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MILITARY OUTSOURCING IN POLAND: LESSONS LEARNED AND PROSPECTS FOR FURTHER DEVELOPMENT

Summary

The aim of the paper is to discuss the key issues of military outsourcing in Poland. Outlining the theoretical background, the article discusses the nature and scope of military outsourcing. Then the development of military outsourcing market is analysed. In its empirical part, the paper identifies the outcomes and lessons learned from the implementation of contracting-out program in the Polish Armed Forces. Finally it attempts to forecast prospects for the further development of military outsourcing. The contents of the paper are based on the critical analysis of available sources (books, articles, legal acts, the Internet) and the opinions presented by interviewed experts (the PAF flag and senior officers, academic researchers and branch journalists).

1. Introduction

The transformation undertaken by the armed forces in democratic states in the 1990s and 2000s resulted in the increase of the military outsourcing market and taking over by civilian contractors the roles traditionally performed by military personnel. This tendency is particularly prominent in the United States and the United Kingdom. Although the value and the share of services outsourced by the Polish Armed Forces (PAF) is significantly lower in comparison with the aforementioned nations, the role of military outsourcing in Poland in recent years has been growing as well. This trend has been strengthened by the lessons Polish military decision makers learned from abroad operations (in particular Iraq, Afghanistan and peacekeeping missions in the Balkans), the PAF professionalization and the ongoing transformation of the military logistics system. In 2008, the Minister of National Defence officially approved the comprehensive program of services contracting-out in the PAF.

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Nowadays, three years later the time has come to analyse lessons learned, to assess the first outcomes of the program and to discuss its further perspectives. The prospects and determinants of the military outsourcing development in Poland were the topic of the paper presented by the author during the 8th WSB-NLU seminar in June 2009 (Lis 2009, p. 255-264). In the conclusion of the aforesaid article, the areas of further scientific exploration were outlined. The assumption was to study the problem from two different points of view: the customer's perspective and the supplier's perspective. The aim of this paper is to continue the research initiated two years ago and to explore the issues from the standpoint of the Polish Armed Forces. In order to achieve the above-stated aim the following operational objectives have been set:

- to outline the concept and scope of military outsourcing and the reasons for its development in order provide the theoretical background for the following empirical study,
- to analyse the issue of military market development in the countries known as leaders in military outsourcing implementation (the United States, the United Kingdom) and to review the literature presenting the lessons learned by those nations;
- to find out the outcomes and to assess (ex post) the effectiveness of projects implemented by the Polish Armed Forces in accordance with the MOD military contracting-out program dated as of 2008;
- to identify future opportunities and threats for the Polish Armed Forces resulting from outsourcing their in-home capabilities;
- to discuss the prospects for the further development of the Polish military outsourcing market;
- to identify the customer's (the PAF) expectations concerning military outsourcing projects and relations with suppliers and the experts' recommendations for military decision makers in order to improve military outsourcing management.

The contents of the paper are based on the critical analysis of available sources (books, articles, legal acts, the Internet) and the opinions of interviewed experts (the PAF flag and senior officers, academic researchers and branch journalists). The empirical study was conducted in May 2011 and included in total 11 experts. The respondents were divided into two groups. The first one consisted of six senior officers of the Inspectorate for Armed Forces Support (and subordinate units) responsible for the outsourcing program implementation in the Polish Armed Forces. They covered the following functional areas: maintenance, repairs and overhaul (MRO) of military equipment, car rental, movement and transportation, military infrastructure and facilities management, material supply (food, uniforms, petrol, oils and lubricants). They were asked about the lessons learned and the effects of the outsourcing program

implementation in the PAF. The second group numbering five experts (flag and senior officers, academic researchers and branch journalists) was expected to provide a more general picture of the process and assess the perspectives for its future development. Moreover, the outcomes of the author's previous empirical research on the determinants of Polish defence companies' strategies were found to be useful (Lis 2011) as well.

In order to define clearly the field of the research, some assumptions have been made. First of all, the paper focuses on military outsourcing in Poland. However, making efforts to build up the big picture, it refers to the research literature based on the American and West European perspectives. Nevertheless, in all cases the paper deals with the issues of military outsourcing in 'efficient', democratic states, omitting the challenges of security privatisation in weak states. The latter problem is discussed among other by Holmqvist (2005, p. 11-22). Secondly, the paper distinguishes a wide range of functional areas contracted out by ministries of defence, but in its empirical part it is limited to logistic support services outsourced by the Polish Armed Forces according to ministerial regulations in force. Thirdly, the aforementioned contracting-out program for the Polish Armed Forces gives particular attention to the in-place forces support, what affects the area of the paper's interest.

The article is organised around four issues. The first part has the theoretical character and it provides the background for the following empirical study. It attempts to define military outsourcing and to identify its scope. The second part presents the development of military outsourcing market and the reasons standing behind its growth. The purpose of the third part is to find out the outcomes and lessons learned from military outsourcing implementation in the PAF. The fourth part of the paper is devoted to the prospects for military outsourcing development in Poland.

Finally, one linguistic comment should be made. Generally British English standard has been used to write and edit the text. However, in some cases while referring to or quoting American sources the original features of American English standard have been purposely kept unchanged.

2. The nature and the scope of military outsourcing

Outsourcing is commonly understood as the "process of subcontracting services and operations to other firms that can perform them more cheaply or better" (Griffin 2008, p. 599). As Perlo-Freeman and Sköns (2008, p. 3-4) observe "[o]utsourcing means the transfer of management, functions or services to an external service provider through a contractual arrangement, whether between private companies or from the public to the private sector". Outlining the background for military outsourcing, Skarzyński (2008, p. 168-

169) introduces two different classifications of outsourcing: the object typology covering different areas of outsourcing and the subject typology differentiating between beneficiaries of outsourcing. The object typology encompasses the outsourcing of: transportation, storage, shipping, technology, accounting, debt collection, training, IT and others. The subject typology may include among others: business outsourcing, public administration and military outsourcing.

Skarżyński (2008, p. 169) interprets military outsourcing as “the use of external resources and services by the institutions responsible for national defence [translation mine, AL]”. His understanding of military outsourcing is close to the definition proposed by Pan (2004) who describes military outsourcing as “[t]he process of contracting out to private companies tasks that used to be performed by the members of the uniformed military”. Perlo-Freeman and Sköns (2008, p. 4) point out that “[o]utsourcing of military functions to private industry is (...) a part of a broader trend of privatisation in military sector”. However, while analysing the nature of military services these researchers claim that “the key distinction is neither in the military or civilian identity of the customer, nor in the case of services, whether they were previously performed by uniformed personnel, but in the nature of the service – whether it is generic or military specific” (Perlo-Freeman and Sköns 2008, p. 5).

As Hartley (2004, p. 200) observes “[m]ilitary outsourcing has been the victim of various definitions. These include contracting-out, contractorisation, privatization, competitive tendering, market testing and the most recent initiatives in the form of the Private Finance Initiative (PFI) and Public Private Partnerships (PPP)”. This ambiguity in terminology may be observed even in the official NATO and EU publications. Neither the *NATO Glossary of Terms and Definitions AAP-6* (2010) nor the *NATO Allied Joint Logistic Doctrine AJP-4(A)* (2003) provides the definition of military outsourcing or even mentions it. Instead of outsourcing the AJP-4(A) (2003, point 0104) identifies the term ‘contracting’ and considers it as one of the functional areas of logistics¹. The NATO doctrine highlights that “[c]ontracting has become increasingly important to the conduct of NATO operations, particularly in non-Article 5 CRO². Contracting is a significant tool that may be employed to gain access to local resources, and other necessary materials and services”. (AJP-4(A) 2003, point 0323). Moreover, the AJP-4(A) (2003, point 0117c(9)) introduces the term Third Party Logistics Support Services (TPLSS) considered as “preplanned provision of selected logistic support services by a contractor” and states that “TPLSS can release scarce resources for higher

1 The other functional areas of logistics according to the AJP-4(A) are: supply and services, maintenance and repair, movement and transportation, infrastructure, medical, funding.

2 CRO – Crisis Response Operations.

priority tasks elsewhere, overcome known logistic shortfalls and provide long-term endurance and sustainability”. Similarly, the EU directive on contracting in defence sector (Directive 2009/81/EC) uses the term ‘contracting’, not even mentioning the word ‘outsourcing’. However, on the other hand the European Defence Agency’s analyses on military expenditures commonly identify financial means ‘outsourced’ by the armed forces (cf *European – U.S. defence expenditures in 2009*, p. 14; *Defence Data of EDA participating Member States in 2009*, p. 29-30).

Beside the ambiguity in defining military outsourcing, another debatable issue is the scope of outsourced services. Analysing the employment of military outsourcing by the U.S. Armed Forces during the first phase of the Iraqi operation, Pan (2004) finds out that “[t]he assignments range[d] from mundane jobs like cooking or cleaning to specialized ones like maintaining and repairing sophisticated weapons systems, translating and transcribing, and interrogating Iraq prisoners”. Stockholm International Peace Research Institute (SIPRI) conducting the studies on military services extends their scope “from support services (e.g. logistics, communications, technical support) and consultancy services (e.g. operational support, training, intelligence) to the provision of frontline combat capacities”¹³¹. Perlo-Freeman and Sköns (2008, p. 6-7) identify the following types of military service provided by civilian contractors: research and development (R&D) of weapon systems, technical services (IT services, systems support, equipment maintenance, repair and overhaul – MRO), operational support (facilities management – FM, logistics, training, intelligence services, weapon destruction and disposal), armed forces services (armed security). Such an approach is close the classification of privatised military firms proposed by Singer (2003, quoted after Perlo-Freeman and Sköns 2008, p. 4) who divides them into:

- military provider firms engaging in military operations,
- military consultant firms providing training and consultancy closely linked to the military operations,
- military support firms providing logistics.

As Petersohn (n.d., p. 6-7) finds, such an approach to classify private military companies (PMCs) according to the type of services they provide is widespread in the literature. Referring to the works of Kümmel (2004, p. 14) and Singer (2003, p. 91-92), he identifies: private combat companies, private security companies, private consultant companies and private logistical support companies. Comparing Petersohn’s classification to the typology proposed by Singer one should notice that the former distinguishes between private combat companies and private security companies while the latter places both aforementioned categories

3 http://www.sipri.org/research/conflict/trends/research_projects/psc (05.06.2011).

under one header referring to them as ‘military provider firms’. In accordance with Petersohn’s classification, private combat companies are “involved in direct engagement of the enemy or else they command regular troops”, while private security companies “provide special personnel to guard facilities, convoys, and individuals” (Petersohn n.d., p. 6-7).

In order to provide a comprehensive picture of military outsourcing phenomenon, apart from defining it and identifying its scope, it is required to find the clear distinction between military outsourcing and outsourcing commonly used in a civilian environment. Depending on the differences in the way how military outsourcing is defined and classified, there are two approaches to establish the border line. The first one refers to the subject typology of outsourcing. According to this approach military outsourcing covers all the services contracted out by the armed forces on the civilian market, regardless of the fact whether the character of those services is military specific or civilian specific. Trying to justify the distinction between military outsourcing and services outsourced by other (civilian) customers, (Skarżyński 2008, p. 169) claims that military outsourcing is to be considered separately because:

- the national defence sector requires not only resources and services commonly used and easy to get on the market but also some very specific ones;
- service providers are to meet strictly defined requirements based on the military regulations;
- services for the military sector are often provided in a different environment than those for the civilian customers.

The second approach refers to the object typology differentiating between outsourcing of military specific services and other types of services (i.e. transportation, facilities management, catering services) which can be acquired by both armed forces and civilian organisations. Perlo-Freeman and Sköns (2008, p. 5) defining the nature of military services claim that “the key distinction is neither in the military or civilian identity of the customer, nor in the case of services, whether they were previously performed by uniformed personnel, but in the nature of the service – whether it is generic or military specific”. However as they stress “[i]n practice, the distinction between military and non-military goods and services is difficult to draw”. Referring to Lindley-French and Algieri (2004, p. 68), Petersohn observes that “[t]he military capabilities necessary to produce security depend on the mission, the characteristics of the theater, and other factors. (...) Providing security at home is apparently a different task from providing it when deployed abroad” (Petersohn n.d., p. 9). In order to classify those capabilities, he uses a traditional military typology encompassing: combat functions, combat support (CS) functions and combat service support (CSS) functions.

The U.S. field manual *Operational terms and graphics* defines ‘combat functions’ as the “[f]unctions that commanders integrate and coordinate to synchronize battle effects in time, space, and purpose. They are intelligence, maneuver, fire support, air defense, mobility and survivability, logistics and battle command” (FM 101-5-1 1997, p. 1-30). The U.S. *Dictionary of military and associated terms* introduces the term ‘operating forces’ denoting “[t]hose forces whose primary missions are to participate in combat and the integral supporting elements thereof” (JP 1-02, 2001, p. 390). Forces directly participating in combat are called ‘combat forces’ (JP 1-02, 2001, p. 98).

According to the NATO *glossary of terms and definitions* and the U.S. *Dictionary of military and associated terms* ‘combat support’ (CS) is defined as the “fire support and operational assistance provided to combat elements”⁴ (AAP-6, 2010 p. 2-C-8; cf. JP 1-02 2001, p. 106). The term ‘combat service support’ (CSS) refers to “[t]he support provided to combat forces, primarily in the fields of administration and logistics” (AAP-6, 2010 p. 2-C-8). The combat service support covers “[t]he essential capabilities, functions, activities, and tasks necessary to sustain all elements of operating forces in theater at all levels of war. Within the national and theater logistic systems, it includes but it is not limited to that support rendered by service forces in ensuring the aspects of supply, maintenance, transportation, health services, and other services required by aviation and ground combat troops to permit those units to accomplish their missions in combat. Combat service support encompasses those activities at all levels of war that produce sustainment to all operating forces on the battlefield” (JP 1-02 2001, p. 106). Combat service support “also include those activities in stability and support operations that sustain all operating forces” (FM 101-5-1 1997, p. 1-32)⁵.

Taking into consideration the aforementioned classification of military capabilities and functions, one may observe that both combat and combat support capabilities should be considered as pure, military specific functions. The status of combat service support capabilities is much more complex. One may claim that a lot of services provided within the frame of CSS are the logistic services of civilian nature (i.e. transportation, storage or catering services). To a certain extent, such a statement is true in reference to some of logistic services acquired by in-place forces deployed in their home garrisons in peacetime. However, in any operational setting such a distinction between military specific functions and civilian specific functions used to sustain military troops is doubtful. There

4 For example, in the U.S. Army and Marine Corps combat support includes the following branches and functions: “Chemical Corps, civil affairs, psychological operations, Military Intelligence, Military Police Corps, and the Signal Corps” (FM 101-5-1 1997, p. 1-32).

5 For example in the United States, “[t]he included branches and functions are: Adjutant General Corps, Acquisition Corps, Chaplain Corps, Finance Corps, Judge Advocate General Corps, Medical Corps, Ordnance Corps, Transportation Corps, and the Quartermaster Corps” (FM 101-5-1 1997, p. 1-32).

are, at least three reasons to differentiate between military logistic services and civilian logistic services⁶. Firstly, in operations all the troops, including CSS units providing logistic services, may come under fire. Secondly, on the battlefield logistics may be considered as an element of “combat functions’ (cf. FM 101-5-1 1997, p. 1-30), crucial for the final result of the operation. Thirdly, there are some important differences between military and civilian logistics. Those differences are discussed by Ficoń (2009, p. 175-177). The gist of this comparative analysis is presented in Table 1.

Table 1. Military and civilian logistics – a comparative analysis

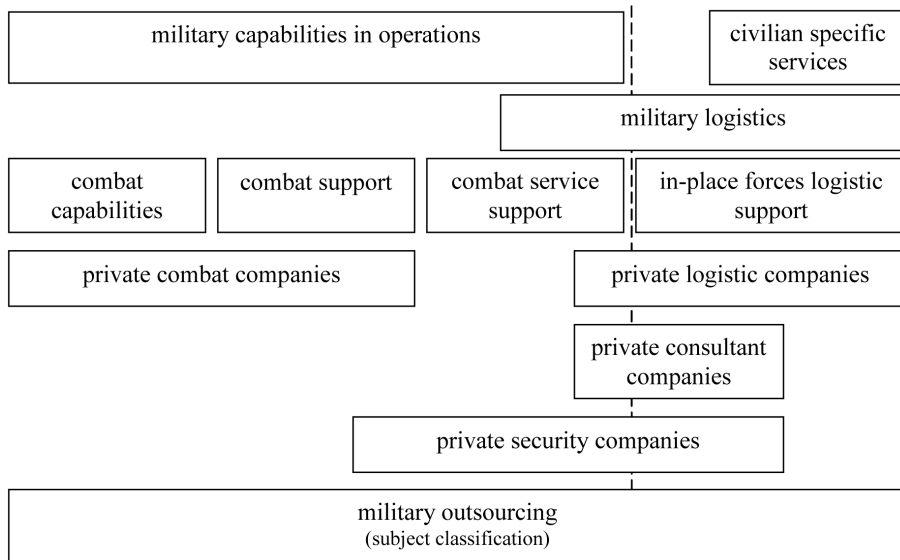
Characteristics	Military logistics	Civilian logistics
Mission of logistics	Operational and combat security	Market competitiveness
Criterion of operations	Security of supplies	Minimisation of costs
Time factor	Highest priority	According to the just-in-time principle
Level of stocks	Defined by military regulations	Minimal
Purchase of supplies	Operational requirements	Economic criteria
Distribution system	Adjusted to operational requirements	Wholesale/retail channels
Selection of suppliers	According to operational criteria	According to market criteria
Outsourcing	Limited scope	Full scale
Warehouses	Specialised	Universal
Packaging	Special	Market
Planning input	Operational plan	Market forecast
Logistic services	Very wide range	Narrow range
Material supplies	Very wide range	Range adjusted to the type of a company
Ecological requirements	Second-rate importance	First-rate importance
Just-in-time	Full scale	Full scale

Source: Ficoń K., *Dwie wojny dwie logistyki*, “Kwartalnik Bellona”, 2009, No. 1, p. 177. [translation mine, A.L.].

In order to summarise the discussion on the nature of military outsourcing, an attempt has been made to draw the distinction between military and civilian outsourcing. The graphical representation of this operation is presented in Figure 1.

⁶ Operational logistic support includes the following functional areas: supply and services, maintenance and repair, movement and transportation, infrastructure, medical support, contracting, funding. AJP-4(A), point 0104.

Figure 1. The scope of military outsourcing



Source: Own study.

3. The development of the military outsourcing market

The military transformation undertaken by the armed forces in democratic states in the 1990s and 2000s resulted in the increase of the military outsourcing market. Referring to the works of Singer (2003) and Wulf (2005), Perlo-Freeman and Sköns (2008, p. 3) find that “[t]he current increase in the market for military services is the result of several trends during recent decades that affect both demand (the use of private companies for the provision of military services) and supply (the increase in private companies engaged in the sale of military services)”. They list the following factors standing behind the growth of the military services market (Perlo-Freeman and Sköns 2008, p. 3-4; cf. Holmqvist 2005, p. 2):

- the decrease in military expenditures and the number of military personnel,
- the increase in demand for private military services due to: the changing nature of armed conflicts, the growing role of expeditionary operations, ‘revolution in military affairs’ (military technology) and the loss of the expertise in some areas by the armed forces,
- the growing acceptance of privatisation and outsourcing of public activities.

The United States of America is the unquestionable world leader in contracting services out by the military sector. In Europe, the concept of military outsourcing is mostly widespread in the United Kingdom. Therefore, the two aforementioned nations are the cases of numerous analyses and publications, attracting the attention of both American and international researchers. For example, the outsourcing in the U.S. Army is widely discussed by Nigara (2004) in her dissertation for doctorate in management. The consequences and risks of using military outsourcing, and private military companies in particular, are a very debatable issue catching a lot of researchers' attention. The works by Markusen (2003), Holmqvist (2005), Schreier and Caparini (2005), Perlo-Freeman and Sköns (2008), Petersohn (n.d.) are only a few examples. The problem will be studied in detail in the further part of the paper. Apart from the economic point of view, military outsourcing is examined from military, political and legal perspectives. One can notice, that in the United States, the issues of military outsourcing are eagerly explored by American and foreign military service people doing their research projects in military academies (i.e. Naval Postgraduate School, Monterey, United States Army War College) and often published in military journals (i.e. a quarterly "Parameters" published by the United States Army War College). The role of civilian contractors in the support of the U.S. Armed Forces is the area of exploration for Polish academicians, too (cf. Jałowicz 2009, p. 179-183). Next, the UK policy on military outsourcing is presented by Hartley (2004, p. 202-205). Among Polish researchers, Jałowicz identifies British lessons learned from the process of military outsourcing implementation (2010, p. 62-65). A comprehensive analysis of the UK market for military outsourcing contracts is provided by MacDonald (2010, p. 115-132). Moreover, the latter makes the wide review of the literature on military outsourcing including theoretical approaches and empirical literature (MacDonald 2010, p. 25-59).

The significance of military outsourcing for the support of the armed forces in the United States and the United Kingdom can be expressed by the level of the 'outsourced' military expenditures. In the United States, outsourcing spending makes almost one fourth of total military expenditures. What is more, the value and the share of the outsourcing spending has been increasing in recent years. In 2007, the U.S. Armed Forces outsourced services for 76,2 bln^[7] euro (17% of total military expenditures). In 2008, this value reached the level of 99,4 bln euro (21%) and in 2009 it peaked up to 112,5 bln euro (23% of total military expenditures). In the same period of time, the military outsourcing expenditures in the European Defence Agency^[8] member states remained at the level of 6 to

7 In this paper, the word 'billion' refers to the modern (short scale) English usage. One billion denotes one thousand million (10⁹).

8 The European Defence Agency numbers 26 participating member states (all the European Union member states with the exception of Denmark).

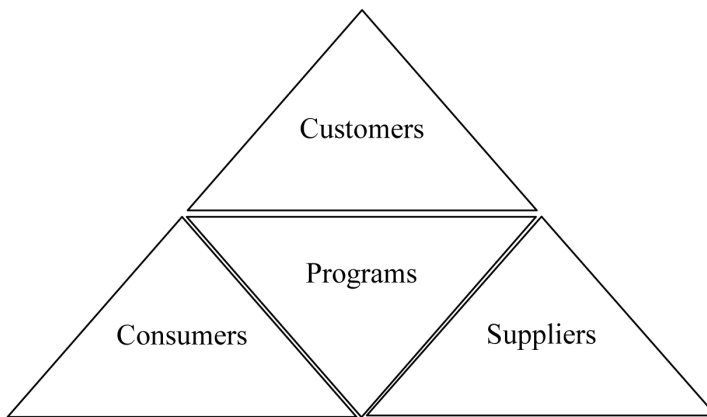
7% of total military expenditures (2007 – 14,4 bln euro, 2008 – 12 bln euro, 2009 – 14,1 bln euro). (*European – U.S. defence expenditures in 2009*, p. 14). The lion's share of this amount (around two thirds) is the military expenditure outsourced by the United Kingdom (9 bln euro as of 2009) (*Defence Data of EDA pMS in 2009*, p. 29).

Using the case of the United States as the base for their analyses, Apgar and Keane (2004, p. 46-55) propose a comprehensive model of military outsourcing market. The model includes four segments:

- customers: the military services, commands, agencies and other buyers;
- consumers: service members, their families, military retirees and civilians employed by the Department of Defence;
- suppliers: companies providing services to military customers and consumers;
- programs: mechanisms for outsourced activities management.

The graphical interpretation of the military outsourcing market model is presented in Figure 2.

Figure 2. The model of the military outsourcing market



Source: Apgar IV M., Keane J.M., *New business with the new military*, “Harvard Business Review” 2004, September, p. 46.

In order to sum up the foregoing theoretical introduction and provide the framework for the empirical studies some assumptions have been made. First of all, the definition of ‘military outsourcing’ proposed by Skarżyński (2008, p. 169) (“the use of external resources and services by the institutions responsible for national defence”) will be in force for the purpose of this paper. In the author’s subjective view, the aforementioned denotation reflects in the best way how contemporary military outsourcing is understood in the Polish

Armed Forces. Secondly, it should be emphasised that beside the differences in defining military outsourcing, there are numerous terms of similar or the same meaning, what makes the confusion about terminology. The most popular among them are: contracting, contracting-out, Private Finance Initiative, Public Private Partnership or Third Party Logistics Support Services. Thirdly, in the countries which are the most advanced in using military outsourcing it usually encompasses armed forces services including engagement in combat operations, training services and logistic support. In Poland, so far military outsourcing is limited to widely understood logistic sector. Fourthly, military outsourcing sector has been growing in the post Cold War reality (especially in the United States and the United Kingdom) and still has the potential for growth due to the trends affecting both demand and supply on the market of military services. Fifthly, the model of the military outsourcing market submitted by Apgar IV and Keane (2004, p. 46-55) will be applied for further discussion. The model consists of four elements: customers, consumers and suppliers and programs. The model, developed in the United States, seems to suit well to the Polish military outsourcing market, too.

4. Military outsourcing in Poland – lessons learned

Although the value and the scope of services outsourced by the Polish Armed Forces (PAF) is significantly lower in comparison with the United States or the United Kingdom, the role of military outsourcing in Poland has been growing since the beginning of the 1990s. The breakthrough in the Polish military outsourcing market came in 2008, when the Minister of National Defence officially approved the contracting-out program for the Polish Armed Forces. In his decision dated as of 3 July 2008, Bogdan Klich outlined the prospects for the further development of military outsourcing. According to this program, there are five potential fields for military outsourcing. They include: logistics, legal advisory services, administrative services, force protection and military infrastructure. Within logistics, the following areas are identified as the most promising for military outsourcing (Koncepcja 2008, p. 1031-1033, see also: Lis 2009, p. 260-261):

- maintenance, repairs and overhaul (MRO) of armaments and military equipment;
- rental of vehicles (passenger cars, trucks, medical vehicles) and other types of equipment;
- recycling of waste munitions, rocket propellants, chemicals, medical wastes and food wastes;
- transportation: air, railway, sea;

- storage of supplies: food, uniforms, petrol, oil and lubricants (POL), medicines;
- catering and laundry services.

The outsourcing of maintenance and repair services encompasses mainly the new types of equipment and the vehicles which are used both in the military and civilian environment. Among the examples MRO services which have been contracted-out the respondents participating in the survey mention: armoured personal carriers ROSOMAK, passenger cars or logistic vehicles.

Ciekot and Jałowicz (2010, p. 21-25) outline the main assumptions of the car rental outsourcing in the Polish Armed Forces. The program was launched by the Inspectorate for the Armed Forces Support (Inspektorat Wsparcia Sił Zbrojnych, IWsp SZ) in 2010 and it is planned to be implemented by 2018. The program consists of two stages. The first stage (2010-2013) is the experiment carried out in seven military units representing different armed services: Land Forces, Air Forces, Navy and military logistics. The experiment covers the outsourcing of heavy equipment transport systems (of loading capacity up to 30 tonnes) and general purpose vehicles (passenger cars, buses and mini buses, trucks). If the experiment brings positive effects the vehicles rental is going to be expanded in all military units by 2018.

Movement and transportation (M&T) is another field of military logistics, where outsourcing plays a significant role. Poland's accession to NATO resulted in the increase of the Polish Armed Forces' engagement in allied military operations abroad. This trend determined the growing demand for the access to the strategic air and sea transportation capabilities. Contemporary, the requirements of the Polish Armed Forces for the strategic air transportation are satisfied by three types of capabilities: Polish military transportation aircrafts (C-295 CASA and C-130 Hercules), the multinational military Heavy Airlift Wing (HAW) operating within the frame of the Strategic Airlift Capability (SAC) program⁹ and the outsourcing of air transportation services. As far as strategic sealift is concerned military outsourcing is the only solution¹⁰. In order to ensure the flexible access to the means of strategic air and sea transportation, the Polish National Movement Coordination Centre (NMCC) uses three types of outsourcing tools: the SALIS program, the AMSCC program and framework agreements. Strategic Airlift Interim Solution (SALIS) is the consortium of sixteen NATO member countries, which "have pooled their resources to charter special aircraft that give the Alliance capability to transport heavy equipment across the globe by air. The multinational airlift

9 More: http://www.nato.int/cps/en/natolive/topics_50105.htm (26.05.2011); <http://www.heavyairliftwing.org> (26.05.2011).

10 This is a world trend. Few nations own their own military transportation ships. Among NATO members, only four countries have such a capability (the United States, the United Kingdom, Germany, Denmark).

consortium is chartering six Antonov An-124-100 transport aircraft, which are capable of handling 'outsize' (unusually large) cargo'¹¹¹. The contractor is a Russian-Ukrainian consortium Ruslan-Salis consisting of two companies: Volga Dnepr and Antonov Design Bureau. While SALIS provides the access to the strategic air transportation, the Memorandum of Understanding (MOU) and Technical Arrangements (TA) signed between the Polish Armed Forces and the Athens Multinational Strategic Lift Coordination Center (AMSCC) facilitate the contracting of sealift services. The AMSCC provides a complex support during the contracting procedure conducted in accordance with the EU public procurement regulations¹¹². The means of strategic transportation may be also acquired by the activation of framework agreements negotiated and signed in advance. Contemporary, there are two such framework agreements in-force which provide the PAF with the access to the ships and planes enabling the strategic transportation of equipment and personnel¹¹³. The interviewed experts list the contracting-out of strategic air and sea lift capabilities among the most successful examples of military outsourcing in the PAF. They highlight very positive economic and operational effects of the program.

According to the assumptions of the MOD outsourcing program, catering services were considered as the area of possible outsourcing expansion. In 2009, the experiment in catering outsourcing was launched in Wrocław. The key players of the experimental program were: the 2nd Military Support Unit (2. Wojskowy Oddział Gospodarczy, WOG) – the customer, military personnel of the Engineering and NBC Troops Training Centre (Centrum Szkolenia Wojsk Inżynieryjnych i Chemicznych) – consumers and the catering company PHU WIG – the supplier. There were plans to introduce outsourced catering in other military units. Although the first outcomes of the experiment were quite positive¹⁴¹ (see more: Politowski 2009, p. 18-20), finally the program was given up. The main reason standing behind this decision was the radical decrease in needs for catering services resulting from the professionalization of the PAF. In 2009, the military compulsory service was suspended. Professional military personnel are authorised to be fed free of charge only in particular circumstances (i.e. operations abroad, training longer than eight hours, duty services). In effect, the number of military dining facilities' customers decreased from 70,000 in 2009 to 20,000 in 2011. Therefore, radical changes were introduced within the military catering system. The Armed Forces closed down around 150 out of 300 dining facilities, offering some of them (around

11 http://www.nato.int/cps/en/natolive/topics_50106.htm (26.05.2011).

12 <http://www.stirw.wp.mil.pl/Programy/AMSCC.pdf> (26.05.2011).

13 <http://www.stirw.wp.mil.pl/Programy/UMOWY%20RAMOWE.pdf> (01.06.2011).

14 Some experts participating in the study were much more skeptical about the effects of this experiment.

50) to be rented by civilian contractors. Simultaneously, the Armed Forces want to keep up in-home the remaining military catering potential and capabilities. In such circumstances, the further plans for the outsourcing of catering services are limited to several military units of low number of consumers. Due to the aforementioned changes any projects to outsource the storage of food supplies were abandoned, too.

The process of the armed forces professionalization reduced the military demand for laundry services as well. Professional troops receive financial bonus and take care of their laundry on their own. Military logistics is responsible for providing laundry services only for the personnel permanently accommodated in barracks: i.e. soldiers of the preparatory service basic training courses or cadets of military academies and schools. The gradual decline in demand accelerated by the professionalization processes, and the changes in the public finances legal regulations resulted in the close down of remaining seven military laundries at the end of the year 2010. Nowadays all laundry services are contracted by the military logistics on the local market.

The supply of petrol, oils and lubricants (POL) is another area of military outsourcing. Although the plans to outsource the storage capacities for POL products were postponed, the fleet fuelling program appeared to be unquestionable success. The program implemented initially in July 2009 in the logistic units subordinated to the Inspectorate for Armed Forces Support, one year later was extended to all military units of the Polish Armed Forces. The interviewed experts emphasise positive economic effects of the program and predict its further extension resulting, in some cases, in the close down of fuelling stations in the units devoid of heavy military equipment.

Beside logistics, the examples of military outsourcing application include such areas as: legal advisory services, administrative services, force protection and military infrastructure. The suspension of the compulsory military service and the professionalization of the PAF have strengthened the role of contracting-out in force protection and infrastructure. Nowadays, the force protection of military facilities is carried out by one of the following formations: military guards (military servicemen), civilian guards (civilian servants employed by military units) or outsourced force protection companies. The interviewed experts highlight very positive outcomes of force protection outsourcing. In their opinion, it enables military personnel to focus on core competencies such as training and operational tasks. Moreover, the respondents point out the economic effectiveness of force protection contracting-out. Nevertheless, they find as very positive the diversification of formations employed to protect military facilities. Such an approach allows to keep in-house force protection of the key military facilities and simultaneously to outsource the services for the rest of them. What is more, keeping some capabilities in-home enables their

extension in the case of crisis and increases the PAF bargaining power to the force protection outsourcing sector, preventing from the threat of unfounded rise of prices.

The contracting-out services by the military infrastructure has a long tradition. Since the 1989 breakthrough, the share of outsourced constructions works and military facilities maintenance services has been constantly growing. In 2010, the suspension of compulsory military service determined the extension of cleaning and outdoor areas maintenance outsourcing. Another factor stimulating the outsourcing of facilities management services is the reduction of employment in this area due to the organisational restructuring of the PAF aimed at the increasing the “tooth” (combat units) at the expense of the “tail” (support personnel). Beside facilities management, in recent years the lion’s share of construction works has been outsourced, too. Moreover, the changes in the public finances law determined the transformation of military (budgetary) construction enterprises (Wojskowe Zakłady Remontowo-Budowlane, WZRB) into subsidiary companies of the Military Housing Agency (Wojskowa Agencja Mieszkaniowa, WAM). In result, the Polish Armed Forces gave up any construction capabilities and nowadays relies totally on contracting-out.

The key motive behind the decision to outsource non-core capabilities is seeking the increase in effectiveness. The assumption is that external contractors will provide services of better quality and/or at a lower cost for the customer. What is more, Hartley claims that in ‘make or do’ decisions a simple analysis of technical efficiency (the lowest cost method of achieving a given output) is not sufficient. He recommends to employ a more complex allocative efficiency, which beside the technical efficiency takes into account margin social benefits and costs (Hartley 2004, p. 200). However, such an approach is much more challenging and demanding. Discussing the effectiveness of military outsourcing projects some researchers (i.e. Schreier and Caparini 2005, p. 98) raise the issues of transaction costs, which may in extreme cases outweigh financial savings achieved by the bidding procedure on the competitive market. These aforementioned transaction costs include the costs of negotiating and managing contracts.

Trying to assess the effectiveness of military outsourcing projects implemented in the PAF, the experts participating in the study highlight their positive economic effects (the decrease in costs). However, they pay special attention to the problems of the quality of services provided by some contractors. They find that precise description of the requirements for the outsourced services may be still a challenge for some less experienced contracting officers. The methodology of logistic services quality assessment, being currently worked out in the National Defence Academy, is mentioned as a potential tool to be employed in contracting procedures. Too short contract terms are another factor

harmfully affecting the cost effectiveness of outsourcing projects. Nowadays the most of them are one-year contracts (up to 90% of all outsourcing contracts according to the estimation of some experts participating in the study). The experts highlight that the lengthening of contract terms could result in lower costs and would make military bids more attractive for potential providers.

The attention of the second part of the paper has been focused on the outcomes and lessons learned from the implementation of the contracting-out program by the Polish Armed Forces. The key areas of the military outsourcing (logistics, military infrastructure and force protection) have been discussed. The special attention has been paid to outsourcing of logistic capabilities such as: maintenance, repairs and overhaul (MRO) of armaments and military equipment; vehicle rental, movement and transportation, catering and laundry services. Moreover, an attempt has been made to assess (ex post) the effects of military outsourcing projects.

5. Prospects for the development of military outsourcing in Poland

The study on the prospects for the further development of military outsourcing in Poland has been focused on three key issues: the identification of opportunities and threats for the Polish Armed Forces resulting from outsourcing their in-home capabilities; the opportunities and barriers for the growth of the military outsourcing market in Poland and finally experts' recommendations for customers and suppliers aimed at the improvement of military outsourcing projects and their management.

According to the opinion of the interviewed experts, the key opportunities for the Polish Armed Forces resulting from the increase in the number and value of outsourced services are:

- focusing on core competencies (training, military operations);
- increasing the quality of non-core services provided by experienced external suppliers;
- increasing the number and strengthening the “tooth” (combat troops) at the expense of the “tail” (support personnel);
- rationalising costs of services and, in effect, decreasing the level of military expenditures or saving financial resources to be allocated in other areas.

Nevertheless, one should not forget to consider the risks connected with outsourcing capabilities by the armed forces. The respondents identify the following potential threats for the Polish Armed Forces:

- losing capabilities which are non-core businesses in the peace time, but might be critical and difficult to acquire from external sources during

crisis or war (drawing the line between ‘make or buy’ is a pending issue);

- loosing capabilities to monitor the quality of services provided by external suppliers,
- reducing the customer’s bargaining power towards contractors, in an extreme case making the PAF totally dependent on external contractors as an effect of complete outsourcing of a given capability;
- monopolisation and monopsonisation of the military outsourcing market including all their inefficiencies and negative consequences both for customers and suppliers,
- the increase in transaction costs (the costs of managing projects) levelling positive effects of economic gains from contracting services on the competitive market,
- the risk of corruption and unethical behaviours.

The analysis highlights the similarity between the aforementioned factors typical of the Polish Armed Forces and the opportunities and threats resulting from contracting-out services by the armed forces abroad identified in the secondary sources. It should be stated that contemporary studies provide a wide range of such researches. Some of them are the effects of benchmarking analyses in the civilian service outsourcing industry, the others are based on the empirical surveys among the world leaders of military outsourcing (the United States and the United Kingdom in particular). Referring to Tondorff (1998, p. 70-71) and Abt (2000, p. 193-194) Skarzyński translates the opportunities and threats of outsourcing projects identified on the civilian market into military environment (Skarzyński 2008, p. 169-170). Numerous positive effects of outsourcing military support functions in the United States and the United Kingdom are listed by Apgar IV and Keane (2004, p. 48-55). An interesting overview of problems, challenges and lessons learned from military outsourcing programs in the United Kingdom is presented by Hartley (2004, p. 200-205). His study, in comparison to the results of the experts interviews or Skarzyński’s findings, puts more emphasis on military outsourcing in combat missions. A long list of potential risks involved in military outsourcing is provided by Schreier and Caparini. They put the emphasis on the notions of transaction costs, monitoring outsourcing projects, the risk of monopolisation with its inefficiencies, political consequences and the lack of transparency (Schreier and Caparini 2005, p. 97-102). Referring to the US Government Accountability Office (GAO) reports ^[15], Perlo-

15 *DOD’s extensive use of logistics support contracts requires strengthened oversight*, GAO-04-854, US Government Accountability Office, Washington, DC, July 2004. <http://www.gao.gov/new.items/d04854.pdf>; *High-level DOD action needed to address long-standing problems with management and oversight of contractors supporting deployed forces*, GAO-07-145, US Government Accountability Office, Washington, DC, Dec 2006; <http://www.gao/new.items/d07145.pdf>.

Freeman and Sköns provide strong evidence to support the aforementioned concerns. They point out that GAO “has conducted a number of studies on the performance of logistics contracts in Iraq (...) and elsewhere and has found serious deficiencies in the planning, monitoring and oversight of the contract in Iraq”. (Perlo-Freeman and Sköns 2008, p. 15). In addition to purely economic and management challenges of military outsourcing which are typical of any kind of services outsourced by the armed forces, political, legal and operational consequences of armed security services provided by Private Military Companies (PMCs) on the battlefield are hot and debatable issues. Blackwater operations in Iraq are the best case to illustrate these concerns. Perlo-Freeman and Sköns (2008, p. 13-14) widely discuss the ramifications of the private military services growth: privatisation of the violence, problematic legal status of armed contractors, PMCs’ interest in the perpetuation of conflicts and the security of supply. Summing up the ongoing discussion on the positives and negatives of military outsourcing, one may find three conclusions. First of all, in spite of some negative examples, the vast majority of promising outsourcing cases are the logistic support projects. Secondly, as Perlo-Freeman and Sköns accurately observe (2008, p. 16) “the efficiency of outsourcing is likely to vary with the extent to which the key conditions – competition, clarity of requirement and effective monitoring – are present”. Thirdly, armed security contractors operating on the battlefield constitute the most controversial segment of the military outsourcing market arousing political, legal and operational concerns.

In February and March 2011, Lis (2011) conducted the empirical research on the future determinants of Polish defence companies’ strategies. Experts (representing defence companies management, the Ministry of National Defence, academic researchers and branch journalists) were interviewed to assess the probability and the impact of forecasted determinants (of economic, technological, social, legal and regulatory, and international origin) on the situation of Polish defence companies in the future. The list of potential determinants included, among other factors, the prospects for the development of the Polish military outsourcing market. According to the opinions of the respondents, the chance that the Polish military outsourcing market will grow is estimated at 42%. They forecast 40% probability of the trend stabilisation and only 18% probability of the market shrinking. The experts participating in the panel focused on military outsourcing point out the following areas as the potential candidates for the growth of contracting-out:

- a) in-place logistic support:
 - military facilities management (including cleaning services, the maintenance of outdoor areas, repairs and construction works);
 - force protection;

- maintenance, repairs and overhaul (MRO) of up-to-date military equipment and general purpose vehicles;
- medical services;
- b) military operations abroad:
 - military facilities management;
 - maintenance, repairs and overhaul (MRO) of up-to-date military equipment;
 - material supply (including food, petrol, oil and lubricants);
 - transportation: both strategic (mainly sea and air) and the movement on the theatre.

The data and opinions collected by interviewing experts enable to develop future scenarios for the Polish domestic military outsourcing market. The most likely scenario encompasses two parallel paths:

- centralised contracts for MRO of military equipment carried out by armament producers (included into bidding procedures for the product delivery and life cycle support) or former state owned military maintenance companies (WPRP) planned to be incorporated into Bumar capital group as a service division;
- and decentralised contracts for logistic support awarded locally in garrisons by military support units or regionally by one of four regional logistic bases. It is forecasted that this segment will be served by local, regional or national outsourcing companies operating mainly on the civilian market. Some contracts may be as well awarded to international suppliers.

Thereby, two other scenarios taken into consideration – the monopolisation of the market by any of world leading military outsourcing operators or the emergence of a powerful Polish company specialized in military outsourcing – seem not to be very likely. The experts highlight that, beside the support for the in-place forces, military outsourcing is very likely to be employed in military operation abroad. In such a case, in the most likely scenario the Polish military contingent will join the logistic support system organised by a leading nation and will outsource services to the contractor operating in the area of operation. In order to complete the picture emerging from the aforementioned study, the experts participating in the survey on the military outsourcing were asked to identify the potential opportunities in the environment of the Polish military outsourcing market and barriers for its development. The list of opportunities includes:

- the worldwide trend (both in civilian and military logistics) to replace non-core in-house capabilities by contracting them out;
- the increasing level of specialisation in service industry, what makes almost impossible for any efficient and effective organisation to keep all capabilities in-home,

- the professionalization process of the Polish Armed Forces and the tendency to increase the share of the ‘tooth’ (combat troops) at the expense of the ‘tail’ (support personnel) in order to augment operational capabilities;
- the increase in Poland’s military expenditures (MILEX) and expected changes in the MILEX structure (the decreasing share of personnel costs to the advantage of operation and maintenance (O&M) costs as well as investment expenditures);
- the ongoing transformation of the Polish military in-place logistic system aimed at the logistics’ consolidation in four regional military bases (Regionalna Baza Logistyczna, RBLog.) and the incorporation of military infrastructure to the logistic system (more: Szymański 2011; Klecha and Lis 2011).

The catalogue of aforementioned opportunities provides an optimistic view. However, on closer examination, it is corrupted by the long list of barriers in the development of the Polish military outsourcing market, which includes:

- a) external barriers:
 - very turbulent legal environment;
 - too short financial perspective of outsourcing programs (insufficient number of long-term contracts);
 - insufficient application of Public Private Partnership (PPP) programs;
 - bureaucratic regulations on the military personnel’s relations with contractors on one hand and the risk of corruption on the other hand;
 - ongoing organisational restructuring of the PAF resulting in frequent changes of military plans, structures and needs for outsourced services;
 - mentality of some operational commanders attached to relying on in-house capabilities and their resistance to change;
- b) internal barriers:
 - fragmentation of the Polish outsourcing sector, the lack of Polish companies ready to provide comprehensive outsourcing project encompassing different areas;
 - accidental unreliability and dishonesty of some contractors, what undermines customers’ trust to the outsourcing sector;
 - harvest strategies implemented by some service providers willing to exploit a single occasion instead of developing long term business relations, what strengthens military commanders’ prejudice against outsourcing.

Last but not least, the aim of the study was to identify the customer's (the PAF) and consumers' expectations concerning outsourcing suppliers and the experts' recommendations for military decision makers to increase the scope of the services contracted-out by the PAF and to improve the efficiency of outsourcing projects. The experts suggest that in order to meet the customer's and consumers' requirements and expectations the suppliers should:

- be highly specialised companies, preferable the leaders in their branches;
- know the specific requirements and determinants of military customers;
- be customer-oriented companies seeking the balance between the profit maximisation and the needs and interests of their military customers;
- be able to provide the PAF with the services of higher quality and cheaper (or at least reasonable) price in comparison with military in-home capabilities;
- develop partnership and long term relations with military customers and consumers,
- take care of their reliability and reputation.

Nevertheless, on the customer's side there is room for improvement, too. In order to make outsourcing projects more efficient and effective, the respondents recommend to:

- change the approach to the acquisition of military equipment (reorientation to product life cycle management including servicing and recycling not only purchasing of the product);
- increase the number of long-term projects (longer than one year);
- put more emphasis on preparing and monitoring contracts in order to ensure that services provided by external suppliers meet the needs of consumers and the requirements specified in bidding documentation;
- strengthen the structures and capabilities of military logistics with highly skilled personnel experienced in managing outsourcing projects and contracting procedures;
- develop the tools to assess the effectiveness of outsourcing projects including costs analysis, norms, standards and the project quality measurement;
- benchmark and learn from the civilian logistic industry's and other NATO countries' (especially the USA, the UK, Germany) experience in military outsourcing.

6. Conclusion

The paper has focused on four issues. First of all, military outsourcing has been defined and its scope has been identified. Secondly, the development of military outsourcing market and the causes for its growth in last two decades have been analysed. Then, the implementation of contracting-out program in the Polish Armed Forces, its outcomes and lessons learned have been outlined. Finally, the prospects for military outsourcing development in Poland have been discussed.

Summing up, some general conclusions should be mentioned. Military outsourcing is understood as the process of contracting out, by the armed forces, the services which earlier were their in-home capabilities. In recent twenty years, military outsourcing has been increasing its role in the support of the military sector. This trend is particularly prominent in the United States and the United Kingdom. In Poland, the development of military outsourcing market has been strengthened by three factors: the engagement of the Polish Armed Forces in military operations abroad, the professionalization process and the transformation of the military logistics system. In 2008, the MOD officially approved the program aimed the increasing the role of contracting-out in the support of the Polish Armed Forces. According to the program the potential areas for military outsourcing development include: logistics, legal advisory services, administrative services, force protection and military infrastructure. As opposed to the United States, in Poland military outsourcing is limited to the logistic support services, while armed security services and training linked to military operations remain military in-home capabilities. Looking forward, outsourcing-driven opportunities and threats for the Polish Armed Forces have been identified and the prospects for the domestic military outsourcing market have been discussed. Finally, some recommendations for suppliers and military decision makers have been articulated. The main conclusion is that the Polish military outsourcing market has expanded in recent years and there is still room for its further growth, especially in the area of military logistics.

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