of the service being delivered and thus has the potential to require duplicate expertise at the Base/Wing level. Again, this is neither a wise use of scarce resources nor does it conform to the need for unity of command. The ECS is accountable for the provision of services at the Base or Wing level but it is an ADM(Mat) contract management team that actually manages the resources and contractor activities. This model does have the advantage of reduced levels of command in that ADM(Mat) does not have an intermediate formation headquarters but it would be just a matter of time before the contractual span of control grew to the point of needing additional staff and possibly a formation level to provide guidance and assistance to a growing field force.

- *Functional Model.* This model closely parallels the Command, Formation, and Base/Wing structure that are common throughout the Canadian Forces. This model, does not organizationally differentiate between an “in-house” service provider and a contracted service provider other than to ensure that an “arm’s length” relationship exists between the contractor’s employees and the government management structure. In this structure, the contractor interfaces with the chain of command at the appropriate level. On site at the Base or Wing, the contractor’s service delivery team is responsible to the Base/Wing Commander for the delivery of the contracted service in accordance with standards and criteria that have been established in the contract. The Base/Wing staff measure the contractor’s performance and provide day-to-day oversight of the operation. Within established operational and financial limits, the Base/Wing Commander may adjust the contractor’s activities and output to meet the immediate demands on site. However, should adjustments outside his/her fiscal or operational authority be required, the Commander must seek the authority of the formation headquarters. Should demands exceed the formation headquarters’ authority, permission must be sought from the Command Headquarters. This model clearly has the advantage of providing an accountability chain that exists

within the current “service delivery” or force generation accountability framework.

- *Hybrid*. This model most closely represents the situation that exists today although any combination of the other three models could be put together and result in a hybrid. This arrangement emphasizes horizontal relationships and relies heavily on the expertise that each of the major stakeholders brings to the structure. Each of the organizations contributes to the outcome but each has its own priority both for emphasizing its particular role in the contract or outcome and the relative importance and attention that is given to any single contract over the others. It is in fact up to the various contributing Level 1s to determine the relative importance of each initiative and to provide resources accordingly. Thus, it is possible for the number one priority of the CAS, NFTC for example to be a lower priority for Assistant Deputy Minister (Materiel) than, for example Bosnia Contractor Support. Given limited resources, ADM(Mat) may under-resource the NFTC in favour of Bosnia support and the CAS would be in the situation of being unable to satisfy his mandate for pilot production because resources not under his control are not available, for an activity for which he is accountable. In the hybrid structure, not only are horizontal relationships vital, but a shared and common sense of Departmental priorities is necessary if all objectives are to be given the priority warranted overall. This violates the concept of unity of command because, in a sense, no one is in charge. The ECS or DCDS is accountable for the provision of services at the Base or Wing level but it is an ADM(Mat) contract management team that actually manages the resources and contractor activities and may be setting the priorities for contract management resources.

A subjective comparison of the four models with respect to Bland’s criteria is summarized in Table 2. It can be noted that the *Functional Model* offers the most homogeneous structure in that unity of command and clear lines of authority and accountability can be easily established. It has the significant additional advantage of representing a rational assignment of responsibilities by placing the activities and tasks to

be performed by the contractor under the organization that would normally perform those services in an “in-service” situation and where the expertise to manage the service exists by virtue of training and employment.

SECTION 5 – PROPOSED GOVERNANCE FOR OUT-SOURCED SERVICES

Concluding Material

The Department of National Defence has made significant progress in the contracting for services and the evolution of the ASD program. The move from outsourcing to save money, to a program based on continuous improvement to enhance effectiveness was the first major adjustment of the overall program. That said, while the use of contracted services may be improving effectiveness overall, there remains opportunities to improve the effectiveness of the management of the contracted services. When the Departmental organization and accountability framework is applied to the management of contracted services, there are significant shortcomings as far ensuring that the Level 1 leaders accountable for force generation, of which outsourced services are an enabler, have the resources to manage service delivery. While the current framework at the strategic level may be optimized for policy development and equipment acquisition, it is inadequate for the management of contracted operational support service delivery. Policy development and capital acquisitions are undertakings in which results are realized after months and years. By contrast, contracted operational support services, once put in place, require real-time management by the organization responsible for the outcome – generally the ECSs or DCDS. The present structure does not encourage this type of management and in fact, requires too many “hand-offs” between line and staff organizations ultimately resulting in the organization responsible for procurement, ADM(Mat) having the authority over service delivery, regardless of who is functionally accountable for the service (i.e. flight training, base support etc).

This dichotomy can best be addressed through reorganization and alignment of all of the management functions that contribute to the delivery of contracted services (Table

1) under a single, functional authority as described in the *Functional Model*. The *Account Manager* and *Contract Manager* models satisfy the requirement for unity of command and a clear line of authority from a single Level 1 responsible for managing the contract and delivering the service, however, in neither case is it the Level 1 who is mandated to deliver the outcomes (i.e. base support, pilot training etc). The *Hybrid* model fails to provide unity of command and the requisite clear line of authority from strategic leadership to service delivery – it is the *status quo*.

Implementation of the *Functional Model* will require some fundamental changes to both organization and policy:

- *Organization*. Within a functional organization, all of management and staff functions associated with in-service support and the delivery of the service will have to be brought into the functional line of accountability of the Level 1 responsible for the service being delivered. The services should be managed in the same manner that “in-house” services are delivered. In the case of the air force, this means that the contract management authority, requirements authority, contract monitor responsibility, incentive award fee authority, financial authority and, where applicable, marketing, must be within a single chain of accountability that reaches from the Chief of the Air Staff down to the Wing where the service is delivered. This will not necessarily require additional people, only reassigning positions presently in the Air Staff, 1 Canadian Air Division, Assistant Deputy Minister (Materiel) and the Wing to the new alignment. ADM(Mat) would remain the procurement authority; the responsibility to manage the in-service contract would transition to the appropriate Environmental Chief of Staff or Deputy Chief of the Defence Staff, with the requisite qualified staff supporting the process. The army, navy and air force and formation headquarters would be staffed with personnel capable of fulfilling the roles that exist in the “in-house” service delivery paradigm, tailored for the “out-sourced” environment.

- *Policy.* At present, procurement and contracting authority for all but small contracts is vested in Assistant Deputy Minister (Materiel) and Assistant Deputy Minister (Information Management). For the types of contracts discussed in this paper, ADM(Mat) is the contract authority. This authority extends from initial procurement through the in-service phase of service contracts. For the *Functional Model* to be effective, contracting policy must be changed to enable the appropriate ECS to exercise contracting authority. With this authority goes the responsibility to ensure that contract management staffs are trained and capable of executing contracts of this nature.

In the context of the four representative contracts discussed earlier, if the *Functional Model* is adopted, CAS would be given end-to-end responsibility for NWS, NFTC and the Goose Bay FMTC and the DCDS would assume responsibility for the Bosnia Contractor Support Program. The recommended alignment for these four contracts is shown in Figures 6a through 6d. If one examines some of the difficulties identified in the case study summaries, it can be seen that the functional alignment will alleviate not only the problems that were highlighted but also others that were described in the questionnaires. For example, in the case of the North Warning System, the Chief of the Air Staff, who is responsible for the aerospace surveillance of Canadian airspace, can define the operational requirement to be satisfied by the contractor, the conditions within which the requirements will be satisfied and the trade-offs necessary to accomplish the tasks within the assigned budget or make representation for increased funding. The chain-of-command (Figure 6a) can also manage the quality of the services delivered through direct interaction with the contractor with whom they have a formal contractual relationship. As previously described, the current situation leaves the management of the contracted services within the authority of Assistant Deputy Minister (Materiel) with the air force being a receiver of information rather than the prime influencer of service. Thus, in this model while ADM(Mat) retains administrative control of the contract at the highest level, day-to-day management is exercised through the air force chain-of-command, eliminating most of the hand-offs and opportunities to alleviate conflicting priorities being addressed outside the formal chain-of-accountability.

Similarly, in the case of NATO Flying Training (Figure 6b), instead of ADM(Mat) determining whether or not the contract will be required to surge training to increase production for Canada or the Allies, the air force will directly control the type and quantity of training to be conducted and if necessary, adjust the budget to reflect the changes in production. If the Goose Bay contract is managed in the *Functional Model* framework (Figure 6c), changes in the type of service being delivered and the response of the contractor can be enhanced by reflecting the traditional service delivery model in which the Wing Commander determines the relative priority of activities and assigns appropriate resources to meet these priorities. In the somewhat dynamic environment of multi-national flying operations, this type of flexibility is necessary in order to be responsive to the needs of the CF and Allies operating in Goose Bay. And finally, if the *Functional Model* is applied to Bosnia Contractor Support, the contractor becomes yet another support element of the Joint Support Group and responds directly to the Task Force Commander (Figure 6d), providing a level of services from an agreed menu that may be tailored for each mission. Again, in this case, the Task Force Commander determines the level of service required and makes the financial trade-offs based on the relative priority of the support services and other activities within his responsibility.

In all of these examples the key is the continued horizontal accountability at the most senior level for contract authority, but the delegation of in-service contract management authority, financial management authority and requirements authority down a single chain-of-command. The individual or organization making the decision to amend the service delivery requirements needs all of these “management tools” at their disposal to make the necessary trade-offs to deliver the right level of service, at the right time.

The *Functional Model* is also applicable to many of the other service contracts that are in place or envisioned for the future. For example, service contracts for activities such as the Area Training Centre Meaford should be managed by the Land Staff;

Auxiliary Fleet operation by Maritime Staff and the Supply Chain Project by Assistant Deputy Minister (Materiel). This end-to-end traceability from requirement to service delivery will improve accountability immeasurably and contribute to the overall operational effectiveness of DND and the CF.

In 1996, the US DOD Commission of Roles and Missions of the Armed Forces sponsored research into the criteria for expanded commercial service delivery in support of defence.⁶⁰ In proposing the conditions necessary to successful enlargement of outsourced services in the DOD, Camm suggests that large-scale reorientation of the organization will be necessary. The traditional views of bid evaluation and contract management will have to give way to a new innovative approach that favours goals and outcomes rather than specific processes and that encourages real-time adaptation and innovation rather than responses to prescriptive contractual clauses. These changes will require a reorientation of the organization if it is to become a smart consumer and manager of contracted services. These conclusions and recommendations are just as valid in the Canadian context. Reorganization of service contract management along functional lines, as opposed to the traditional matrix method that has been adopted from the equipment procurement regime will be much more responsive to the dynamic operational environment in which services are delivered. The Environmental Chiefs of Staff and the Deputy Chief of the Defence Staff must engage the Assistant Deputy Minister (Materiel) to initiate the functional alignment for the management of operational support service delivery contracts if DND is to effectively manage outsourced services. Through better alignment of contract management with the organizations that are responsible for the outcomes, DND will *manage better to get it done right*.

⁶⁰ Camm, Frank. "Expanding Private Production of Defense Services." RAND, Santa Monica. 1996. pp. 43-45.

	North Warning System	NATO Flying Training Centre	5 Wing/ GBMFTC	Bosnia Support
Contracting Authority (Bid/Award)	ADM(Mat)/ DGAEPM	ADM(Mat)/ CATP	ADM(Mat)/	ADM(Mat)/
Requirements Authority ⁶¹	CAS and 1 CAD	CAS and 1 CAD	CAS and 1 CAD	DCDS and ADM(Mat)
Contract Managing Authority	ADM(Mat)/ DGAEPM	ADM(Mat)/ CATP	ADM(Mat)/ DMSDP	ADM(Mat)/ DMSDP
Monitoring/ Quality Assurance	22 Wing and CADS	15 Wing, 1 CAD and Allies	5 Wing and Allies	ADM(Mat) and TFBH
Incentive Award Fee Authority	N/A	1 CAD	1 CAD	ADM(Mat)
Type of Account	ADM(Mat) Corporate	Discretionary Corporate	Discretionary Corporate	ADM(Mat) Corporate
Financial Management	ADM(Mat)/ DGAEPM	CAS/D Air CBM	CAS/D Air CBM	ADM(Mat)/ DMSDP
Marketing Responsibility ⁶²	N/A	ADM(Mat)/ CATP	CAS/GBO	N/A

Table 1 – Comparison of Management Arrangements for Sample Contracts

	Responsibility Clearly Defined	Unity of Command Maintained	Rational Assignment of Responsibilities	Clear Delegation of Authority	Clear Accountability	Ease of Coordination	Avoids Complexity
Account Manager	N	N	N	Y	Y	N	N
Contract Manager	N	N	N	Y	Y	N	N
Functional	Y	Y	Y	Y	Y	Y	Y
Hybrid	?	N	Y	N	N	N	N

Note: “Clear Delegation of Authority” and “Clear Accountability” are possible in most cases if there is a document clearing defining the relationships within the organization, the accountabilities and the responsibilities. The Department’s capstone document: Organization and Accountability: Guidance for Members of the Canadian Forces and Employees of the Department of National Defence, Second Edition September 1999, would require amendment.

Table 2 – Comparison of Models

⁶¹ This is the organization that defines the operational requirement and the performance standard for the service to be delivered.

⁶² While not a traditional contract management function, marketing is a critical activity in those contracts that serve Allied clients. In these cases, the sale of “excess capacity” was part of the business case upon which the outsourcing decision was made.

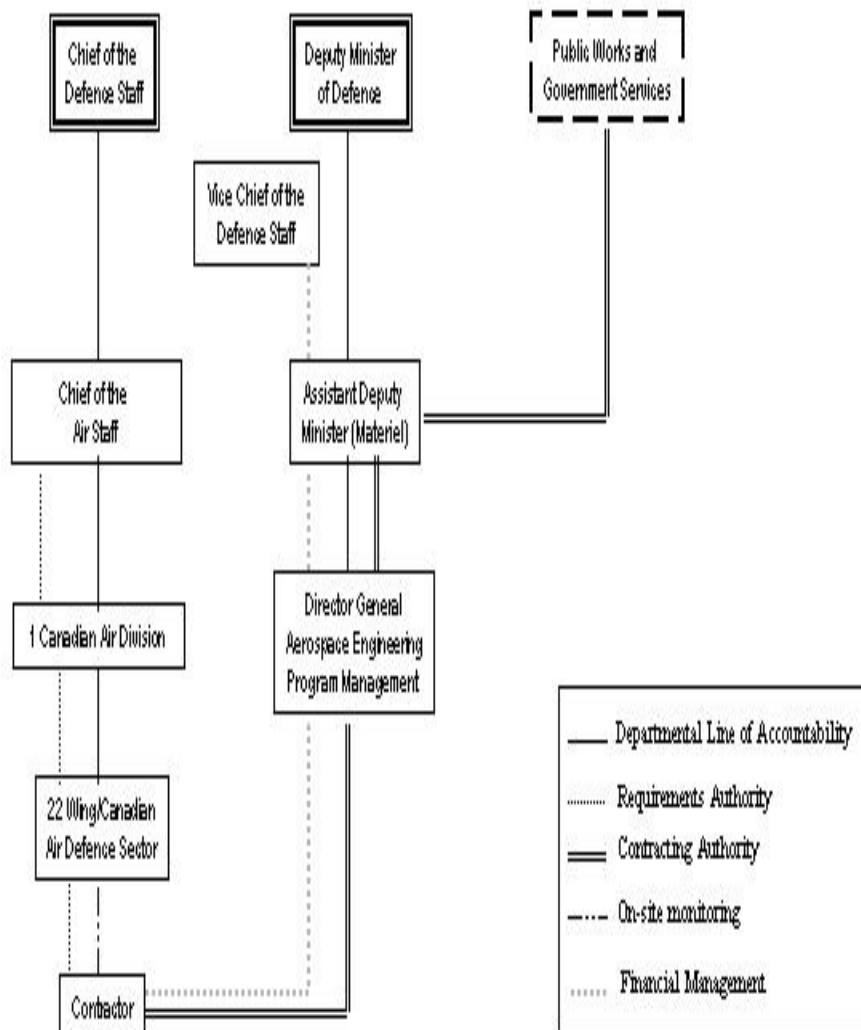


Figure 1 a - North Warning System Contract Management Relationship

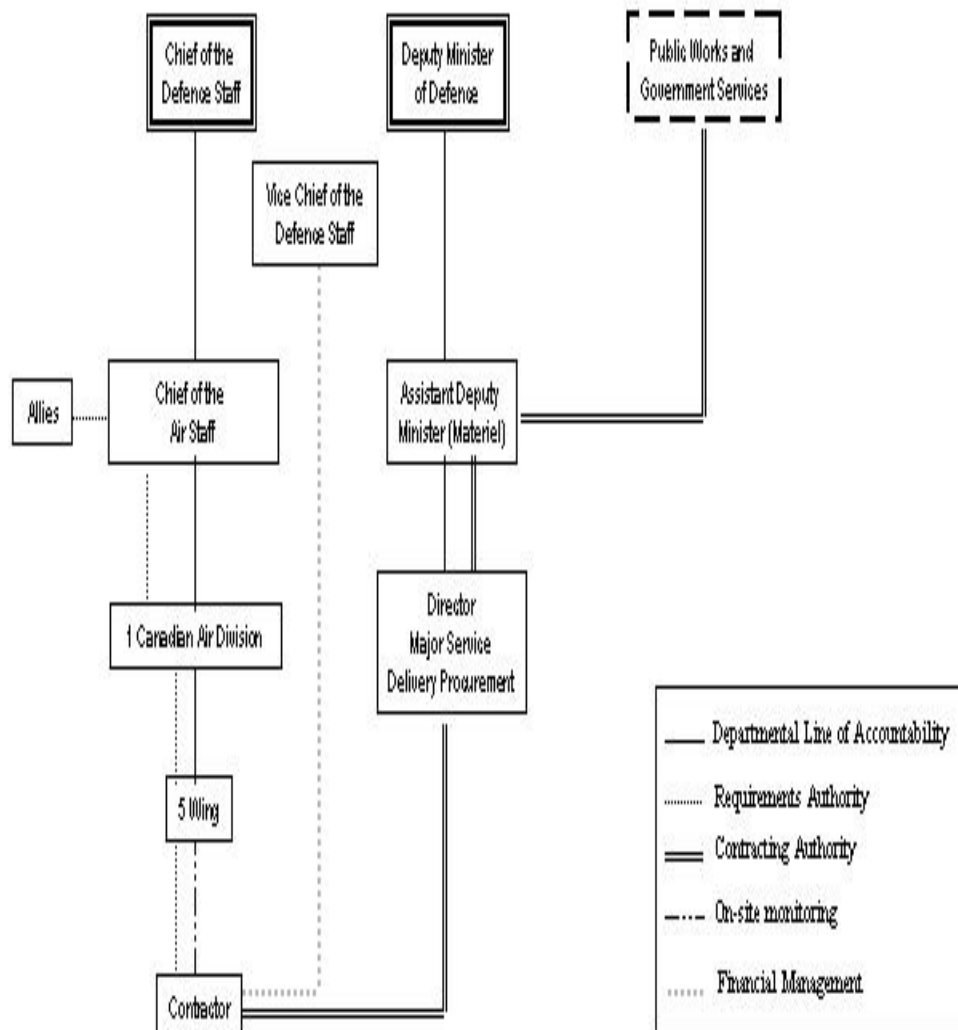


Figure 1c – Goose Bay Military Flying Training Centre Contract Management Relationship

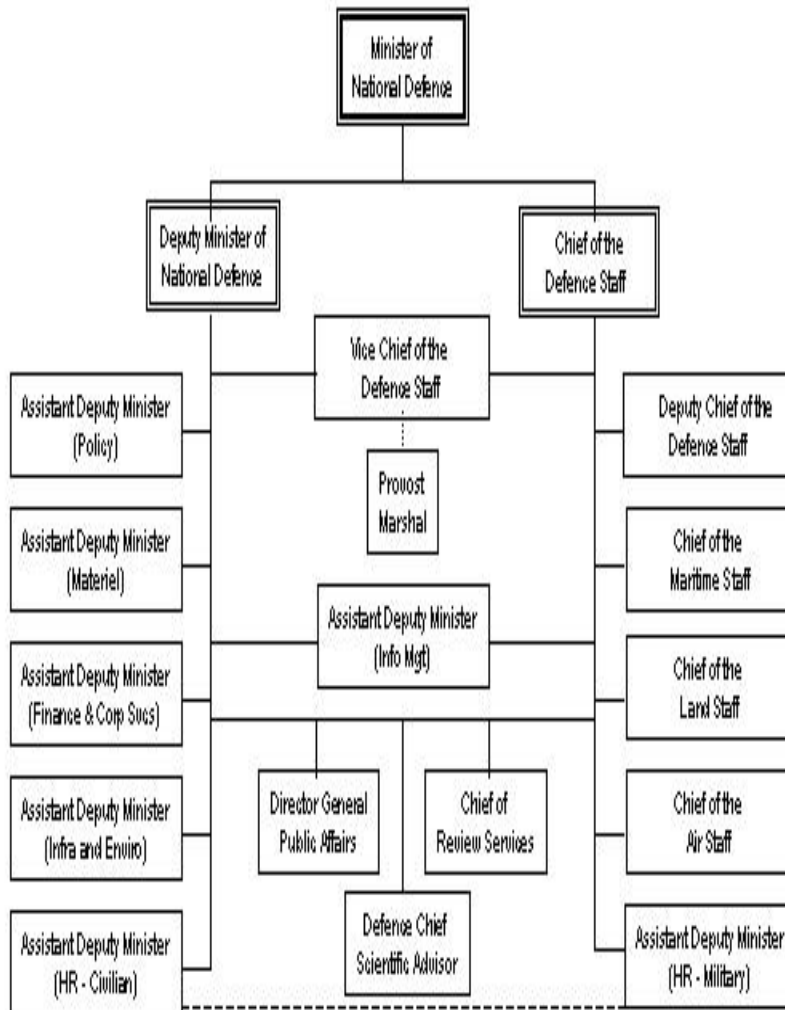


Figure 2 – Organization and Accountability

(adapted from Canada Organization and Accountability: Guidance for Members of the Canadian Forces and Employees of the Department of National Defence, Second Edition September 1999.)

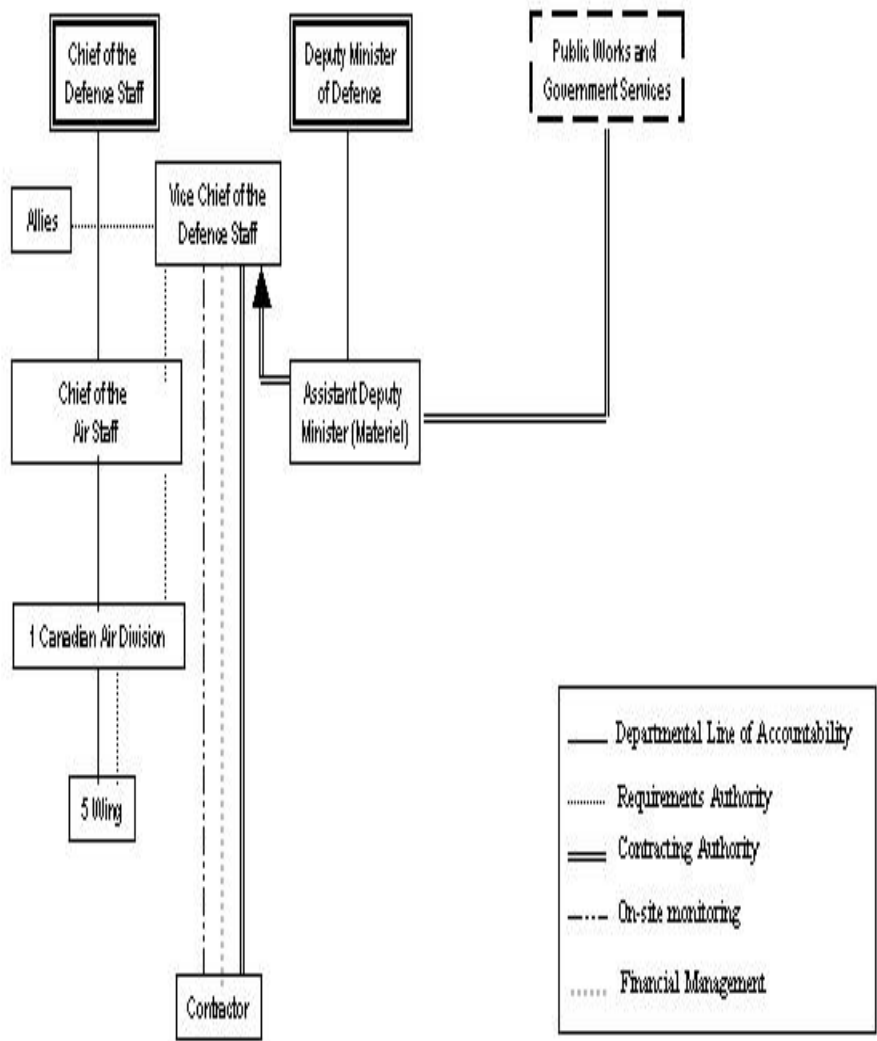


Figure 4a – Goose Bay Military Flying Training Centre Contract Management Relationship if Managed in accordance with the *Account Manager Model*

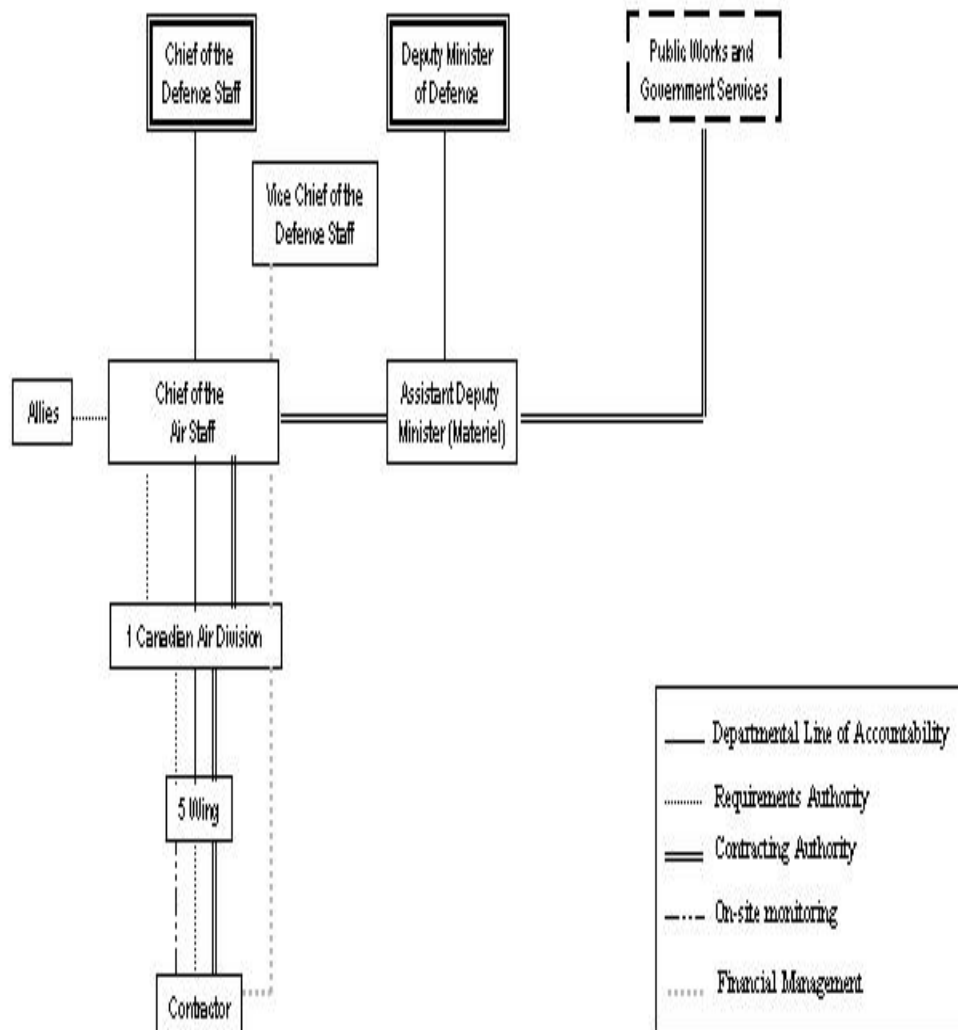


Figure 4c – Goose Bay Military Flying Training Centre Contract Management Relationship if Managed in accordance with the *Functional Manager Model*

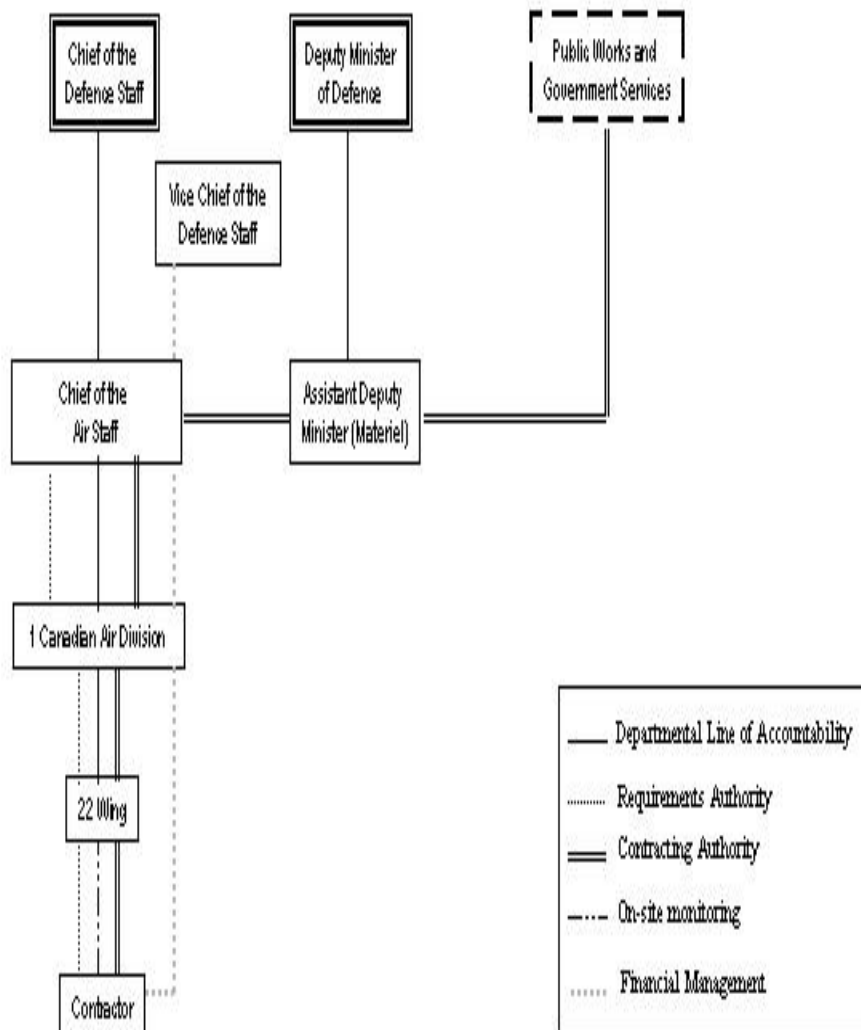


Figure 6a – Recommended North Warning System Contract Management Relationship in accordance with the Functional Manager Model

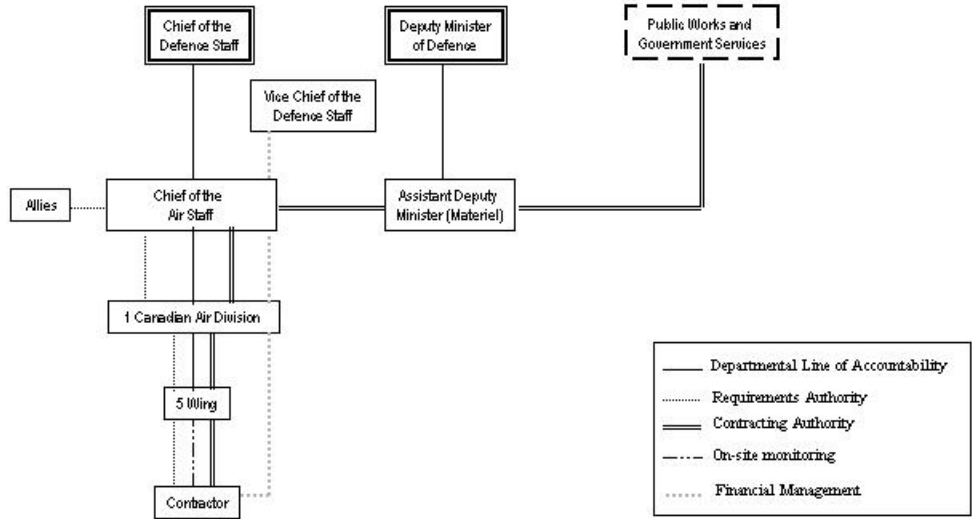


Figure 6c – Recommended Goose Bay Military Flying Training Centre Contract Management Relationship in accordance with the Functional Manager Model

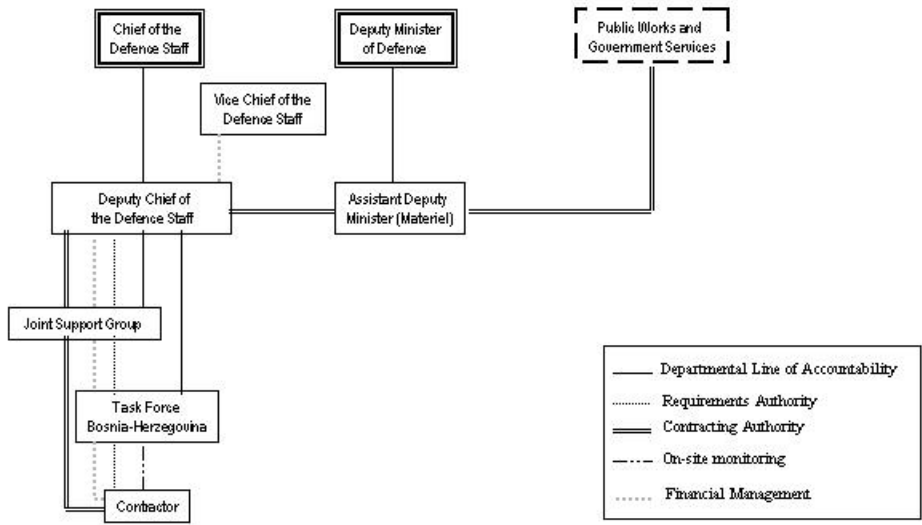


Figure 6d – Recommended Bosnia Contractor Support Contract Management Relationship in accordance with the Functional Manager Model

Outsourcing Questionnaire*

Note: The purpose of this questionnaire is to obtain some basic information with respect to major service contracts within DND for the sole purpose of an academic paper being written by a Canadian Forces student attending the National Security Studies Course. The paper is a scholastic document, and will contain facts and opinions that the author alone considers appropriate and correct for the subject. It does not necessarily reflect the policy or the opinion of any agency, including the Government of Canada and the Canadian Department of National Defence. This paper will not be released, quoted or copied except with the express permission of the Canadian Department of National Defence. Your cooperation in providing the requested information is greatly appreciated. Further information may be obtained from Col Glynne Hines (416-952-1875 or hines@cfcdnd.ca).

	Question	Response/ Comments
1.0	Briefly describe the nature of the contract.	
1.1	What is the service being provided?	
1.2	Who is the prime contractor?	
1.3	What is the approximate dollar value of the contract?	
1.4	Does the contract involve delivery of services to organizations outside the CF (i.e. Allies or OGDs)?	
2.0	Typically, the decision to contract-out for the delivery of services (whether using the ASD decision methodology or another means) is based on the need to achieve either resource or performance objectives, or both. In many cases, the objective is based on achieving a savings of “X dollars” over the same service delivered by in-house means. In other cases, the decision to contract-out is based on the requirement to reduce the number of uniformed personnel involved in the delivery of the specified service. Other contracts are initiated for other objectives.	
2.1	What was the stated objective of the contracted initiative? (i.e. personnel reduction, cost reduction, better performance etc)	
2.2	How is performance against this objective being measured?	
2.3	What is the result vis-à-vis the objective? (i.e. if the objective was financial savings, have the savings been realized?)	
2.4	How long was the original contract?	
2.5	If re-bid, how long was/is the subsequent term?	
3.0	A variety of managing authorities participate in major service contracts, at various times during the contracting and in-service phases.	

* This questionnaire was used to confirm the organizational details used to develop the figures and tables. Additionally, as both the contract manager [ADM(Mat) staff] and the user had the opportunity to provide information, contracts could be examined from both points of view. Different perspectives reflected different perceptions of the effectiveness of the management structures and organizational relationships.

	Question	Response/ Comments
3.1	During the preparation of the statement of work, who was the authority that established the performance requirements and standards?	
3.2	Who administratively manages the contract on a day-to-day basis?	
3.3	Who manages the contractor's "output" on a day-to-day basis?	
3.4	If the contract involves delivery of services to organizations outside the CF (i.e. Allies or OGDs) how are their requirements included in the original contract and managed throughout the life of the contract?	
3.5	What role does ADM(Mat) staff play in the evaluation of bids, award of the contract, and day-to-day management of the contract?	
3.6	What role does an ECS play in the evaluation of bids, award of the contract, and day-to-day management of the contract?	
3.7	What role does an operational level headquarters staff play in the evaluation of bids, award of the contract, and day-to-day management of the contract?	
3.8	What role does Base/Wing/Task Force staff play in the evaluation of bids, award of the contract, and day-to-day management of the contract?	
3.9	Who establishes performance standards?	
3.10	Is a dedicated management office in place within DND/CF for this contract? If so, at what level?	
3.11	How is compliance to non-core requirements (i.e. environmental, health, safety, aboriginal) managed?	
3.12	How does the current contract management arrangement compare with the chain-of-command relationship that existed/would exist in a non-contracted environment?	
3.13	Approximately how many people are involved in managing the contract?	
3.14	How is quality assurance performed?	
4.0	<u>Responsibility to fund and Business Plan for major service contracts varies.</u>	
4.1	What type of account (Corporate, Level 1 etc) funds this contract?	
4.2	What organization is responsible to Business Plan for this contract?	
4.3	What relationship exists between the Business Planning function, resource manager, and technical authority?	

	Question	Response/ Comments
4.4	If the contract involves delivery of services to organizations outside the CF (i.e. Allies or OGDs) who is responsible for product or service marketing?	
4.5	If the contract involves delivery of services to organizations outside the CF (i.e. Allies or OGDs) are they covered under MOU or SLA? If so, who manages the relationship?	
5.0	Some contracts include financial incentives to recognize performance above the minimum required. If there is such as provision, please answer the following:	
5.1	How is the contractor advised of the “areas of interest?”	
5.2	What is the value of the incentive available as percentage of basic contract on an annual basis?	
5.3	How is the performance measured?	
5.4	How is the incentive administered?	
5.5	What is the history of the contractor receiving the incentive payment, and how much?	
5.6	If the contract involves delivery of services to organizations outside the CF (i.e. Allies or OGDs) can they influence the payment of the incentive fee?	

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