

**INSTITUTE FOR DEFENSE ANALYSIS
DEFENSE ECONOMICS CONFERENCE - 2/14/02
TAPE NO. 3 - KEN KRIEG**

Thanks, Ed. One of the great opportunities ... or one of the great benefits of being able to speak after lunch is that you have a very limited set of people who actually attend. And secondly, those who attend tend to fall asleep about halfway through your presentation. So I'll throw all the jokes up front. So that you remember how convivial and interesting I am. And then you'll fall asleep and not have the slightest idea what I said.

I want to do a couple of things. Since we've got this group assembled. And you represent so many different views of the business side of the Department of Defense, whether it be management at the staff level or in the operating divisions in the agencies or in the places that think about how to run the business of the Department of Defense better.

I want to do two things today. I have to object because I have five steps to get there, but two objectives. One is to let you understand what the ... give you a little insight into what the senior executive council is. Since it is a new entity that is trying to do some different things. And the second thing is to give you some sense of how that body and the individual's insiders are tending to think in particular about defense agencies.

This is not a speech. I have no notes. It is not so good as to be worth writing down. So, you can fire questions at any point. I'll reserve questions for the end. But if there's something absolutely burning that you don't understand or you want to ask a question about, don't hesitate to dive in.

The agenda. What is the SEC? What do they think the business imperatives are? It is a very principles based effort. So what are the principles? And what are the implications of that? What does it mean for defense agencies? And what are some of the next steps and what they're doing.

Next please. What is the SEC? The SEC is six individuals who come together both in their position hat and as individuals who bring experience. The Secretary of Defense who has been a little busy as of late and has not had a lot of time to focus on this in particular, but the next five spent a lot of time: the Deputy Secretary of Defense Paul Wolfowitz, Pete Aldrich, the Under for Acquisition Technology and Logistics ... after six months, I can remember that there's a T&L after the "a". It was an "a" when I left here eleven years ago ... and Tom White, Gordon England and Jim Roche, the Secretaries of the Army, Navy and Air Force respectively.

The concept of operations is bring the senior management of the department together, the senior civilian management of department together, the people who worry about the business of defense, make the room very small. And try to get them (a) on a common agenda, and then (b) try to tie them to the people inside the organization who are working on their agenda and who are excited about making change. That's the concept of operations.

They meet ... just so you know ... they meet as a group once a week, Tuesdays from 12:00 to 3:00, except for the third Thursday of every month. That week it's on a Thursday and that's from 12:00 to 5:00. They are spending an immense amount of time together as they try to think through these elements of change.

And I will say as you see it's a rather broad and aggressive agenda for change. To lead the transformation of the business and support capabilities of the Department of Defense. Secondly, because of who they are and

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what they represent, they are just a natural body for trying to make decisions. And so either in their head as SEC or in their collective roles, whether it's on the DRB or the DAB or any other acronym soup you want to add, they are trying to work together as a group on a series of management issues that they've got.

The third one is to develop and provide guidance to the organization. To step back, you really have to think about what your organizing principle is in any kind of change of organizing construct. They really set out four broad imperatives for change. And what I tried to do here is just say what the imperative is, a little bit about what the objective of that imperative is and then a couple of bullets on what they are. And I'll expand a little bit more as I go on.

The first one is implement the strategy of transformation. Probably the single most over used word in the Department of Defense lexicon in the last twelve months, we are transforming everything. If you read our own literature, if you go back and look at what the Secretary's trying to do, he doesn't think that everything we're doing is transformative.

The idea is what are the leading edges of change that are driving us into a new area or into a new way of thinking about things. There is no prescribed playbook for transformation. It hasn't been written before. We're sort of making it up as we go. But there are some certain elements to it.

Obviously, the transformation he most thinks about is the transformation of our military capability. Because that is our primary mission is to deter, fight and win wars. But he also views, they all view, that in order to be able to fight and win the wars of the future, we have to run the business of the Department of Defense better as well. And so define what it is, define what transformation is, and then begin to realign resources behind those transformative efforts.

Secondly, encourage talent to enter and stay in the military and civilian service. This is a highly people intensive business, both on the war fighting side and on the business side of defense. You can go read and of studies on the civilian side, you know, something like 60 percent of our workforce is going to be ready to retire in the next five to seven years. We have an incredibly competitive environment. Although, it's a little bit easier to recruit in the middle of a recession, likelihood we won't be in that environment for very long. At least let's hope. So how do you continue to bring people to the service of the nation's defense.

We have a very expensive solution right now. Being an all volunteer force means we have to pay them competitively with ... somewhat competitively with the rates that they get in the civil sector, quality of life. If you think about it, add it all up, personnel costs are approximately fifty ... totally wrapped up, personnel costs are over 50 percent of what we spend in the defense budget. We just added TriCare for life. That will make it more expensive in the future than it was in the past. And so we have a very expensive current solution to this. And so no idea what the future solution is, but it's a really big management imperative for the department.

An area we've talked a lot about today and a lot of this conference is about is modernizing DOD business processes and infrastructure. You know, in one sense, it is to do it better. In another sense, it is to provide funds to move money from tail to tooth.

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Now, one of the interesting problems in that equation is that used to be a fixed ... you used to be able to tell what was tail and what was tooth. Increasingly, those definitions are becoming merged and very blurred. And so as we look at modernizing business processes and infrastructure, it is not just about cost. It's about what businesses move to. It's about value. It's how much can you get for what you put into it. And you've got to put those two pieces of the equation together.

And the last area may be the hardest is innovation and industrial base. And by innovation and industrial base, we don't just mean the traditional suppliers to the Department of Defense. In that score, how do you get a rapidly consolidating set of companies to think about innovation? I came from the paper industry in my last eleven years. Probably the last of the capital intensive industries in the world to consolidate. It is now consolidating. I can tell you when you're consolidating companies, you're not spending a lot of extra time thinking about innovation. It's hard. And so those who are putting all of the defense industrial base together, they will do their best to do innovation. But they're trying to make the companies come together. And that is a very difficult thing.

But the harder problem we actually have is that the bulk of innovation in the world's economy is not in our traditional industrial base. And as we move from an era of warfare that has moved from ... well, maybe not totally from the agrarian age since we're sort of fighting in one of those environments right now. But, you know, moved into the industrial age and now moving into the information age, a lot of the innovation in the information is not in our industrial base.

So we've got to figure out how ... and we've talked about it year in and year out about how to use more commercial practices, be more friendly, et cetera, et cetera. We are now facing that reality today. Because where the innovation is and where the future warfare is not necessarily in the solution set of who our traditional industrial suppliers are. Next slide, please.

As I said, it's a very principle based approach. You've got to hang a few things on the wall that you're going to go back and look at in any kind of change initiative. And here's the set of today's two. Identify line authority and responsibility and hold people accountability. This is a very broadly diffused responsibility environment. And as you all know as you go back and look at this, accountability is we all talk about it, but in reality we don't do it very well.

Second area is to define core competency needs that DOD must provide to be excellent in war fighting in the 21st century. And I think this isn't ... I'll come back to this in a little bit. But this is a very important thing to push at. And I don't just say the agency ... I think David Chu is correct in saying it's really in the business functioning of the Department of Defense, not just agencies. We'll look at it in an agency context, but it's really written more large than that.

But if you go look at a lot of the ... Paul has a view about why some of the private sector companies have out sourced stuff, I think you're right in many respects. But it's also because there's an opportunity cost to owning everything. If you look at management talent and the ability to stretch management talent, if you look at capital employed and the ability to invest capital, there's a real sense that we cannot be everything ... we cannot be totally vertically integrated in everything. Now, I know we've moved past that notion in going

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Department of Defense. But there's a next generation that needs to be worked out and I'll talk about that in a little bit.

Third area. Actually, the third and fourth go together, reduce rent, redundancy and focus the organizations and flatten the hierarchy and remove the layers. This is just a God awful, divided concept of organization. While Don and I agree it would be nice to get it all, everything, all into one neat bucket, it isn't going to happen. The question is how do we begin to think about aligning ... focusing organizations and aligning them to what we want them to do. And that's a big challenge. It's a challenge that people ... these are not new ideas. These are not new principles. These are things we've been working on for a while. But these are things they've come back to.

One of the ones we'll work on in the near future is focusing the executive staff to support executive roles. Operating concept of this team of management is that there is a difference between staff and line. And we have tended to blur them dramatically. And so they will hammer at those issues and try to figure out how to think through that.

Executive staffs ought to focus on leading and managing change, allocating macro resources and driving policy and overseeing implementation. Now, we would say that's what OSD does today. OSD would say that's what it does today. I would contend for the sake of argument that it's probably a step or two down below what this management team envisions it ought to do.

And the last one is speed the flow of information and decision making. That's kind of an outcome of much of the other ones, but it's so important. If you think about warfare in the future. I mean, our decision cycles are shorter and shorter and shorter. And on the warfare side, we're at least pushing at how to do that. On the business side, we're not getting better fast. We're very slow in our ability to make decisions.

We are in a sense a very ... because of many things, we are a very consensus based organization. It tends to drive the notion of risk is don't take risk. Geez, don't float up tough ideas. Because someone's going to yell at you. We'll have to sit in countless meetings about it, et cetera, et cetera. It's okay to be edgy in the age of information, but you also have to do good staff work when you're doing that. So those are some of the principles.

Next please. I put this together to kind of provide context. And it's always dangerous because it's a series of characterizations and you get in trouble anytime you characterize. But I wanted to put all the activities you see going on in a little bit of a context. Because if you go back and really ... if you get an hour to talk to Rumsfeld when he was really being sort of reflective, his overall is we are shift ... what we're in the midst of is a massive cultural shift from a cold warrior to a modern information age here.

One of the problems we have is that the average ... or not average ... the senior management of the Department of Defense, be it civilian or military, stays in its position for on average something between two and four years. So, you're talking about leading a culture change shift when none of the agents of change are likely to be there more than 24 to 36 months.

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That doesn't happen in companies. I mean, you go look. Everybody loves ... you know, Jack Welch is today revered. Remember that in the mid-80s, he was Neutron Jack. Everybody hated him. He was the pariah of modern industry. It took him a long time to drive GE through that change. He had to drive himself through the change in the process.

But what I've tried to do is start to say this column will be what have we been in the past characterization I admit? What would we like to be in the future? And what are some of the bridging mechanisms that we're using to get there? You know, central planning. We talked a lot about that. We had a very fixed and predictable threat, you know. We could program the Soviets out 15 years just like we programmed ourselves out and it became very easy to think about it.

We are a highly mature business and a very mature organizational structure. We are focused almost ... particularly at the executive level ... almost entirely on inputs. The senior executives spend almost all their time arguing about what goes in the pipeline not what comes out. For the most part, we operate in an appropriate fund environment where cost is free. We are a very segmented information environment, closed architectures. I mean, Gordon England has the best analogy. He says I work in a building full of dark corners. And that is where all my information is in the dark corners. I can't find it. Now imagine take that for the Secretary of the Navy. Now go be the Secretary of Defense and it's a magnitude worse.

And we're in a stovepipe and very competitive structure. In fact, we're built to be a zero sum enterprise. I mean, we heard it today. If the agencies get more, the services get less. And that is the mindset that this organization ... in fact, that's where competition is. Ideas are in a zero sum environment, zero sum enterprise.

Next slide. You know, where would we like to go? To a much more adaptive and dynamic planning environment? You know, the world around us is changing very rapidly. We don't have that fixed central ability to have fixed central planning. We've got to plan and change and adapt and have that cycle of decision making be very short.

Moving to a capabilities based rather than a threat based environment, we don't know which bad guy we're going to deal with when. We know that in order to deal with bad guys of the future, we have to have certain types of capabilities. Our whole system is based upon threat based requirements. Everything we do is built from a threat based requirement. We're now saying you've got to move to a capabilities based environment. It's a very different mindset and hard to do.

A mix of new and mature environments. And area that supports startups, not something we're really good at. We don't tend to support startups. We were very much output based and focused on results. We talked a lot about that today. We now need to drive in that direction. More market like and price like environments where cost is cost. And you've got to figure out how to manage it, where you've got visibility to it.

Integrated information, open architectures. And the last one and in one sense the hardest and most important, align structures with common and shared objectives. If you go read all the literature, it's about cascading objectives down through an organization. How many of you who work in ... I won't ask the question

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because you'd have to answer. We don't provide objectives to our employees based upon what we want the outcomes to be. And we need to do that.

Some of the mechanisms we're using to make that transition to bridge ... next slide, please. We're working a lot on building strategic planning, strategic choice planning, you know. Not as Dr. Chu ... I can't go to a meeting without hearing the word crusader these days. And I'm glad David kept my streak alive. But to get out of the mono-a-mono debates over individual programs and begin to think about how do you trade off? How do you have groups of capabilities and compare against them?

Capabilities based approach. We talked about that a minute ago. In the culture change, drive the notion of risk management. We talk about it in specific acquisition programs. But more broadly, how do we trade various kinds of risks off against each other? We do it all the time. Most of the time we do it without understanding what the implications of those trades are.

Move to a metric based targets on desired outcome. I put working capital fund and competitive environments. They are the kinds of places that begin to show cost, that begin to force the ideas against each other which is good. And then information and processes. There's lot of work going on in the financial systems modernization arena which is I think, some pretty good work. The problem is that the financial one ought to be part of an overall business enterprise effort. We've been very slow to get to that. It's allowed us to kick off multiple ERPs in the same environment. You're not going to like that answer. I can promise you, you are not going to like multiple ERPs doing the same thing. They're not made to work together. They're made to work individually. And organizational process redesign. The last great hope of people who run out of other things to do, rearrange the deck chairs on the Titanic. It's fun to do.

Next slide, please. We said we'd talk about agencies. I won't spend a lot of time on this since the first panel did a much better job than I could. But my conclusion is there's an absolute risk in generalizing how we did in agencies. However, since I've got the floor, I can generalize.

In general, there as significant streamlining. I mean, they brought a lot of things together and were able to gain efficiencies. There is increasing focus on the performance of those functions, whether it be through common data systems or the beginning of work on end-to-end. And clearly, I think an increased emphasis on joint. All of which are good things. I put the DFAS operating costs, DLA manpower. You could put a whole bunch of pretty good examples of where they've been fairly effective in outputs, getting better outputs.

The question is where do we go next? And so I'll kind of try to frame that. Organizationally, you always draw a line on a block chart. And by the way, in case any of you belong to the general council's organization, this is not meant to be an organization chart. It's more a flowchart of how things work. I get to lecture every time about the fact that the Chairman is not in the line of command and so I just had to throw that out just in case any of you were lawyers. So I could skip that question. So this is kind of a way of thinking about how the organization fits together. We have ... we are our own economy.

If any of these agencies rank fairly high in the U.N. charter of country GDPs, throw it all together, we're way up there. And so we have our own economy of consumers, providers, agencies who perform a number of

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roles. But in general, they connect ... either connect these together or connect these to the outside world or provide some common function for the senior executive.

And, of course, we have a whole bunch of private sector folks over here. But one of the reasons to put this up is to say, you know, the mindset of the organization, the mindset of the senior management, the senior executive council, is to begin to define these roles and missions. What do these people do? We're here to fight and win wars. So the force employers really have got to be the central focus of what it is we're supposed to provide. It doesn't mean that they're omniscient and that their judgment is the end. But providing for them so we can fight and win wars is what we're about. So they're the consumer in the economic model.

The question is how do you get these agencies and services in the private sector to provide so we can get those outputs more effectively? And the top box, the top set of boxes, are primarily staff. It's their job to oversee what goes on not to do. And so a previous debate I would say, a previous debate about whether all these ought to be centralized in some sort of senior management organization within OSD, I think the general thought would be don't bring more doing power into OSD. I'm not saying you shouldn't recommend it if that's what you guys come to the conclusion of. But, I mean, that would be the ingoing assumption of this group is don't get OSD doing more. Get it leading more. Get a framing choice better. Get it being the executive staff as opposed to a line staff.

Next slide, please. Now to agencies and core competencies. I said I'd talk about this ... come back to this. I remember when I was here 11, 12 years ago, there was all this discussion. It was when core competencies were coming about in the private sector. We were looking at it. And anytime you'd look at anything we did, 85 percent of what we did was the core competency of the Department of Defense, it had to be provided. And maybe 15 percent was the stuff we could argue on the margins.

What this suggests is that we ought to take a little bit harder look at that. Core competency does not mean centrally organization's effectiveness or even core to what we do. It means are we going to have the competency to provide it? So it's both is it central and are we the right providers? So I kind of laid out a framework which will get in some hands ... well, I'll characterize it in a minute.

Ask two questions. One, does the function directly link to what it is we're supposed to do, deter, fight and win war? That's one question. The other filter is, is the government the best provider? I used best explicitly to say neither the most efficient nor the most effective. By everything you go through, best will be different. And you've got to be flexible enough to do that.

But if you ask those two questions and look at the boxes, it begins to provide something of a framework for thinking about what we ought to do and what we ought not do. Obviously, the case of yes and yes where it is directly linked to war, fighting and government is the best provider. We better be the best we can be as fast as we can be it. And drive both into improving capability and into integrating ... and I don't mean organizationally integrating, but process integrating for better efficiency.

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At the other end of the spectrum, no and no, it's not directly linked and we're not the best provider. You know, you've got to ask why are we doing it? Why are we in that business at all? So we ought to be looking to out source partner procurement.

The more difficult cases are where you've got a yes and a no. Where it is directly linked, but we're not the best one, well, you better partner with whoever is. Because it's our job to provide the best capability we can provide. The most interesting case is where government's the best provider, but it's not directly linked to war fighting. In that case, the argument would be look for someone else who can do it better. Don't spread yourself so thin.

Now, you say it's too simplistic. I mean, it's too simple. I would say don't make it too complex. The harder you make the thought process of this, the more ... the less you'll be able to do it. I think DFAS and the Tom Bloom story is an interesting story. Where Tom says he comes in and the first thing he does is he asks the organization what's inherently governmental?

The organization comes back and says 85 percent of what we do is in DFAS is inherently governmental. He takes them through a process. And within a couple of months, he comes back and says 85 percent of what we do in DFAS is inherently non-governmental. Because he just made the filter smaller. He made it harder to get through that.

And I encourage you as you think about that don't make the filters too big. Because it will open up some new area for you to think about. And, you know, that's the challenge that I think the SEC is going to go through as it begins to look at the business agencies. What is it that we ought to be funding capital and management talent to be the best we can be in? And where else should we look to partner and find others to help us be the best we can be?

Because they know that in the future, we're going to have a harder time getting talent rather than an easier time. Absent the current relative budget infusion we have and absent, you know, ongoing reasons to put that kind of money into the Department of Defense which frankly is not a good answer. I mean, none of us want that outcome.

Absent that, money is going to be harder to get in the future than it is in the current. And so that begins to say now is the time to think about the next generation. We've consolidated much of this. We've started to think about how to make it better. The question is should we do it in the future.

Next slide, please. What should we do? The SEC, as I said, and we've written a few times, is beginning a process of reviewing the defense agencies, the business agencies. That's where they'll concentrate first. The first three are DFAS, DISA and DOA. We've had the first set of discussions with DFAS management. They're off working on some things that the group wanted them to work on.

The second thing they're working on is creating more competitive sourcing tools. You know, A76 is a pretty blunt hammer. Frankly, A76 is one of those really great compromises between those who want to out source and those who don't. It allows you to have two years of very intense activity. For those who want to out

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source, they can say we'll working the hell out of it. For those who don't want to out source, they can say we're going to ensure that nothing happens.

And the reality is that any manager who's been through an A76 once doesn't want to go through it a second time even if it was successful. It's a painful exercise.

(END OF SIDE A)

It's a painful exercise. We've got to create more tools. So we're working on finding ideas of areas where other types of competitive sourcing have been used in the government and used effectively. And to the extent that those of you know those kinds of ideas, feed them into the system. Because we will be seeking that kind of broader authority to go demonstrate some of those ideas.

We will never get competitive out sourcing through A76. It just ... I mean, there's not enough management energy in the world, there aren't enough saints to drive that process. It's too hard. And we've go to figure out how to broaden the set of tools we've got. Yeah?

Q: One of the critical tools is ability of the organization to inter operability. Right now we have (inaudible). I think that something we ought to consider is (inaudible) A76 (inaudible) underlying information system (inaudible)

A: You'll see that idea coming around in a minute on what they're working ...

Q: I apologize.

A: No, no, no. That's exactly right. I mean, if you look at there were I think some reasonable work that joint is the right answer. We fight joint. Okay? There was some reasonable work done in the '90s. I haven't reviewed in depth. But from what I can see on the outside, on the war fighting side about joint information architectures. On the business side, we did almost nothing. And it is a huge enabler even if we keep it, even if we decide to keep it, it is the huge enabler as we go through. And the question now is how do we get energy around that?

As I said earlier, the financial systems modernization is beginning to look at that. But that may not be a broad enough lens to take it at. And so we're ... the senior management is pushing it, trying to get that moving in the right fashion.

One of the things that's very clear in this place is the senior executive council of the Secretary could write the memo and order it and feel really good. And nothing would happen. So the question is how do you begin to align the resources and the people to make it happen? And you'll see that comes up in a minute as one of the things they're trying to drive. Because it is one of the key enablers of this exercise.

All right. So, we just talked about what the SEC is doing. What should the rest of that organization think about? Everybody's talked about driving thinking and process thinking. Really got to drive that as fast as we can. And in measurement, having gone to the private sector, I'll tell you one of the most important things you can ever have in your life is a customer, particularly in the private environment because they pay you. And as opposed to the Congress who's paying to get money from. Believe me, customers are harder to get money from than Congress if you don't satisfy them. But the lesson learned from that is measure what your

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customer really needs and how they value you. And that tends to drive you to output based measurement, end of the pipe measurement. Then work your way back. I mean, you walk through the example on things through the cost structure. It's the exact same thing on everything we do. We got to start measuring ourselves based upon the outputs we want.

The last board is go. If you're going to wait for the Secretary of Defense and the Deputy Secretary of Defense to tell you where to go in all these areas, you're going to wait a really long time. Not because they're not interested and they don't want to drive change. But because, if you think about it, there are 45 presidential appointment Senate confirmed jobs in the Department of Defense. We've nominated 43 of them, 42 of them have been confirmed. So there are 42 people now in their place. Five of them go to all the SEC meetings. There's a sixth one called the Secretary.

They don't have time to do all of this, you know. And so I would argue read ... I mean, particularly this Secretary ... read the letters in the QDR. Read the letters in the ADR. He actually pays a lot of attention to it. You know, he's not going to tell people what to do individually. If you come and ask him, he'll tell you. But step back. What he's really trying to do is drive a change in culture and a change in behavior. It will have rippling effects.

So, argument is ... or for the sake of argument, don't wait for the senior executives to tell you everything to do. It won't happen. Drive ideas up and drive ideas in and you'll get reaction. But they will not get to all the things that need to be done in their time in office. Yes?

Q: It seems to me like there's a need (inaudible) inconsistency here. On the one hand, you're saying get staff out of management. And on the other hand, you're saying hold people accountable and go forth and do good. Now, who's holding them accountable? Who's in charge here? Who's going to hold their feet to the fire?

A: Well, staff does help with accountability. I mean, staff should be ... OSD ought to be setting the standards, all right? I mean, if you go into a corporate environment, the Senior Vice President for Marketing doesn't make the decisions on what to do at the general management level. But he or she sets the standards that the general managers will be judged upon. And if they don't perform them based upon the standards, believe me, there are consequences in accountability.

So staff sets policy, allocates macro resources, drives standards. We were in a great discussion. I mean, I'll do the anecdotal thing. Fascinating discussion. Middle of DRB. They're trying to close on 300 ... at that point \$350 billion budget. DRB session. You've got all the senior executives around the table. We're discussing facility infrastructure of aging. A really critical issue because we let it get just out of control in terms of age. And we are a very capital intensive organization. Although we don't think about capital and operating costs which David talked about earlier which would be good.

And so, the staff said Air Force's average age has slipped to 180 years this year. And the Air Force said, no, it hasn't. It's 140. And the deputy is sitting there going a building is a building, a runway is a runway. Is it 180 or 140? And what proceeded was a discussion where eventually the Deputy Secretary of Defense asked the Secretary of the Air Force what are the underlying assumptions in your model that got you to 140 versus

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his 180? At that point folks, the game is over. Game, set, and match. There's no decisions going to be made. And I would contend that an Army building is not significantly different than a Navy building, is not significantly different than an Air Force building in terms of how it ages. So getting the OSD staff to start setting not on everything but on the things that matter, setting standards, driving models, setting goals, watching adherence to those goals, seeing if money's being spent in the right area. Those are the things that set accountability. Not spending all our time arguing about trying to get the Deputy Secretary to decide whether he's going to move \$70 million from this account to that account in the middle of November because the comptroller says he should versus the Secretary. Because he's going to sit there and say I don't have time to know what the \$70 million is.

But if you start making it data based and factual and common measures and common systems, then you redirect the debate to the output. And believe me, that is a gigantic difference in the ability to hold folks accountable. Now, where are we at the end of the day, fire someone for not performing? I don't know, you know. This is not the private sector. Through all of this, this is not the private sector. We live in a different world.

Tom was asking me at the break, you know, one model's a political model, the other one is an economic model. We live in a hybrid model, flat out. So you can't take everything that happens in the private sector and apply it directly. Because it is not a comparable environment.

But I can tell you if you get people the common data in an open and integrated architecture where people see things. Trust me. People start behaving differently. When information is power and I get to have my model over here and you get to have your model over there and you're discussing models with the senior executives and you're talking about \$70 million on a \$300 billion budget, you know. Entropy has won.

So, you may see a ... I would say the new model actually increases accountability because it says who's line and who's staff and it drives the data. And it sets standards and it focuses on outputs. But you've got to get there to see that difference.

Q: I am very pleased to see that the council is focusing on personnel, particularly note civilian as well as military. We know that a substantial portion of our workforce is going to be able to retire shortly. But those people got their experience and expertise by coming up through a system. I'm very concerned that when this process is a largely out sources, we're not going to have any sources, those senior managers. Because we're not going to be able to hire (inaudible)

A: On that point, I'm not suggesting you out source everything. I'm suggesting ...

Q: Any area where you do out source (inaudible) for the government when there are no entry level positions in the government anymore, that's tough.

A: I think there will be plenty of entry level positions in the government. The question is ...

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Q: Not in some fields. If DFAS is successful, there will be a very small headquarters that is largely setting policy and buying contracts. And somebody's got to be the smart buyer. If you have nobody who understands the processes for which they're buying ...

A: The processes of accounts payable and checking cutting? I mean, those are not ... I will contend you can get people who know how to do that or you can train them to do that. I'm not sure those are inherently ... the way Defense does them ...

Q: You're going to find it's going to be a lot harder to hire senior managerial accountants when there are no junior accounting positions in the department anymore.

A: You may. One of the things you may have to do is pay people differently. You may have to seek relief on things. I mean, it doesn't suggest that at the end of the day that you can get what you want and continue to live in a sort of compressed ...

Q: I'm not saying this is an argument for not out sourcing. But I'm saying people have got to take on the big problem of where we're ... how we're going to get the people we do need in a competitive environment. And right now if we don't grow them, it's very hard to get them to come in from the outside.

A: But I'll also contend, Debbie, that we don't necessarily grow people very ... we grow ... we get lucky by the people we've grown, all right? We don't grow ... the military grows people to a lesser extent. But they consciously think about someone's career and where they want them to go. Some of them get more attention than others. We do precious little on thinking about our civilian talent and how to grow it.

Q: A hundred percent, we do.

A: And so there are great tools available in the private sector that we can go get and implement if we're serious about it. And we need to do that with the next generation. Or else they're going to be loss in the sea of what to do.

Q: The other problem that I think this group will have to think about is one of scope in these IT projects. I think we'd all agree that a single solution would be just peachy keen if we could do it. But I've been watching the people who are trying to consolidate military personnel systems. And there was a clear direction from Deputy Secretary White in 1996 to go forth and build a new system based on a commercial product. And that program hasn't made it to milestone two yet.

A: I'm going to bet something. I'm going to bet one of the things that's going on is the organization is trying to adapt that system to its processes.

Q: We haven't gotten to that point yet. And as a matter of fact, they're not. But, you know, you've got to get to milestone two before you can even start doing what you're suggesting.

A: One of my favorite stories from the SEC ... and I'll tell one story out of school was a meeting on the financial systems modernization that we went to where the team that's working on it was presenting to the senior executive council. And all of them had put ERPs into their companies or ERP like entities, but

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integrated information systems. And they all said, look. Pick one. You know, pick one. Tell us which one you want it to be. You've got a window of two to four years that we're going to be in existence.

When one of my senior people or junior people comes in and tells you the excuse as to why they're different and they can't live inside that system, send them to me. I'll listen to them. If they come up with an idea ... if they come up with a reason why they're different that's different than any other reason I have heard before, I'll pin a gold star on them. I'll pat them on the back and I'll say thank you very much. Now go do what they want you to do.

If you're going to go to it ... I would agree with you. No one has thought about an integrated information system on the scale of the Department of Defense because there is not scale like this, all right? There is no scale like this. But at the other end of the spectrum if you try to think your way through every element of the details of that, you'll never go anywhere.

And so there's a balance between those two. I don't know ... I'm not smart enough. I'm not the guy who does it to tell you whether or not it is technically feasible to do on this scale. But at the other side, I can tell you, you can think about it way too long and way too hard. And so I challenge you to ride that balance.

And in most cases, the current ... and I went through this battle with International Paper trying to think about implementing SAP when I was at the line level running a business. I was asked my opinion. I should never have been asked my opinion. If the Chairman had made a decision he wanted integrated information architecture and that was the way we were going to run the company, we were going to integrate other companies through it, I should never have been asked my opinion. So I sat there and said I've got to get ... I've got to get smart. I've got to figure this out. It took me six months to figure out that I never should have been asked.

And so that example suggests we want to go to an integrated information environment and we think it's technically feasible to do on a scale like ours ... and I can't answer that if. But if we decided, we shouldn't ask people. We should tell them to implement. Because it is one of those theological divides that you've just got to get over and go do. I mean, that was what I ... you've been through it a lot more than I have. But, yeah, I mean, you've just got to decide you're going to go. And then ruthlessly implement it. And this is where it will be hard in this environment. If someone stands in the road, you say your place is now over there. And it may be ... in the private sector, it is go away.

Q: But there was a clear decision, (inaudible) as a matter of fact by everybody and his uncle to go do this. But there is not that person who can now say you're a roadblock. Get out of my way. And if the management council wants to work on a problem, they need to work on that one. They've got to be willing to give somebody or the SEC ... they've got to be willing to give somebody the authority to enforce it.

A: We changed the names to protect the innocent by the way.

Q: Whatever they're called. I mean, I think that's going to be one of the biggest problems here because ... I mean, there isn't anybody with the authority. And therefore, people who wish to drag their feet can drag their feet interminably. And every time a new action officer comes in, you get the same old questions and

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you go back to square one. And somebody's got to make that quit. This is the administration that might be willing to do it. So I wish you luck.

Q: You indicated that (inaudible) I noticed that the Secretary (inaudible)

A: It's a very simple decision. The decision goes like this. If you've got everybody in the Department of Defense who is at the senior most level on really important functions or lines and that was the way you drew the line, then the SEC would look like the old BRBs. And everybody would have somebody with them. And no one would ever talk about anything.

So I'd suggest you've got to draw a line somewhere else. A line that was drawn was executive level two and higher. And it was the senior most decision makers who are going to be at the table. Now, Chu comes to a third of the meetings. He comes everywhere he's in. They get invited into what's relevant.

But one of the things I learned the last time around is if the table gets bigger than about seven or eight people ... and really even smaller than that ... nothing happens. Because you start getting yourself into these set pieces because we live in a hybrid political economic environment. You get yourself into these set pieces and you can't have people sort of hammer ... these are hard, hard decisions. You know, where they're going to decide to finally put their energy, there's a limited set of places that they can spend their energy. They've got to really hash them out to get there. So that was the reason for the decision. David's not happy. Dobbs not happy. I mean, I hear this all the time.

Q: (inaudible)

A: Anyway, I'll stick around as much as I can. I do want to say on behalf of the SEC, this is a really critical area. I didn't get to the last three slides, but you would see that agencies and thinking through roles and missions and figuring out where we're going to spend our management capital not to mention dollars is a really critical issue that these folks are really ... they really want to drive.

There's a reality though. I work for six people, six SECs. You're looking at the entire staff of the senior executive council. If the organization doesn't start driving along these lines, they can't multiply their effort. So I encourage the group as you sit and work on these issues, start thinking about ... I mean, propose hard changes. They're willing to deal with them. They can only get so many done themselves. And so my advertisement is you've got a window in which a group of managers is willing to address the issue.

Whether they'll get all the way there, Debbie, to driving it through, I don't know. I mean, we'll have to see. They're fighting a war. They're doing some other stuff too. But there are ... of the six people, you've got five people who have ... you have six people who have significant Defense Department experience and you've got five of them who also have very significant business experience. It's an interesting place to try to make some of these changes. End of the commercial. Thanks a lot.

(END OF TAPE)