Highlights of GAO-07-388, a report to the Committee on Armed Services, U.S. Senate

March 2007

BEST PRACTICES

An Integrated Portfolio Management Approach to Weapon System Investments Could Improve DOD's Acquisition Outcomes

Why GAO Did This Study

Over the next several years, the Department of Defense (DOD) plans to invest $1.4 trillion in major weapons programs. While DOD produces superior weapons, GAO has found that the department has failed to deliver weapon systems on time, within budget, and with desired capabilities. While recent changes to DOD's acquisition policy held the potential to improve outcomes, programs continue to experience significant cost and schedule overruns.

GAO was asked to examine how DOD's processes for determining needs and allocating resources can better support weapon system program stability. Specifically, GAO compared DOD's processes for investing in weapon systems to the best practices that successful commercial companies use to achieve a balanced mix of new products, and identified areas where DOD can do better. In conducting its work, GAO identified the best practices of: Caterpillar, Eli Lilly, IBM, Motorola, and Procter and Gamble.

What GAO Recommends

GAO is making several recommendations for DOD to implement an integrated portfolio management approach to weapon system investments. DOD stated that it is undertaking several pilot efforts to improve the department's approach and that implementation of any new business rules will be contingent upon the outcomes of these efforts.

www.gao.gov/cgi-bin/getrpt?GAO-07-388.

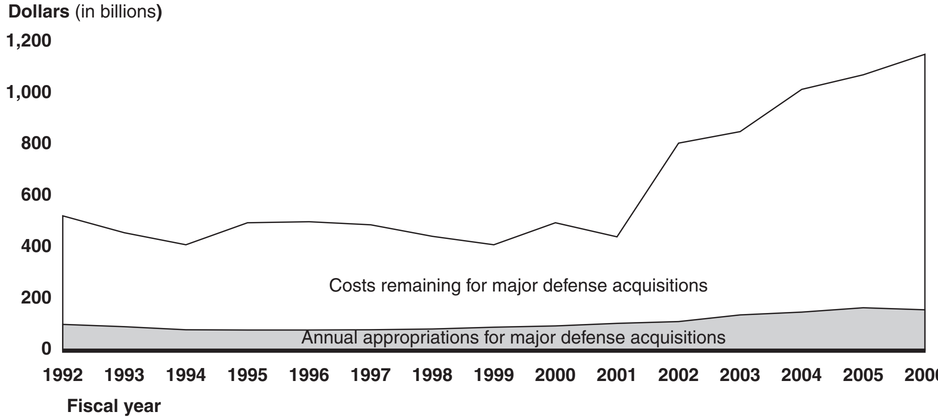
To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael J. Sullivan at (202) 512-4841 or sullivanm@gao.gov.

What GAO Found

To achieve a balanced mix of executable development programs and ensure a good return on their investments, the successful commercial companies GAO reviewed take an integrated, portfolio management approach to product development. Through this approach, companies assess product investments collectively from an enterprise level, rather than as independent and unrelated initiatives. They weigh the relative costs, benefits, and risks of proposed products using established criteria and methods, and select those products that can exploit promising market opportunities within resource constraints and move the company toward meeting its strategic goals and objectives. Investment decisions are frequently revisited, and if a product falls short of expectations, companies make tough go/no-go decisions. The companies GAO reviewed have found that effective portfolio management requires a governance structure with committed leadership, clearly aligned roles and responsibilities, portfolio managers who are empowered to make investment decisions, and accountability at all levels of the organization.

In contrast, DOD approves proposed programs with much less consideration of its overall portfolio and commits to them earlier and with less knowledge of cost and feasibility. Although the military services fight together on the battlefield as a joint force, they identify needs and allocate resources separately, using fragmented decision-making processes that do not allow for an integrated, portfolio management approach like that used by successful commercial companies. Consequently, DOD has less assurance that its investment decisions address the right mix of warfighting needs, and, as seen in the figure below, it starts more programs than current and likely future resources can support, a practice that has created a fiscal bow wave. If this trend goes unchecked, Congress will be faced with a difficult choice: pull dollars from other high-priority federal programs to fund DOD's acquisitions or accept gaps in warfighting capabilities.

Figure: Costs Remaining Versus Annual Appropriations for Major Defense Acquisitions



Source: DOD (data); GAO (analysis and presentation).