

DR. KAMINSKI SPEAKS TO PMC 94-2 GRADUATES

“We have slain the mighty dragon, but now we’re left with numerous pesky snakes.”

Alberta Ladymon

Addressing the 421 graduates of the Defense Systems Management College (DSMC) Program Management Course (PMC) 94-2 at Fort Belvoir’s Wallace Theater on December 9, 1994, Dr. Paul Kaminski, Under Secretary of Defense for Acquisition and Technology, told attendees: “The defense acquisition challenge facing us is driven by dramatic changes underway in the world today. I see us in a period of dual transition: one is a needs transition due to enormous changes in the national security environment; and the second change is what I would describe as a sources transition where we, in the Department of Defense (DoD), are promulgating a shift in the balance between the military and commercial elements of our national industrial base. We are moving our system to place greater reliance on commercial sources.”

Changing National Security Environment

Dr. Kaminski spoke of the change in the national security environment, echoing comments of the Central Intelligence Agency Chief, Jim Woolsey: “We have slain the mighty Soviet dragon, but now we’re left with numerous pesky snakes.” He addressed

the nature of threat facing the U.S.; with the mean level of the single greatest threat _ communist domination of the free world _ dramatically reduced. A result of this lessening threat has led to a decrease in our force structure and the overall defense budget. Ironically, he points out, the variance of our collective residual threats _ the pesky snakes _ are up considerably, as can be seen with a 30-percent increase in deployments of U.S. forces worldwide. Dr. Kaminski credited Secretary Perry with placing proper emphasis on deployment and operational readiness in this evolving national security environment.

DoD Investment Strategy

The address outlined portions of an investment strategy for the DoD. Given the diversity of situations to be dealt with, the one thing not changing is “our policy of maintaining the technological supremacy of our fielded weapon systems. Our lessons learned here are very clear _ the second best technology, the second best system, will just not cut it for the U.S. and for our warfighters. Desert Storm illustrates the point: second best means a very poor, last-place finish.”

Our challenge in this environment is to “maintain technological supremacy in a period of fewer resources; doing so therefore, at an affordable cost.”

The Department’s renewed emphasis on reducing the cost of weapon system ownership is an important pillar in DoD’s investment strategy. Dr. Kaminski spoke of the need to shift away from performance as the sole driving consideration, to move toward an environment where we adopt a more balanced “cost of performance” view: “Weapon system life-cycle cost should be viewed as an independent variable, not simply a fall-out dependent variable.”



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The primary objective is to do the up-front trades and determine the incremental cost of a system's driving requirements. An important fact to remember is that 80 percent of system life-cycle costs are determined during the first 10 percent of the effort. Dr. Kaminski believes it is important to make the results of cost performance trades available to decision makers early in the acquisition process; rather than have an unwanted outcome occur downstream as a consequence of not having explicitly made those decisions. "The message here is to all of us _ from program directors, to pro-



Department of Defense photo

Honorable Paul G. Kaminski, Under Secretary of Defense for Acquisition and Technology

gram executive officers, to service acquisition executives, to myself in the defense acquisition executive role _ we are responsible for providing our customers with the kind of explicit affordability information needed to make informed judgments about program alternatives."

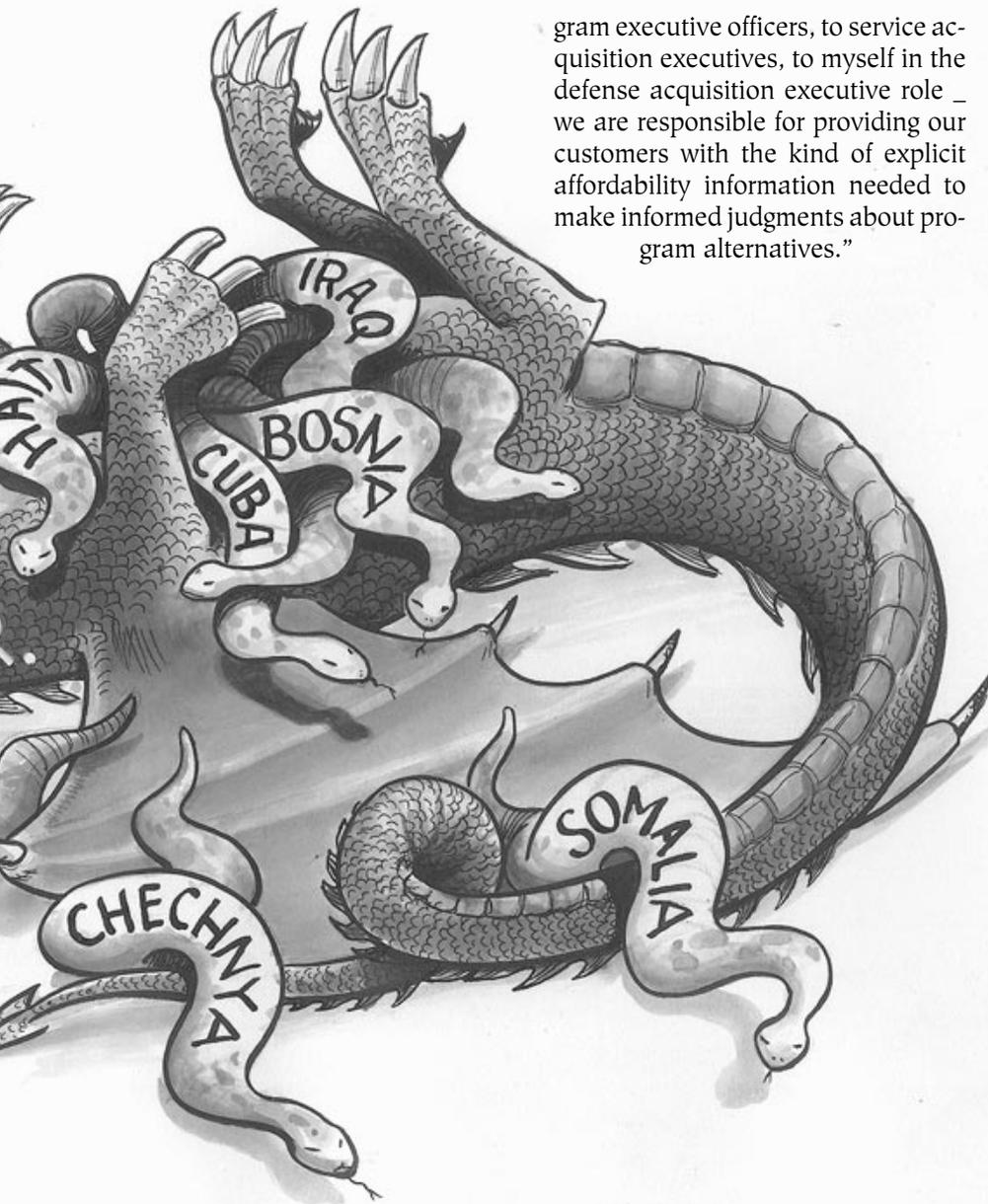
A second pillar of DoD's investment strategy is our effort to improve the defense acquisition system. Dr. Kaminski saw acquisition reform as proceeding in three stages:

Stage 1: Groundwork. "This stage, now behind us, was the groundwork laid by Bill Perry, Colleen Preston and many others." It was completed with passage of the Federal Acquisition Streamlining Act (FASTA) of 1994. This Act provides an excellent foundation and is especially helpful in two small-purchase categories _ under \$25,000 and under \$100,000.

Stage 2: Implementation. "It's here and now _ time for doing and not just talking." We must "unlearn" some of the accumulated lessons we've learned to make the defense acquisition system truly responsive. This stage also deals with improving the processes for procurement of medium- to large-size systems.

Stage 3: Another Round of Legislation. This stage is directed toward enactment of a legislative package _ FASTA II _ for relief from restrictive statutes not dealt with earlier. It is intended to remove many of the statutory impediments to efficient acquisition of large systems. "I see us moving to the third stage now _ even as we're making progress on Stage 2 implementation." Dr. Kaminski envisions acquisition reform will proceed by facilitating three key cultural shifts:

1. Moving from an environment dictated by regulations to one where performance incentives motivate the right behaviors. Our goal is to provide a climate for reasoned, well-informed risk taking by program managers.
2. Changing from a tradition of hierarchical decision making to a process where decisions are made across organizational structures by integrated product teams. Decisions need to be pushed down to the lowest lev-



els where it's appropriate to do so. This means that our senior acquisition staffs need to be in a receive mode to be receptive to input from the field _ not just a transmit mode. It is important to create incentives for good ideas and "best practices" to bubble up from the outstanding people working in the field.

3. "Shift away from a one-size-fits-all classical acquisition approach to tailored approaches, adjusted on a program-by-program basis." Implementation will be in the form of "pilot-like mechanisms" to serve as agents for change.

Dr. Kaminski identified "leveraging the U.S. industrial base" as a third necessary pillar of DoD's investment strategy. A dual-use strategy is essential in today's world. The objective is to leverage both the technology and production components of our commercial industrial base. The DoD no longer paces technological change in many areas; the way is being paved by the commercial sector. The DoD needs to learn how to best capture what is going on in the commercial world; and then influence the development of high-payoff commercial technology through selected application-specific projects "without having to make root investments by ourselves." Dr. Kaminski realizes complex defense systems will not typically be manufactured as end items on commercial lines; however, subsystems and components for those defense systems probably could be manufactured in commercial or in common production facilities.

According to Dr. Kaminski, the benefits of a better leveraged industrial base are not only reduced cost, but reduced cycle times as well. "In DoD, we can't afford a 15-year cycle time with a commercial cycle turnover every 3-4 years. In a global market, everyone — including our adversaries — has access to the same commercial tech-

nology. The advantage will go to the nation who has the best cycle time to capture what's available commercially, get it incorporated in weapon systems, and get it fielded."

Dr. Kaminski identified a fourth key investment strategy element: improving logistics and support. "In the current budget environment, life-cycle costs will have great weight in our calculus of what to build." It is important to consider "back end" sustainment costs up front in the design of a new system. In reviewing inventory costs, Dr. Kaminski finds DoD wholesale active spare inventories are valued at \$77 billion, with annual outflows approaching \$11 billion. About \$18 billion is war reserve materiel stocks. Even without the war reserve stocks, "the inventory turns ratio is unimpressive when compared to certain commercial commodities. I wouldn't say we can manage this inventory in exactly the same way commercial inventory is managed _ but I would say there is probably some room for improvement." An additional cost of \$13 billion is spent annually on depot maintenance. Summing depot maintenance and annual spares outflows together provides an annual cost not far from what DoD is spending on procurement. The strategy is to reduce back-end support costs and plow the savings back into modernization accounts "in this period when we're stretched very thin on the resources needed to support our current force."

Conclusion

In closing, Dr. Kaminski restated his vision of fielding technologically superior systems at an affordable cost. A DoD investment strategy meeting this challenge can be implemented "if it has ownership by people like you in the field. Together we have an opportunity to fundamentally change the way we do business. I would refer back to a quote by President Kennedy: 'Some look at things as they are and ask *why* — others look at things as they could be and ask *why not*.' I invite you to join me in asking *why not*."

JOB OPENING

APPLICANTS SOUGHT FOR ECONOMICS CHAIR

U.S. Air Force Academy

The Department of Economics and Geography, U.S. Air Force Academy, Colorado Springs, Colo., announces the creation of the William A. Anders Chair for Economics of the Defense Industrial Base and invites applicants for this Chair.

The intent of this endowed Chair is to increase understanding of the relationship between the defense industrial base and national security. This is a one-to-two-year position, with a projected hiring date of July 1995. The Department reserves the right not to proceed with any appointment for financial or programmatic reasons. A Masters Degree is required; however, a Doctor of Philosophy is preferred. Candidates must demonstrate a commitment to undergraduate teaching and to research directly related to the defense industrial base. Work experience in the defense sector is preferred. The closing date is February 28, 1995. Send a vita, the names of three references and salary requirements to:

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