

PEO/SYSCOM Speech – Defense Acquisition University

Frank Kendall
Acting Under Secretary of Defense for Acquisition, Technology, and Logistics

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Thanks for the great introduction Katrina, and thanks for the great job you are doing both at DAU and in your newest role “performing the duties of” Assistant Secretary of Defense for Acquisition.

By now you’ve noticed the bandage on my finger so let me tell you the story behind it. I caught it between my boat and the dock. I may be a good engineer and I may be some kind of a lawyer, but I’m not a great sailor apparently. And I tend to talk with my hands. While I was giving a talk in Europe recently, I realized that everybody in the audience was only looking at my bandaged finger, not anything else. The audience probably hadn’t heard a single word I’d said because they were focused on watching my bandaged finger move around. Hopefully by explaining the situation upfront, you will be able to ignore it. I tend to get a little passionate about the work that we do and I’ve found it pretty hard not to talk with my hands.

I am going to talk about people a lot today, and I am going to talk about the memo I put out on my priorities – because it really is about this same set of things. We are living in difficult times. Dr. Carter and I recognized that difficult times were coming a year ago when we started the Better Buying Power initiatives. Secretary Gates recognized it six months before that when he started the entire Department of Defense efficiency drive. Now, those times are here.

We don’t know yet how bad things are going to be, but we know it’s not good. We are taking approximately \$490 billion out over the next ten years. When averaged out that comes to \$45-50 billion dollars per year out of the budget, and it may get worse, depending upon what happens with the Supercommittee and what happens in the Congress.

So, here we are - trying to work our way get through this - still required to equip the forces, still required keep a ready force.

Secretary Panetta has discussed his priorities also and they include not having a hollow force. There are many ways we could end up with a hollow force. We could have a hollow force through lack of training, through lack of logistics support, through lack of maintenance and supply, and through lack of modernization. There are numerous ways we could have a force that doesn’t do what we need it to.

I went through the draw-down at the end of the Cold War, and at that time the threat changed dramatically. The Soviet Union went away, the Wall came down, there was a revolution essentially in Russia, and the threat that we had focused on for decades suddenly wasn’t there anymore. We don’t live in that kind of world now. The threat’s still there. It’s still the same, and I think frankly it’s getting more severe.

The threat of terrorism has not gone away. We are pulling out of Iraq after success there. We hope to be pulling out of Afghanistan after future success there. However, the terrorist groups that we are fighting will not cease to exist. They will still try to attack us.

In addition, there is a potential peer competitor rising in China. One of the things I've noticed as I've come back after being away from the Pentagon for about 15 years is that the China that we confronted in my earlier life is not the same China we have to deal with today. It's modernizing at a pace that's pretty significant, and we need to be prepared to deal with that. Not that I expect a conflict with China any time soon, but China will try to expand its influence. The United States has been a force for peace and security in the Pacific for a long time and we won't be able to continue in that role unless we sustain our technological superiority.

So, where does that leave us? It leaves us with a very difficult job of trying to equip and support our forces, sustain them in a tight environment when the threat is only getting worse. The memo Katrina referred to outlined key details we need to focus on as we try to do our difficult job, particularly given the times we are living in.

I started with support to the current fights. This is *the* fundamental thing that we have to do before anything else. Katrina mentioned that I tend to deal with things without emotion, but I had an opportunity yesterday to experience more emotion than I think any of us really want to experience. I traveled to Dover to welcome home the bodies of thirteen people who were killed in Kabul over the weekend. I met with the families of these people. It was a tough experience for me, but a horrific experience for them.

Those are the people that we're working for—to prevent more of those bodies from coming home. It is something that we must be focused on every day. As we sit here going through our bureaucratic lives and deal with systems somewhat in the abstract, sometimes we forget about the real human beings that are out there on the front lines. We forget what their families are enduring and what they are enduring in terms of sacrifice. We can't do that. Every time I go to the Theater, I come back reinvigorated about the importance of our work and what we have to do. We have no choice in the matter. Support to the Warfighters must remain at the top of our list.

The acquisition community supports our people in combat in many ways. One of them is obviously through rapid acquisition. Dr. Carter has taken a great personal leadership role here. Even through his transition up to Deputy Secretary, he has stayed personally involved with this effort. He's continued to chair a group that meets every two or three weeks to expedite getting equipment into the theater that is desperately needed there to ensure success and to save lives.

This is not the only way we're supporting Warfighters. I testified the week before last on contingency contracting. One of the items that impressed me as I've come back into government is how we have built up a contingency contracting capability that simply did not exist before we went into Iraq. We found out the hard way that we were going to depend on a force that was 50 percent contractors. We had to learn how to manage them and make them an effective weapon on the battlefield.

We've done that. The Commission on Wartime Contracting report which came out recently, did not do justice to the great work that has been done by all the people involved in building up that capacity. There's more work to be done, but it is not on the scale that the committee's report suggested, and I think their failure to give credit where credit really is due was unfortunate. This is

not the last time that we will be engaged in operations somewhere where we will rely on contractors, so we must be prepared when we do it again. We must institutionalize that capability.

Logistics. The logistics effort in Afghanistan in particular is unbelievable. If you go there and you see the scale of what we are doing in a country that is landlocked and has no easy access even by landlines – lines that are difficult whether they are coming through the northern distribution route or through Pakistan – supporting our forces there is an incredible accomplishment. Hopefully in the next year or two, we'll begin to start going the other way as we build up the Afghan forces and reduce our own forces there.

So number one is clearly support to the Warfighter and the things we have to do there.

Now I will turn to some of the areas that are longer term and more traditional for acquisition. First is affordability. There is a lot of misunderstanding about what Dr. Carter and I both intended with that term. Affordability is the first item in the Better Buying Power list of five major categories that we put out. What we are talking about there is starting programs, starting projects, that we actually can afford through their lifecycle—versus starting down a path that will not have a future.

If you look at the programs that have been cancelled over the last few years, that list is full of programs that we shouldn't have started, that weren't affordable when we started them. We should have recognized that. Now, we're going through strategic analysis of what programs we will fund within our budgets. We can project with some fidelity at least out over the next ten-fifteen-twenty years-and even further and say, how much can I really afford to spend on this product?

The most recent example is the Expeditionary Fighting Vehicle for the Marine Corps, which was going to consume the Marines entire ground combat portion of their budget – completely consume it, they couldn't do anything else. There are lots of other examples.

The F22, an airplane that when we started it we were going to build seven hundred – eight hundred – nine hundred. We ended up with less than two hundred. We did get something for that program, but not nearly as much inventory and force structure as we set out to acquire.

We need to cap our programs at the beginning at an affordable cost both for production and sustainment. Then we have to discipline ourselves to control the programs to stay within that cost cap. That means we have to trade away requirements, which has traditionally been difficult for us to do.

We have a new leader in the Vice Chairman of the Joint Chiefs of Staff who is taking another look at JCIDS to try and make the requirements process into a less bureaucratic process, and also one that is more focused on things that really matter—like keeping the program's requirements in bounds by including and considering affordability. I'm very encouraged by that.

Within the acquisition side of the house, we are doing the same thing. Before programs come through and get started, we're going to do an affordability analysis. We've done this for several already. We're going to make sure that we have a cost cap on our programs that we can enforce, and then we will enforce it as we go through the system.

The next item I'd like to discuss is efficiency. This is what Better Buying Power was focused on for the most part. We're going to continue the Better Buying Power initiative Dr. Carter and I developed together. I am a firm believer in a culture that is very conscious of costs, and which

works hard to control costs. Most of the initiatives in Better Buying Power were about just that, about controlling costs. The concept of should cost, the idea that you set yourself a target that's below the independent cost estimate and strive to drive your cost down is a key part of our efforts. Look consciously, look consistently and continuously for ways to reduce cost. That's part of our job; it's a fundamental part of our job to control cost. We need a strong sense of stewardship of the taxpayers' dollars that we have, and we must dedicate ourselves to that. It is a cultural change for us to do that, but an item on our agenda's that cannot be overstated, particularly in this climate.

Motivation. The facts about what really motivates many of us is another key point I'd like to cover. I have a long career in Defense Acquisition—I started out as an Army Officer, spent some time as an operator, and then spent some time in program offices, worked in the Pentagon as a Civil Servant, went out to industry and now I'm back at the Department. I believe I have a good awareness of the things that motivate us in practice, no matter what we may say. The truth is there is a very strong incentive in our system to spend the money – to get the money out the door – to get the contract awarded. To far too great an extent, it's not about negotiating until you get a reasonable deal for the government. It's about getting the contract awarded on time. It's about your obligation rate. We have to move past that and start being much more conscious of the dollars that we're spending and the value of those dollars. It's going to take reinforcement all the way through the chain of command to make that motivation change real.

Third is the workforce. We have an incredible workforce, but I believe that with some additional effort we can have a much more capable workforce than we have today. We have a great institution at the Defense Acquisition University (DAU) that helps to train people, but our tasks for the taxpayer are enormous, and it requires real professionals to do them well. This takes more than a few courses at DAU. I'm going to be focused a lot on building our professionalism over the next year.

I do not think that the rest of our community in the military fully appreciates the degree to which professionalism is required to be successful at defense acquisition. I have had some examples come across my desk recently where it was quite clear that that was the case.

Professionalism means first of all that you have people who are trained, who are educated, who are experienced in their field, and who have a strong ethic associated with how they do their work. Professionals have a strong sense of integrity and commitment to quality work that they bring to the job.

Professionalism is not something you obtain instantaneously. You don't get it because you are necessarily acquisition category level three qualified. There is much more to it than that. We need to elevate the stature of our key leaders, and we need to make sure they truly have the qualifications they need to do the key leader jobs in defense acquisition.

It struck me recently as I was going through some examples of acquisition issues why real knowledge, and real experience, and real judgment matter so much—and that those are characteristics of professionals.

My first example is in the realm of choosing a contract type. One of the things that Dr. Carter and I put out was guidance that we would like to see more fixed price incentive fee contracts. We also said that we were not taking away any contract types, that we were trying to move the needle a little bit more in that direction, but not have people do exclusively fixed price incentive fee contracts. The important words “where appropriate” were part of the guidance.

I'm afraid there is a tendency to say okay, that's the school solution. They've said that we should use FPIFs so let's do FPIF, and everything started coming out FPIF. Part of that reaction is embedded in the way our system tends to work; people have an incentive to present anything they think will get their program approved. If they think FPIF will get approved, that's what we get. That's not always what we want.

We want you to think about what the right thing to do is and we want you to be smart enough and experienced enough to be able to figure it out. That is professionalism.

It's not just about the knowing the rules that I write or Dr. Carter wrote or that they put in legislation on the Hill. It's about your judgment. It's about what you do every day out there. And if you're not good at making those judgments, if you're not at true professional, we're not going to be successful, period.

The next example is a program called JAGM. This is systemic of something and I'll mention it because of that. JAGM, a joint Navy and Army Air to Ground missile to replace Hellfire, came in, and they wanted to do a fixed price contract for both the development phase and for the first couple of lots of production. They had done a tech-demo phase, and I was told was it was very low-risk to do Engineering and Manufacturing Development (EMD), and it was going to be very low risk to do production, so we could go out with a fixed price contract.

So I asked what I thought were obvious questions; What do the designs look like? What did you actually build in TD ? What's the design for EMD look like? And I was told, well it's just going to be a derivative of an earlier product, it's like another product that we're building, everything's fine. So I said, can I have the engineers come in and walk me through the design? And I did. And what I found was that the design that was used for tech-demo was nothing like the design that was going to be used for EMD. Almost every single component was going to be redesigned.

Two lights went on. The first light was that people are not doing their homework. We were neither looking carefully at what's really in the product nor understanding the details of the changes that would be made.

The second light, and this is another thing where professional judgment really comes in, was that what appeared to be happening to me was that industry was not trying to reduce the risk in that program, which is what we need in technology demonstration. What industry was trying to do was win EMD. You've got to think about how industry views the world. We need to understand this from the government side. Because when industry is doing something they are really interested in the next piece of business as much as anything. They're interested in their profitability. And even though we might like them to reduce the risk in the program, what they want to do is be sure they're going to win the next phase. So what we were getting was essentially proof of principle tests, and we were not getting the risk reduction we really wanted from the government side of the equation to go into EMD. It's a very different thing. That's again an example of why you really need to understand the details of the technology in the product and industry's motivation. You do really need to be experts at the various aspects of defense acquisition to do it well. We should have been insisting in that TD phase on real risk reduction, traceable risk reduction to the product we were going to buy later on. By failing to do so, and by accepting industry's claims that the risk had been removed, we were setting ourselves (and industry) up for failure in EMD.

Let's talk about incentives as another example of where professionalism matters. I am very focused on incentives. I think providing appropriate incentives is about the only thing we in

government can do to get industry to perform better, and that this is one of our fundamental jobs. Industry is not trying to fail out there. Industry is trying to meet our requirements, up to a point. However, if we apply incentives well, we can get a little bit more out of the firms and people we do business with. The trick to incentives is to balance very carefully between what we are asking for, what is actually achievable, and what is in the range of something industry can do if they are motivated to give you a better product or outcome.

If you're in a fixed price production contract, industry has all of the incentive in the world because the more they reduce the cost, the more profit they'll make. It's a very straightforward equation. The government does not directly benefit from this motivation, however.

So the question you have to ask yourself as a professional is; what does the government care about? What does the government want? And if this is something that government wants, how do we put something in the contract that will get industry to be more motivated to give it to us than they already are? That is part of the careful thought process that you must go through as you define the incentive structures in your business arrangements. There is no point in paying an incentive fee if industry is already fully motivated; on the other hand, for example, an incentive fee may be very useful to obtain performance closer to objective than threshold if there is no other motivation to do so.

One of the things that Dr. Carter and I have said a lot is that we're not after industry's profits. We're very happy to pay industry a good margin—and that's true. But, we want something for those healthy margins, and we can use some incentives to get more out of industry, to get some focused effort in the areas we really care about. Structuring contracts to achieve that requires judgment on your part. It requires a careful thought process and more than just applying a school solution to every contract because 'this is the way we always do it.'

The next item is the industry itself. I believe the industrial base can remain healthy through the draw down. Growth may not exist in the same way it has over the last ten years. The growth by the way hasn't been widespread; it hasn't been everywhere in industry, rather it's been focused in certain places. Nevertheless, industry has done well over the last ten years, and I think may have gotten a little bit complacent.

Now we are going to go through a different time. I was in the strategic planning business for the defense industry, so I understand the thought processes that defense companies are going through today. It is a different environment in which to manage. It's a different environment for us too. We do not have the luxury of being able to absorb overruns in a growing budget that we used to have. It's going to be a stressful time for industry. Industry will react and we need to be aware of the forms that reaction may take and be prepared to assist where it makes sense or to intervene where it is necessary.

We will need to be cognizant of the importance of protecting our industrial base. We rely heavily on a competitive industrial base as much as possible for our major products. We're not going to have much more consolidation at the top tier of industry. The government is not going to support that because we really have had about as much of that as we think makes sense in order for us to retain competition at the top level. The consolidation after the Cold War took the top tier about as far as we think it should go.

At lower tiers though, there will certainly be some movement as companies try to sustain sales and position themselves for the future. Firms will try to strategically position themselves for

future business, and we'll have to look at those moves on a case-by-case basis. We do want to protect competition in the lower tier, but we also want to allow consolidation that may be necessary to keep firms viable.

We also may want to protect some niche capabilities that would go away if we're not careful. I am also particularly concerned about design teams for specific types of products where unique skills and knowledge built up over decades would be difficult to replace. So we have to watch both of those possibilities. The government will take action in some cases, but again it will be rare for us to intervene.

In order to more fully understand the industrial base at all levels we've started a major analysis of the industrial base called *Sector-by-Sector-Tier-by-Tier* analysis or S2T2. S2T2 combs through the entire industrial base both horizontally and vertically to make sure we have a thorough understanding of the capabilities that exist and how they are structured. We will use that understanding to help us make the strategic decisions needed to protect core capabilities and ensure future competitive sources as much as resources will permit.

Again, we are not trying to take profits away as a cost cutting measure. I believe it is more effective to use profit to motivate the cost cutting and other performance improvements we need to see. We do want to reward good performance, and we cannot reward poor performance, which unfortunately we have on occasion. Businesses care about two main items: profit and growth. We need to use those in a way that's a win-win both for us and for industry so that we get what we need from industry and so that industry is rewarded for providing value to the Department.

At the end of the day, nobody is required to be a defense company. If we're not providing a decent return, people will simply not be in the defense business. They can take their capital and choose to invest it in something else. We must recognize that.

We need to deal with industry fairly and in an upfront manner, making sure that our deals are structured to be as win-win as possible. That said, we need to be tough negotiators. We need to insist on performance and provide consequences when people don't perform. We are not trying to drive people into bankruptcy, however.

Lastly, we must protect the future. I'm in meetings now almost every day discussing the budget with Dr. Carter and other senior leaders. We're going through a period of strategic assessment. Upon completion, we'll look at more details of various programs, different mission areas, different commodity areas, as well as force structure issues and other budget drivers.

Everything is on the table right now. With the numbers that I talked about earlier, at least coming down \$45 to \$50 billion dollars per year, we've got to look at force structure, we've got to look at all our costs, even compensation is getting a look. We're not going to do anything dramatic on compensation. Secretary Panetta has made it very clear that we're going to keep faith with our people, and not do anything that will be devastating to them. We do need to take a look at some adjustment in these areas on the margins and going forward we may need to consider broader changes for future recruits.

So, everything remains on the table including acquisition programs. I'm trying to protect our investment accounts because our investment accounts drive what we're going to have for capability in the future. Our investment accounts drive whether we're going to have technological superiority

or not, and in which areas we're going to have it. We'll need to make some tough choices about capital investments and technology, but that is the climate we're in.

I do want to protect our S&T investments at a reasonable level and to protect our ability to recapitalize and modernize our force. About every 40 years we have to replace everything in our inventory; equipment wears out. If we don't buy enough equipment over time we create a capital equipment deficit. It's a pretty simple equation. It's the heart of that affordability equation I mentioned earlier.

So, we're trying to protect the future, but that also means the industrial base, that also means our own work force. It means not having a hollow force. It means institutionalizing some of the things that we've created and we don't want to have go away—like contingency contracting.

At the end of the day, it all comes down to you, our acquisition leaders, to your capabilities, your capacities, your motivation, your ability, the amount of experience you've had, the amount of training you've had, the amount of education you've had, and the attitude that you bring to what you do. My job more than anything is to support you and help you be better at what you do. What I'd like to see going forward is to get us as a Department to move up a little bit—move the ball down the field to where we're all more capable and all better at our jobs.

For all of us who are leaders and I think all of us in this room are leaders in one sense or another, the most important legacy we can leave behind is a stronger workforce—a more capable workforce than the one we inherited. That is probably the most important item on my agenda as I go forward over the next whatever period of time I'm going to be in this position. So with that I'll stop and take questions, thank you.