Great Expectations But Nothing to Measure?

A theoretical foundation of performance measurement in arms trade offsets

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Overview

• What are offsets
• Offsets in Europe
• The Swiss case (research problem)
• Research questions
• Theoretical foundations of performance measurement
• A new theory of performance measurement?
• Conclusions for the Swiss case
• General conclusions
What are arms trade offsets?

Arms Trade

- selling company
  - sales manager
- offset manager
- buying state
  - procurement agency
  - offset authority
- domestic industry

Arms Trade Offsets

- weapon system
- money
- confirmation of 100% re-investment
- evaluation
- system parts (direct offsets)
- other products (indirect offsets)
- money and know-how

confirmation of offsets

evaluation of effectiveness
Switzerland has been using offsets since the mid 1970’s

- On average foreign vendors fulfill offset obligations worth 350 million USD per year (-> approx. 10-20% of the general volume of the Swiss defense industry)

- Offsets are an award criteria within the procurement process, have a low threshold value, ask for specific SME support and are allowed as direct and indirect offsets (including civilian high tech areas)

- Offsets are believed to increase the purchasing price of a weapon system by 5 to 10 per cent

- The Swiss “strategic targets” are:
  - Strengthening of the industrial potential indispensable for the defence and security of Switzerland
  - 100 % sales effectiveness
  - Preservation of existing and acquisition of additional know-how
  - Additional contract- and export volume abroad
While the procurement agency is using a version of the balanced scorecard for most of its organization, neither an existing managerial framework, nor a specifically derived performance model exists for offsets.

Offsets are only evaluated case-by-case with only a handful of indicators used to measure the performance of offset obligations:

- Sales effectiveness (Swiss value-added shares)
- Additionality/ sustainability
- Industrial sectors
General:

a) Why do states use performance measurement/management systems the way they do?

b) Why does the ‘level’ of measurement change with the different functions of a state?
Research questions II

Case specific:

a) If the main strategic target of the Swiss industrial participation strategy is “strengthening the domestic defense industrial base”, why is there no indicator that could measure this target?

b) Why is the whole measurement focusing on effectiveness of some targets but not measuring efficiency?
• Performance measurement was an integral part of all “tides of reform” in Public Administration. First indicator-based models can be dated back to the 1920’s.

• But performance management is rarely traced back to a single theory because "performance measurement and management are 'practitioner' theories or 'theories-in-use'" (Argyris & Schön, 1978).

• Few researchers have attempted theoretical justifications of performance measurement (e.g. O’Toole & Meier, 2000; Talbot, 2007 & 2011).

• Aspects of performance measurement can be seen in all major theories for Public Management e.g. Neoclassical Public Administration; Rational Public Management, Institutionalism, but these theories do not explain why someone measures something specific.
A new theory (?)
A new theory (?)

Principal

Agent

Monopoly

National defense

Economic support

efficiency

effectiveness

Enabler-State
The Swiss government / procurement agency acts as the principal for national defense -> focus lies on efficiency (“as long as it’s not too costly we do support the DTIB”)

Most strategic targets are in areas where the government is not the single provider of services but acts as an enabler state -> effectiveness is measured (e.g. additional volume for the industry); the case-by-case evaluation is based on the case-by-case presentation of defense purchases to the public
A combination of theoretical models can help understand why states use performance measurement systems in different ways, with different indicators and different objectives.

The Swiss case shows that, even though offsets have a relatively high economic importance, performance measurement is done cursorily.

A change in how performance measurement is done seem to be more successful when it is initiated from outside the agency, due to the nature of the problem.
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