OUTSOURCING IMPLEMENTATION IN THE ARMED FORCES

(an objective necessity or rational solution?)

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Annotation:
The author of this article responds to the rich and very interesting discussion on the issue of the outsourcing implementation in the armed forces. The discussion occurred among the colloquium participants with the topic “The State Defense Economy and Its Control” organized by the Military Academy in Brno in February 2003. The participants opinion exchange focused on outsourcing possibilities as a new tool in satisfying needs of reformed and professionalized armed forces, main definitions, involved risks, expectations, valuable abroad experience and possible field of activities, which could be managed by the private industry instead of the military forces.

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INTRODUCTION

A motive for deliberation over the outsourcing implementation in conditions of the armed forces was the colloquium “The State Defense Economy and its Control”, held at the Military Academy in Brno on 12-th February 2003. In addition to the issues concerning the economic development of the state, possibilities of the defense expenses financing, and using of the capabilities of the national industry for modernization of the armed forces, the participants of the colloquium also discussed the microeconomic matters and problems of economic support to the military requirements. Interesting opinions, reflecting the current situation in the armed forces, highlighted the progressing inefficiency in using of the financial sources in the framework of the management of the economic support to the CR Armed forces, and difficulties connected with implementation of scientific approaches and methods to reverse this undesirable process.

The participants of the colloquium proposed solutions of the situation by application of the criteria for business companies into the conditions of the CR Armed Forces, monitoring of cost effectiveness of individual activities, and using of the analytic input-output methods for evaluation of effectiveness of the invested sources.
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A heated discussion was triggered by the issue of outsourcing implementation in the armed forces, when the discussants presented highly interesting and topical viewpoints to the benefits, drawbacks and risks associated with employment of the civil sector to cover once typical military activities in the field of the logistic support, training and education, personnel management, guarding, information and communication support both in peace-life and crisis situations.

The author of this article does not intend to make a deep analysis of the issue, but on the basis of the colloquium, summarize some interesting ideas and add own comments resulting from the evaluation of the developmental tendencies in outsourcing implementation abroad.

1. DEFINITION OF THE TERM OUTSOURCING

The term outsourcing could be loaned from the US private economy and is derived from the expression “outside resource using.” The verb “to outsource” means to push or shift aside, and describe a situation when some organization, from various reasons in order to cover certain necessary functions or operations, uses entrepreneurial activities of other, usually more specialized entrepreneurial subject, company or organization. In the world, this method of covering some activities by means of other organizations is neither revolutionary nor new. In the economics, the outsourcing has been broadly and successfully used since the beginning of the eighties of the 20-th century. For instance, Japan was among the first countries, which started to apply the outsourcing through the strong reductions of bureaucracy and development of entrepreneurial subjects able to quickly respond the changing market demands.

By using of the outside resources, the entrepreneurial subject responds to the rationalization pressure, reduces costs, increases the labor productivity or enhances quality of its production or services. The company strives for reaching of competitive advantage in the globalized market that is based on the top know-how. Briefly said, the organization or company concentrates its attention and main effort in the areas which are fundamental for its activities, and where achieves competitive results and best skills and know-how. Remaining – secondary activities – are rationally implemented through other ways. Thus, it is a situation when the input, otherwise obtained from own resources, is purchased from other organization in a form of provided services, products or some absent competitive knowledge or skills. This method supersedes all the internal activities connected with administration of the source, and pushes this source aside. By implementation of such an entrepreneurial strategy, the organization becomes more flexible, capable of responding to market changes and customer demands in the turbulent marketing environment. However, elimination of internal activities, formerly run by own forces, brings the biggest danger connected with outsourcing implementation, since the transition of own operations to other organizations results in losses of skills and know-how in the eliminated field. Even if they can be recovered, the organization would have to undergo a very complicated, expensive and lengthy process with no guarantee of success.
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From the all-society perspective, the outsourcing implementation calls for progressing division of labor, deepening of specializations, knowledge and skills. It concerns such function areas, which do not relate to the primary activities of the organization or company, albeit the organization or company usually performed them itself so far. In a case that the organization or company eliminates activities that have hitherto been the primary ones, we cannot talk of the outsourcing implementation, but rather of cooperation – manufacturing cooperation. The term outsourcing implementation usually means implementation of activities in the field of services.

By means of utilizing the external sources it is possible to optimize the company’s functions and processes by encharging the external service providers with duties which were previously performed by internal function units of the company.

Risk: The use of external sources generally leads to the downfall of own abilities in the given area.

2. DEVELOPMENT OF THE ENVIRONMENT AND ITS DETERMINATIVE INFLUENCE UPON THE ECONOMIC SUPPORT OF THE ARMED FORCES FROM THE PERSPECTIVE OF THE OUTSOURCING IMPLEMENTATION

The military definition of the outsourcing implementation is different from the civilian one. In the framework of the armed forces, the outsourcing implementation means using of capacities of the private sectors for running such activities that were previously performed solely by the personnel of the armed forces or their civilian employees. This tool has become a powerful vehicle to launch the reform of the armed forces and raise the effectiveness of the whole defense sector.¹

What are the reasons for the outsourcing implementation in the armed forces?

The outsourcing implementation in the armed forces is mainly justified by the financial situation, primarily requirements for cost reductions and improvement of economy. However, the issue of financial effect is not so simple. The financial effect can be judged from a short-term as well as long-term perspective. It is also necessary to take into consideration the financial profit from other activities, which, thanks to the outsourcing implementation, we can better aim at. Certainly, we have to calculate also other expenditures to be saved in a longer time or from other budget items, such as outfit allowances in kind or leaving (retirement) allowances for active soldiers. Financial reasons can be taken as significant for evaluation of the outsourcing effect, however they cannot be considered as the only criterion or objective.

Unlike the financial reasons, the factual arguments are often underestimated, however they should be decisive. The main objective of the outsourcing implementation should be gaining of resources that are needed for running the main fields of activity.
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at the most professional level. However, the fact is that an external organization can be paid for such services even more than if the expenses are covered from own resources, provided we know that achievement of such a level by own sources is impossible. As an example, we can mention professional services, such as repairs of military vehicles performed by conscripts, who cannot be appropriately trained and prepared due to the limited length of the basic military service. Hence, the repairs are permanently done by beginners with all the consequences in terms of their quality.

From the organizational viewpoint, we are talking about simplification of the managerial work, and slimming as well as flattening of the organizational structure. It relates to the increasing specialization of the personnel and management in the armed forces.

Thus, the outsourcing implementation does not necessarily have to be solely a matter of finance, but equally of culture at the organization

In our specific conditions, the outsourcing implementation cannot be justified only by reduction of costs. A very important factor consists in change of the culture within the whole organization. In the military environment, this change of culture is a fundamental momentum. In our country, it is associated with a negative attitude to the military service from the long generations of conscripts and unfavorable position of the armed forces in the society. Conscripts were exploited as a cheap labor to perform such activities unrelated with their mission in the armed forces, which distorted the whole system of the basic military service and principle of conscription. It is absolutely clear that the professional forces will not be allowed to exploit their personnel for activities falling outside their professional duties and basic military mission.

Experience from the economy and abroad confirms that organizations, which can successfully implement outside resources for covering of their secondary activities, are oriented to the effective fulfillment of their objectives, improve communication, innovate and modernize. Those that cover their secondary activities from own resources must exert more time in planning of their expenditures and lobbying for winning other resources.

From this standpoint, we can evaluate the armed forces, which have been implementing this tool in the practice, as modern forces focused on effective operation fulfilling a generally expected high level of professionalism. In this light, the information on the situation from the armed forces of the former eastern pact or Soviet Union, which run a broad spectrum of secondary activities from own resources, such as cleaning, maintenance, repairs, cooking, even breeding of domestic animals and growing vegetable, sound a bid archaic. The quality of such armed forces is in these countries replaced by ineffective quantity that is for us, in the currently developing security, military, and economic environment, absolutely unacceptable. Downsizing in the personnel of the armed forces clearly results from the set reform, and eventual increase is improbable.
A level of the outsourcing implementation is an applicable criterion of one of the four target “M” declared for the reform of the armed forces. In this case, it is the word MODERN. Modern does not mean only to be equipped with the most advanced technology, material and weapons, but also to have a modern internal organization, deliberately focused on effective fulfillment of its main tasks. From this perspective, it is not solely a matter of finance, but equally a way of thinking and internal culture of the organization. Money can accelerate these processes, but by no means is able to stop them.

**The outsourcing implementation from the perspective of marginal benefits**

Reaching a higher utility value (quality) of the armed forces is from the economic standpoint connected with the definition of marginal benefits. In an effort to raise utilities (benefits), we have to take into account additional costs for implementation of such a process.

In a final result, the quantitative and objective expression of effectiveness of the armed forces will always be a difficult task. From that reason, it would be more appropriate to compare the effectiveness of individual partial activities always in relation to the utility value of the armed forces (a unit, installation) after their implementation and not before. In practice from a viewpoint of the marginal analysis, it means that using of a private cleaning company raises the costs, but the benefit of such a measure must be shown in an increased quality of the armed forces (a unit, installation), specifically in their preparedness and level of training. Continuing in implementation of these measures is reasonable as long as the marginal costs for implementation of the specific measure are equal to the increase of the achieved effects. Up to this moment, the outsourcing implementation to cover the requirements of the armed forces is profitable.

In estimation of costs for the outsourcing implementation and financing of activities by a private capital, the calculations involve the market finance price. Application of these options is feasible only in such cases, when the armed forces are overall guaranteed a higher value for money, which is only in situations when a higher efficiency and improved economy, involving calculation of a risk, outweigh the additional costs for financing of the above mentioned activities.²

_The costs include, beside the explicit financial expenditures, those opportunity costs that have arisen because the factors can be used alternatively. If my work or investments in software could be used for coal or wheat or in software of someone else, my real costs must also include the opportunity costs of the best option._³

**Use of outside resources from a perspective of direct and indirect costs**

As concerns the marginal activities performed by conscripts, we can expect with a high probability that the outsourcing implementation will raise the direct costs which will be projected in the area of operation and services (cleaning, maintenance of building, removals, etc.). If we take into consideration only the direct costs to run an activity, it is possible that the outsourcing implementation will be more expensive. However, this attitude is misleading, since implementation of each activity involves, beside direct...
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costs, also a broad spectrum of indirect ones of which identification and calculation is very difficult. Often, they are either deliberately or for the lack of information disregarded and tempt to daily groundless speculations of financial profitability or unprofitability of the outsourcing implementation in the armed forces.

We should also take into account that orientation of the armed forces to the main activities assumes an increase of their professional quality – a new product is made with a higher utility value, which is very difficult to be specified (quantified). Specification of the utility value is a principal task of the economy of armed forces, nevertheless its measuring is a hard nut. Verification can be done no sooner than the armed forces are employed in an operation or after a simulation approaching the real conditions. On the other hand, the utility value of partial activities in the armed forces is measurable (can be quantified).4

It was the hottest point of the discussion in the colloquium. Some commanders presented lots of interesting examples of their daily routine to reveal the profitability or unprofitability of the outsourcing implementation to run the secondary activities in their area of responsibility. Contradictory and subjective arguments, reflecting the empirical experience and adopted opinions, collided, but by no means, we can talk about analytically grounded theories. This is just a step that should follow. The practice calls for more measurements, weighting and calculations to be able to develop sufficient amounts of analyses for our decision making process.

Opinions that own cleaning, maintenance, duty and guarding personnel, kitchen operation or transportation are less expensive and can be flexibly employed for different operative tasks, shall be submitted to an objective analysis. However, it is also necessary to calculate the time needed for management to accomplish these tasks. These measures require steps that are tied with bureaucracy and justification to the superior and inspecting bodies that something does not work, nor meets safety or hygiene standards, etc.

In such a way, we have come back to the culture of organization and mission of the armed forces. A commander in professionalized armed forces will have to make, on the basis of analytical information, a decision which position shall be abandoned to get freedom of action, both for himself and his subordinates.

The outsourcing implementation from a perspective of the reform

The article has already mentioned several ideas connected with the reform and outsourcing implementation in order to fulfill its goals. The draft of the reform enables us to identify three basic factors leading to more frequent using of outside resources in practice:

- Factor of professionalization of the armed forces and arrangement so that all the personnel of the armed forces are focused on accomplishment of primary military tasks,
- A limited number of civil employees, who formerly did the secondary jobs for the needs of the armed forces,
- Factor of effective use of all available resources that the society renders for the
armed forces. These resources do not include only finance, but equally human capacities, material, technology, infrastructure and weapons.

Truly, it is not possible to procure expensive technology, equipment and infrastructure without being effectively used 24 hours in a day and 365 day in a year. Is there a company that can afford to procure expensive machine working only in one or two shifts. Probably, such a company would not survive a long time in the current competitive market. Therefore, the armed forces cannot afford to keep an infrastructure, airplane or simulator which capacities are not used effectively.

The fact is that the armed forces cannot carry business with these assets, nor to use them for commercial purposes, and in many cases even utilize all their capabilities to fulfill the mission. The civil sector (private entrepreneurial subject) will meet all the requirements set by the armed forces, and if some capacities are free, it is able to provide the service to another party, thus maximize the commercial profits even in the areas, where it seems to be improbable at the first sight.

Possible application of the civil sector capabilities within the framework of the outsourcing implementation in executing of the activities for the needs of the armed forces:

- operation of stock control,
- support of administrative activities and information systems,
- operation of a high-performance communications and data network covering the whole area,
- operation of training and simulation centers,
- support of peace supplying and logistic services,
- provision of transportation services,
- support of repair and service activity,
- logistic support of selected weapon systems,
- housing fund and estate management.

The outsourcing implementation in the above-mentioned areas requires primarily to evaluate own costs of individual activities, and to add the relations between costs to effect and costs to benefit.

The outsourcing implementation in the armed forces can be reasonably taken into consideration solely when the following criteria are met:

- Private entrepreneurial subjects must be able to run their activities in peace, crisis and/or war,
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- The outside resource must not replace execution of basic military activities,
- The activity must be backed by a competitive market to develop a pressure for
  raising the quality, effectiveness, and price-cutting,
- There must be motivation for continuous improvement of services,
- The outsourcing implementation must result in the highest value,
- The specific area must have a clear potential for raising the effectiveness in a long-
  term economic perspective.

The aim of the reform is development of highly effective armed forces. Therefore,
it is putting huge pressure on reduction of own personnel and its employment in accor-
dance with the mission assigned for the members of the armed forces. From this reason,
using of the civil sector capabilities in the field of services should be taken as a highly
perspective tool, promising great benefits. Experience from other NATO armed forces,
which use this tool in some activities, confirms that successful outsourcing implement-
tation is possible, yet not simple, and the first expectations are usually difficult to be
fulfilled in practice. A thorough preparation of a contract, communication of the armed
forces with the industry, and development of mutual confidence are necessary terms. The
effective communication can by itself mediate so that the commercial subject
understands the needs of the armed forces to improve continuously its services according to
changing requirements.

Real economic benefits in use of the civil sector capabilities are attainable only in
a case of closing long-term contracts, enabling a favorable distribution of costs and con-
ditions for returnability of the financial investments. Furthermore, terms of the contracts
must motivate the contractors to search for the most economic solutions in meeting the
challenging requirements of the armed forces.

3. IN WHAT ASPECTS WE CAN SEE HIGHER EFFECTIVENESS OF THE
PRIVATE SECTOR IN IMPLEMENTATION OF SOME FORMERLY SPECI-
FIC MILITARY ACTIVITIES, AND WHERE ARE ITS LIMITATIONS?

The private sector puts more emphasis on meeting the contractual terms. It is able
to introduce a system motivating for reduction of inputs – rationalization of costs to sup-
port the required outputs. The private sector is equipped with needed authorities, skillful
personnel and top management. Unlike the public sector, which is tied with bureaucratic
standards and regulations, the private sector is more flexible and focused on implement-
ation of economic measures and innovations. Current coverage of some activities by
the armed forces does not correspond many times with the latest working practice and
methods. As mentioned above, the private sector is able to utilize all the available capa-
cities (classrooms, simulators, technology…) even when the demand from the armed
forces is not sufficient, because the output can be offered to some other parties. The
private sector is more flexible in handling risk factors (overspent budget, residual value
of fixed assets, technological obsolescence, financing with fluctuating exchange rates,
f lexible management of human resources, etc.). It is clear that the private sector has all the prerequisites to deal with the activities, which are not considered as primarily military, more effectively than in a case, when the armed forces use own personnel and equipment. On the other hand, we should certainly take into account specific limitations for employment of the private sector in the armed forces. Beside the above-mentioned financial calculations, the weakest link, within the framework of availability of outside resources in crisis situations, is just the private sector. The armed forces are more and more involved in settlement of crises abroad. If some activities are transferred to the private sector, it will be absolutely necessary to ensure that these activities are running even during these emergencies outside the CR territory. Is the private sector able to meet the requirements of the armed forces even in these situations? Is it able to adjust swiftly to the crisis situation and concentrate its capacity (personnel and equipment) and priorities to support operations of the armed forces in this crisis. Logically, it is not simple for the armed forces to define in advance the contractual requirements and time schedule for their fulfillment, since the decision making process is effected by a broad scope of hardly predictable influences, such as using of information technologies in a less tolerant environment than in normal civil life. Therefore, it is very difficult to specify accurate form and level of provided services and decide, in a case of insufficiency, whether the contractor is or is not liable. Is the private sector able to accept such a risk? We have some experience with employment of the private sector during the peacekeeping operation in the Balkan, but in a real combat operation, such as Desert Storm, both the United States and Great Britain admit some deficiencies in activities run by private companies. There are also concerns about mutual dependency. In this uncertain development of environment, it is very complicated to define a level of dependency on the private sector, and on the other hand, the private sector treats the armed forces as a purchaser or customer. It is a mutual relation when neither party wants to allow a monopolist dependency. The armed forces strive for meeting their requirements in a competitive market environment, which brings competitive prices. The private sector tries to maximize the profit, ideally in a long-term perspective, or to achieve a dominant position in the market or to create a dominant, eventually monopolist supplier. So, how to reach the competitive prices and service qualities, if we have to convince the potential contractor of the returnability of its investments, acceptability of risks and perspective of the business? The foundation is communication, development of reliable strategic partnership, based on a longtime but flexible contractual relationship with a reasonable spread of risks.

CONCLUSION

The outsourcing implementation in the armed forces is a perspective tool for increasing effectiveness of the invested finance to build-up the national defense. This tool is successfully used in the economics. The armed forces apply it in a wider scale in relation to the downsizing at the armed forces in order to concentrate their attention to the basic military activities. Primarily, the professional forces cannot afford to keep
such positions, which do not touch the basic military mission. An efficient outsourcing implementation is a complex issue necessitating a different view at the management of economic support to the armed forces. It involves a lot of risks that should be distributed between the armed forces and the private sector. Unlike the public sector, the private one has such tools, which can successfully eliminate certain risks, and has the assumptions for raising the effectiveness of economizing in the armed forces and building of national defense. Using of skills and know-how of the private sector changes the culture of the armed forces, which will be able to concentrate more effort to the execution of their basic military assignments.

The discussions during the colloquium confirm that the attitudes to the outsourcing implementation are gradually polarizing and developing. The author of the paper is convinced that some objections and reservations expressed by the colloquium participants were not so meaty to prevent gradual and successful employment of this tool in practice.

REMARKS

2 Davies, N.V.: Hodnota za peníze a výdaje na obranu – interně zajišťované služby versus soukromí dodavatelé. A report of the UK MoD from 1998 dealing with an issue of reaching the value for money at the outsourcing implementation in the armed forces.

In addition to the above listed bibliography, the author also used presentations of the students of the Operational-Command Course (11-ŘOS-OVK-GŠ VA) in Brno. The presentation was elaborated by Col. Dip. Eng. Ján SITÁR.