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Private Contractors on Deployed Military Operations: Inter-Agency Opportunities and Challenges

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I would like to focus on the opportunities and challenges for national defense ministries presented by the increasing role of private contractors on military operations.

In terms of structure, my presentation addresses six major questions.

First, I will briefly outline why the use of private firms in contemporary military deployments is one of the key inter-agency issues.

Second, I will introduce the primary factors that explain why the U.S., U.K., and a range of other states have sought to contract with private firms to sustain their military operations.

Third, I will outline the “government orthodoxies” in those states that have chosen to outsource in terms of the benefits they perceive that contractor support provides.

Despite the extensive use of the private sector, contractors on the battlefield remain a controversial aspect of public policy. In the fourth section, I will examine the major claims of critics.

The fifth section focuses on the ways in which the U.K. has sought to manage the inter-agency challenges of contractor battlefield support. The reason for focusing on the U.K. is that it is at the forefront of defense privatization.

The final section considers policy issues that require resolution and the potential academic research agenda.

Talking Points

- Private contractor personnel as a proportion of overall force numbers have increased with successive post–Cold War military deployments. Statistics for the current Iraq deployment indicate a ratio of approximately 1.5 contractors to each member of the military.
- Among the reasons: The nature of warfare has changed since the Cold War; with that have come new logistics requirements. In addition, qualitative increases in the complexity of contemporary military systems have made it less viable for armed services to develop and retain in-house military maintenance capabilities. And the “New Public Management” revolution in the U.S. and U.K. has emphasized a greater role for the private sector in the delivery of publicly funded services.
- Despite successes in outsourcing in the armed services, concerns remain about quality and cost.
- Further study is needed before comprehensive and independent assessment of the performance of “contractorization” can be made.

This paper, in its entirety, can be found at:
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Growth of Private Contractors

So why is contractor support a significant contemporary issue? The answer to this question falls under three headings:

First, the available data suggest that contractor personnel as a proportion of overall force numbers have increased with successive post-Cold War military deployments. Civilian contractors accounted for 1 in 60 of deployed personnel in Iraq during 2001. In Bosnia the ratio had become 1 to 10; then in Kosovo it was 1 to 2. Statistics for the current Iraq deployment indicate a ratio of approximately 1.5 contractors to each member of the military. Consequently, this suggests a trend whereby the presence of contractors is increasing over time.

Second, financial statistics indicate that the market for private military actors is growing. The market value almost doubled between 1990 and 2000, and predictions are that it will double again by the end of the decade.

Third, the trend since the Cold War has been for private contractors to provide an increasingly sophisticated array of logistics and equipment support functions to armed services. What we observe is an increasing spatial shift of logistic functions that were provided to armed service in the home base towards the front line.

Reasons for the Military to Outsource

Given these trends, what factors explain why the U.S., U.K., and other states have sought to contract out functions that they have traditionally conducted themselves within their own military organizations?

I would suggest that the factors here are four-fold.

The first driver for outsourcing reflects the changed nature of warfare since the Cold War. During the Cold War, the planning emphasis was on the potential for short, high-intensity conflict in which private firms would have no role. Since the Cold War, the emergence of expeditionary-type warfare has created a role for the private sector in meeting the new logistics requirements, including strategic lift for deploying forces outside Europe, sustaining armed forces engaged in

concurrent operations (e.g., Bosnia + Kosovo + Iraq + Afghanistan), and providing infrastructure in deployments to places where there is limited Host Nation Support. Moreover, the protracted nature of current deployments—coupled with the assumption there are safe, or “benign,” areas behind the line of conflict—have created additional operational rationales to harness private sector capacity.

Secondly, battlefield outsourcing reflects the impact of changes in supply and demand. On the one hand, since the Cold War the U.S. and U.K. have found their armed forces overstretched as they have had to sustain a range of operations. On the other hand, the large-scale downsizing of their armed forces immediately after the Cold War left a surplus of trained military personnel in the civilian labor market. This balance of supply and demand has provided the opportunity to ease overstretch by, in effect, employing former military personnel through the vehicle of private firms.

Third, qualitative increases in the complexity of contemporary military systems have made it less viable for armed services to develop and retain in-house military maintenance capabilities. Instead, the assumption has been that this capability can be provided for the through-life support of weapons systems by original equipment manufacturers up to, and including, the operational front line.

A final factor has been the so-called New Public Management revolution in the U.S. and U.K., that has emphasized a greater role for the private sector and so-called market forces in the delivery of publicly funded services. This has provided both an intellectual justification for defense privatization and a politically conducive climate for the extension of private sector support into the operational arena.

It is interesting to note just how significant the “New Public Management,” and the political and economic philosophy that underpins it, may be in the U.K.’s defense outsourcing agenda. The U.K. Ministry of Defense’s use of contracts with the private sector significantly exceeds those European states that have favored internalized public sector delivery of state functions.

Benefits to Governments

So, what are the financial and inter-agency operational benefits that governments expect to achieve when they have chosen to outsource to the private sector?

The “government orthodoxy” can be summarized as follows:

First, the assumption is that the private sector can be cheaper than internalized military provision for a range of deployed support functions. Underpinning this are neo-classical assumptions that competitive tendering between firms will drive down cost, private sector comparative advantage can be exploited, and that there is scope for long-term and mutually beneficial relational contracts with private firms.

Second, the assumption is that cost savings and easing of the burdens on military manpower release financial resources for defense “modernization” in other areas and trained military expertise to ease “overstretch.”

Third, the assumption is that there are no inter-agency problems or operational limitations associated with using private contractors on the battlefield. It is assumed that there are safe and “benign” areas in which contractors can operate, that private sector capacity acts to enhance overall force capability, that private firms can be integrated effectively into military command and control (C2) arrangements, and that contractors form a vital “augmentation” to the deployed force.

Fourth, the orthodoxy is that contractors are as reliable as the armed forces on the battlefield because they have a vested interest in ensuring mission accomplishment.

Fifth, the assumption has been that outsourcing actually enhances levels of morale, cohesion, combat effectiveness within the armed services themselves because it frees up military personnel from mundane civilian-type duties, and allows for the development of an effective military-civilian ethos between military and contractors’ personnel.

Finally, there is evidence that the U.S. and U.K. governments remain convinced that outsourcing is an inevitable global trend that will oblige other

armed services to follow, and that with their outsourcing policies they are at the cutting edge of defense transformation.

Criticism and Controversy

Correspondingly, however, these orthodox assumptions have been criticized and controversies remain about the financial and operational effects of battlefield outsourcing.

The majority of critiques start with two major premises:

- That the U.K. and other states that have chosen to outsource have done so because they have an ideological bias in favor of the private sector and against direct state/military provision.
- That there will always be inherent tensions between the national security objectives of defense ministries and the profit-seeking imperative of private firms which create “principal-agent” problems that are absent with forms of internalized military provision.

From these premises, critics point to a range of inter-agency risks and problems that can arise from military outsourcing.

The first is that outsourcing does not necessarily generate cost-savings. Instead, the combination of the “agency costs” of monitoring and managing profit-seeking firms and the risk that contractors will attempt to maximize profits after contracts are signed can lead to cost escalation and more expensive provision.

Second, critics question whether outsourcing actually releases financial or manpower resources. For example, some studies claim that the requirement for armed services to protect their contractors on operations actually ties up valuable military manpower.

Third, they claim that outsourcing creates acute problems in inter-agency cooperation that risks operational effectiveness. Here, they claim that:

- There are few safe or benign areas on the battlefield in the era of asymmetric warfare, so unarmed contractors are inherently vulnerable;
- That the need to manage contractors by contract rather than direct command creates inevi-

table inflexibilities and C2 constraints that are absent with direct military provision;

- That commanders inherently have less information on contractor resources at their disposal than with their own forces, particularly in the areas of readiness to deploy and capability;
- That the international legal constraints on civilian contractor personnel impede operational flexibility in ways that do not apply to military combatants.

Fourth, they argue that defense ministries often lack criteria about what should remain purely military and what can be outsourced, leading to concerns about the erosion of core military capabilities.

Fifth, there are a cluster of concerns about the risks that armed forces will become critically dependent on their private suppliers. These risks are potentially significant because contractors may simply withdraw from an operation they consider too risky, leaving the armed services stripped of vital capabilities, or contractors may attempt to “hold up” the defense ministry by extracting excessive profits at the time the military needs them most.

Sixth, a number of critics have challenged whether outsourcing enhances military ethos and culture, claiming instead that privatization merely re-enforces the trend towards military employment being seen as “just another job.”

Consequently, they conclude that outsourcing is a financially and operationally risky approach that imposes irresolvable inter-agency coordination problems, and which represents misguided privatization philosophy rather than sound judgment.

U.K. Results So Far

Given these various claims and counter-claims, how has policy in the U.K. performed in practice?

In terms of the financial dimension, there is a wealth of evidence that competitive tendering and outsourcing does reduce direct cost. Government studies since the early 1980s all indicate that average cost reductions of 20 percent to 25 percent are achieved when non-deployed activities are exposed to competition. However, the financial implications

of outsourced deployed operational support are less clear as only limited information has entered the public domain.

As to resource re-distribution implications, there is no systematic evidence on which to form a coherent view. There are anecdotal examples of cases where manpower resources have been freed up as a consequence of outsourcing, but this provides a less than comprehensive picture.

What is evident is that the U.K. Ministry of Defense has introduced a range of innovative measures to manage contractor support on deployments.

- First, it has developed “Contractors on Deployed Operations” (CONDO) policy and doctrine, which harmonizes the treatment of contractors’ personnel in areas that include insurance and pre-deployment training.
- Second, the Ministry of Defense has signed a major contract with Kellogg Brown and Root (KBR). This acts as a “one-stop-shop” for contractor support and enables the construction of tailored support packages.
- Third, the U.K. has been successful in focusing the control of contractor personnel and assets in the PJHQ (Permanent Joint Headquarters), which has eased joint operational C2 on deployed operations.
- Fourth, it has established algorithms that identify and establish when and where it is safe to rely on contractor provision.
- Finally, a significant innovation has been the creation of “sponsored reserves”: personnel who provide a function to the Ministry of Defense in peacetime as civilians, but who become members of the armed services if the function is required on deployments.

However, despite these inter-agency management innovations when dealing with contractors, evidence suggests that several operational concerns do remain. These are:

- Despite attempts to rationalize the contractor base there are somewhere in the region of 7,000 stand-alone contracts, which are likely to create major coordination problems.

- The Ministry of Defense still lacks clearly articulated criteria with regard to where contractor support can and should be ruled out.
- The “sponsored reserve” concept has been applied in a piecemeal manner.

Finally, Ministry of Defense policy can be criticized for failing to take account of the impact that outsourcing is actually having on military morale, ethos, and combat effectiveness. If studies do exist in this area, then they have not yet entered the public domain.

Further Study Needed

Analysis of U.K. policy implementation to date suggests that the Ministry of Defense needs to release more data into the public domain before a comprehensive and independent assessment of the performance of contractorization can be made.

Specifically, information is required on:

- Ministry of Defense mechanisms employed to evaluate comparative in-house and private sector costs,
- Internal Ministry of Defense policy guidance and incentive structures when outsourcing choices are evaluated,
- Mechanisms to preclude “excessive” profits,
- Extent of resource re-distribution,
- Methodologies employed to distinguish “augmentation” and “replacement,”
- Regulation of contracts,
- Risk analysis employed to evaluate contractor reliability,
- The Ministry of Defense’s capacity to act as an “intelligent customer” and “intelligent manager,”
- The Ministry of Defense’s ability to manage the risk of contractor withdrawal,

- Contractor management on coalition operations and their impact on operational effectiveness.

In addition, I would suggest that independent academic research could usefully be undertaken on:

- Cultural impact of outsourcing on armed services and firms,
- Comparative analysis of military outsourcing,
- Conceptual and empirical analysis of the scope and limits of private sector involvement.

So, the following conclusions can be drawn about the inter-agency dimension of defense ministry contracting with the private sector for deployed operations.

First, indications are that the private sector is likely to play an increasing role in deployed military operations.

Second, the current information vacuum means that the role of the private sector is likely to remain controversial.

As a consequence, the release of Ministry of Defense data and independent research is necessary to establish whether defense outsourcing is an essential “force multiplier” or the product of ill-conceived and ideological privatization dogma.

—Matthew Uttley is chairman of the Defense Studies Department, King’s College London. He spoke at “Inter-agency Operations: Cultural Conflicts Past and Present, Future Perspectives,” a conference co-sponsored by the Strategic Studies Institute of the United States Army War College, the Ministère de la Défense, the Royal United Services Institute, the Association of the United States Army, the Förderkreis Deutsches Heer, the Heritage Foundation, and the United States Embassy Paris. The conference was held at the Sciences Po Center of History, Paris, France.