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TESTIMONY OF

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UNDER SECRETARY OF DEFENSE

(ACQUISITION, TECHNOLOGY & LOGISTICS)

BEFORE THE UNITED STATES HOUSE

COMMITTEE ON ARMED SERVICES

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Acquisition Reform

**The Honorable Kenneth J. Krieg
Under Secretary of Defense
(Acquisition, Technology and Logistics)**

Chairman Hunter, Congressman Skelton and Members of the Committee:

Thank you for the opportunity to appear before you today to discuss acquisition reform. In the last few months four studies were released that make recommendations on how to reform acquisition: the Department of Defense's Quadrennial Defense Review, the Defense Acquisition Performance Assessment (DAPA) Project, the Center for Strategic and International Study's Beyond Goldwater Nichols Phase 2 Report, and the Defense Science Board's Summer Study. The Department has looked at the recommendations of all four studies, and we are currently evaluating the best path forward to implement several of these recommendations to improve the outcomes of our acquisition programs and provide the best benefit to the warfighter, our customer.

For those who don't know, I was the co-chair of the Business Practices portion of the Quadrennial Defense Review. We started our review by focusing on our customer – the joint operator. Today's warfighters are facing an enemy that requires them to be flexible and agile. Therefore, the Department's business practices and processes need be just as flexible and agile.

Implement Institutional Reform and Governance

While you have asked me here to discuss “acquisition reform”, my task and vision extend beyond what that term has traditionally meant. I will be discussing what we are doing to reform how the entire institution of the Department of Defense governs, manages, and executes its activities. And in that broader context, the changes we should make in acquisition.

In order to meet the demands of the 21st century joint warfighter in an effective, timely and efficient manner, the Department is actively reshaping its business and decision making processes to make a more adept and responsive support infrastructure. As a follow-on to the QDR, I -- along with LTG Skip Sharp -- am responsible for an execution roadmap for Institutional Reform and Governance. This roadmap is aimed at improving the defense enterprise by creating more integrated and responsive decision making processes, organizations and business practices.

The roadmap seeks to develop a decision management approach that enables a clear and transparent link from strategy to outcomes. The approach will clearly delineate decision making responsibilities of the governance, management and execution levels of the Department. It will also enable senior leadership to focus on strategic choice and empower management to carryout their responsibilities in a manner that ensures transparency, accountability, and sound performance management. As part of this effort, we will work to improve the Department’s analytic framework, build more transparent business information across the Department, integrate decision processes to enable

strategic choice and align roles and responsibilities in a way that maximizes decision making effectiveness across the enterprise.

“Big A” Acquisition

Our intention, consistent with the principals I have just mentioned, is to enhance our strategic governance capabilities by clarifying lines of responsibility and accountability, and establishing a closer and more effective relationship among the key business processes in the department. These include our requirements generation system, the Planning, Programming, Budgeting and Execution system, and the Defense Acquisition system -- all of which make up the “Big A” acquisition process. I should note too that we will be focusing our technology efforts to ensure we gain the greatest capability advantage from the investments we make. We will establish a closer relationship between our technology development “system” and the other principal department processes to bring technology to bear faster, and also ensure that major investment decisions carefully weigh technology maturity. Taken together, this “Big A” approach, will facilitate a more balanced and effective analysis of the capability issues we will face, help to focus our principal decision makers on the most important issues at the portfolio - or capability –level, and ensure that their decisions are supported and executed. I have been working these issues closely -- and with tremendous support and commitment -- from ADM Giambastiani here, as well as with the resource community represented today by Dave Patterson.

As I have mentioned, the Department's Planning, Programming, Budgeting and Execution process, or the PPBE, is key to ensuring efficient and effective acquisition. Budgeting for acquisition programs requires managers to continuously balance tradeoffs between cost, schedule, and performance until we can attain an acceptable level of risk and ensure affordable capabilities – since we cannot have it all. “How much is enough?” has to be balanced with “How much risk are we willing to take?”

Unstable funding makes this balancing process elusive, and can result in schedule slips, less than optimum production rates, or other inefficiencies that result in cost over-runs. I believe we should strive to budget programs as realistically as possible. Doing so should, in the long run, result in less volatility and over-runs. However, we must also be willing to wait until technologies are mature, and performance requirements and designs are stable. I also realize there are factors we cannot control, and we must remain flexible in order to balance risk so that our Nation's overall needs are met.

Develop Concept Decision Process/Address Time-Defined Acquisition

We are implementing several approaches that I believe will substantially improve the rigor and focus of our requirements development and acquisition process, while providing the means to tailor the process to the circumstances of the capability we need to field.

Develop Concept Decision Process

The Department is striving for acquisition program, funding, and requirements stability through stronger, better informed corporate investment decisions. One of the

pilot initiatives resulting from the Quadrennial Defense Review is called the Concept Decision. The Department is leveraging an existing DoD acquisition process decision point called the Concept Decision as a point where the DoD requirements, acquisition and resource processes converge at the point of investment. The Department is currently piloting this new Concept Decision methodology to experiment with this new process. These reviews are not simple to pull together, requiring analysis from all three processes to provide the knowledge required. And we are committed to avoiding more bureaucracy to do this. Our goal is to inform the leadership of each of the processes so that early tradeoffs and solution optimization can occur prior to the point of significant commitment to future investment. Action items for each process that emerge from this joint investment decision will be captured in a Concept Decision Memorandum. A prior example of this type of decision is the Joint Strike Fighter (JSF). In April 1995, the requirements, acquisition and programming leadership came together in an integrated JSF review that resulted in a stable program for 10 years.

We recently ran a pilot of this new thinking by reviewing the desired capabilities for the new Combat Search and Rescue aircraft (CSAR-X) using this new methodology. We convened a tri-chaired meeting the Joint Staff's Director for Force Structure, Resources & Assessment acting for the Vice Chairman of the Joint Chiefs of Staff, the Director, Program Analysis and Evaluation, and myself. This Concept Decision Review examined the concept of operations and requirements for CSAR; the Air Force proposed acquisition strategy for the new aircraft; and the technical risk, the overall rotary wing portfolio, and industrial base capacity to support the program. Also, it reviewed previous

analyses of alternatives. It was affirmed in the Concept Decision Review that the Department is on track for the planned August CSAR-X Defense Acquisition Board meeting for Milestone B, System Design and Development. But I want to emphasize that by having the discussion this way, we brought more context to the table and asked better questions as a result. Our goal is to do these kinds of reviews earlier in the process than we did for CSAR-X, but I viewed this first experiment as a very productive first step.

Time-Defined Acquisition

Time-Defined Acquisition [TDA] is designed to ensure our focus is constantly on the needs of the warfighter by providing agile acquisition approaches consistent with what we know about the capability required and when the customer needs it. The TDA concept employs risk-based criteria to determine which of three different but related acquisition approaches should be selected to satisfy the capability requirement. The criteria include: technology maturity, time to delivery and requirement certainty. In short, the approach employed will be directly dependent on the risks identified---the lower the risk, the more streamlined the approach, and the faster we can respond to the warfighter. The three approaches can be summarized as: 1) Rapid (low risk, 2 years or less from acquisition initiation to fielded capability), 2) Limited (medium risk, more than 2, less than 4 years), and 3) Full (high risk, more than 4 years). All three provide high confidence that substantive new capability will be provided to the user.

As the DAPA study points out so well, time matters in acquisition. But except for urgent operational needs, we have not historically considered time in the requirements process. This has tended to allow the requirements to push the edge of technology

understanding and, therefore, increased the risk to developing a program. If the money available is not sufficient to overcome the technical risk, the program slides farther to the right. As the program slides farther in time, the more difficult it becomes to either hold the requirement steady, maintain the funding or sustain the technical design. Today, we are dealing with a number of programs that are on that path.

Improve Rapid Acquisition/Agility

As you know, the Department, with your support, has been working very hard over the past couple of years to greatly improve the responsiveness of our DoD acquisition system to the urgent operational needs of our warfighters. At the OSD level, we have established the Joint Rapid Acquisition Cell, or JRAC, to ensure that Joint Immediate Warfighter Needs submitted by the Combat Commanders are reviewed, validated, funded and expeditiously fielded. The Services have also established rapid acquisition processes to improve their own responsiveness. We have had many successes, but we need some additional help from the Congress. We recently submitted a legislative change proposing that the scope of the Rapid Acquisition Authority (RAA) be broadened to include not only hardware solutions -- but also services. This change also proposes lowering the RAA approval authority from the SecDef to the DepSecDef. We believe these changes, if approved, would make the RAA not only more flexible but also more responsive.

Risk-Based Source Selection

The Department is considering adopting a “risk-based source selection process” in place of the current cost-based approach. The goal is to understand and manage program risk both before and during the source selection process to improve acquisition outcomes. The Department is studying the benefits and considerations of a risk-based approach. Our intent is to initiate programs postured for success to ensure we field the maximum capability for each taxpayer dollar.

Develop Portfolio Management/Data Transparency

Our view is that there are three levels of capability decisions, each informing the next: Strategic Choice, Portfolio Choice, and Weapon System Choice. At the corporate level, Strategic Choice, senior decision makers balance choice and prioritize across portfolios. The focus is on operational effects, and the determination of what types of capability portfolios, and how much of those capabilities are needed. An example would be balancing additional investment in Prompt Global Strike with Joint Command and Control. The next level, Portfolio Choice, balances capabilities within a portfolio to provide the most effective mix to deliver desired effects and meet objectives. At this level, managers determine the right mix of assets within a capability portfolio, such as the division of resources within Joint Command and Control. Finally, System Choice is the determination of the optimal solution to provide the needed capability, by balancing performance requirements with cost, schedule and technical risk.

As we balance investment among options and respond to strategic objectives and direction, it is important that we continue the move to make capabilities-based decisions about individual programs in a context of a wider lens. Our processes must adapt to ensure that scarce development dollars are allocated in ways that address the strategic shift towards new challenges, while maintaining strength in more conventional areas.

We intend to do this by examining capability needs and solutions in the context of joint portfolios. There are several important aspects of this change. By looking at collections of assets across the military services which can be leveraged to meet joint needs we expect to better adapt individual Service investments to meet broader joint war fighter needs. Additionally, we expect to gain efficiencies within portfolios, or “product lines” by introducing commonality, sharing technologies, and adapting existing capabilities vice initiating new developments and identifying portfolio life cycle cost drivers. This will assist us in being responsive to the American taxpayer.

More specifically, the Department is beginning to experiment with capability portfolios in selected specific areas. Those areas of experimentation include Joint Command and Control, Net Centric Operations, Battlespace Awareness (ISR) and Joint Logistics. This portfolio experiment will allow senior leadership to consider ways of conducting strategic trades across previously stove-piped areas, and also better understand the implications of investment decisions across competing priorities. We have already established senior level teams to examine these areas in a much more holistic way than would have been possible before, or by looking at things as a collection of “eaches.”

The best solution for the joint operator is not necessarily the sum of the best solutions for each of the services and agencies. This set of initiatives is designed to bring the multiple efforts of the Department together, look at them from the perspective of the joint operator, and, as necessary, rearrange the portfolio of investments.

Enterprise Data

Information (Data Transparency) is a lynchpin of portfolio management within the Department of Defense. We are focusing efforts into improving organizational transparency through better data quality and better data availability. It is important that we have visibility into the current assets and development efforts across the DOD enterprise. Data transparency is key to providing the context needed to transform acquisition from a platform-specific development focus to a strategic capability-based enterprise. Redesigning the Department's data resource systems will not be easy. In fact, it will require changes and accountability at every level. Encouraging Governance using a common data language gets everyone discussing issues of substance, rather than debating which facts and data to use. We will also be able to direct our oversight focus where it is needed, on challenged programs. Our purpose is to achieve insight and clarity, and honestly balance risks at the portfolio level to get the optimal solution for the warfighter, and the best value for the taxpayer.

Defense Business Systems

DoD has recently taken aggressive steps to improve our business practices, processes and systems. The goals of which are to create streamlined end-to-end integration of our supply chain, greater financial transparency and improved personnel processes. Elements of the Department's Business Transformation include: Establishment of strong governance with active participation of senior leadership with the Defense Business Systems Management Committee (DBSMC) chaired by the DepSecDef; Establishment of a new Defense Business Transformation Agency, that will in part become a center for acquisition workforce excellence in areas involving the business best practices and business transformation; and Establishment of an Assistant Deputy Under Secretary of Defense for Strategic Sourcing and Acquisition Processes. This new leadership position is the DoD Point of Contact to improve the Department's strategic resourcing decisions; Development of a streamlined acquisition process for business systems that leverages commercial best practices

Streamline/Improve the DAB Process

The Defense Acquisition Performance Assessment report, Center for Strategic and International Studies (CSIS) Beyond Goldwater-Nichols II report, and the Quadrennial Defense Review all made recommendations that DoD streamline and improve the Defense Acquisition Board (DAB) process. Those studies support what Program Managers and Service Acquisition Executives have told me that there are too many required documents and meetings to reach the fielding/deployment milestone. The

Secretaries of the Military Departments, and their Service Acquisition Executives, should be responsible for organizing and managing programs. My role as Defense Acquisition Executive should include ensuring that a program is structured to be successful and to establish performance metrics with which to assess program progress. The DAB process should work to establish a common set of facts and bring the issues into sharp relief so senior leaders can make decisions. To move from where we are to where we should be, I have commissioned a group of senior executives to use the techniques of lean and six sigma to examine the oversight process and documentation requirements and make recommendations to me by the end of April. I have also incorporated this process improvement activity into my organizational goals and will continue to look for opportunities to streamline the oversight process, revisit roles and responsibilities, and identify opportunities to delegate those responsibilities while maintaining key knowledge required to oversee program progress and ensure focus on programs that need attention. Finally, I will use the Joint Tactical Radio System (JTRS) program as a test bed for streamlining the acquisition process.

Today, we do oversight by meetings. Major Defense Acquisition Programs (MDAPs) run through various levels of staff review inside the services and then at OSD. In addition, the Department requires lots of reports as milestone reviews. Finally, I conduct monthly reviews known as Defense Acquisition Executive Summaries that cycle through all of the MDAPs once a quarter; the service acquisition executives have similar, more detailed processes. Aligning those various processes; having their efforts based in

common data and upon common objectives; and both simplifying the review process and improving the quality of the oversight are the objectives of this effort.

Improve Program Stability

We are examining capital accounts for Major Defense Acquisition Programs (MDAPs) as a means of stabilizing program funding, which has long been cited as a significant issue in program management. The specifics of how it would be implemented are still being explored, but the intent is to commit a set amount of funding for the development portion of a project -- and hold to that commitment by not adjusting funding up or down until product is delivered. Checks and balances will be necessary, and we will have to be equally disciplined in areas beyond the resource processes. To be effective, we will also create conditions that permit programs to succeed within these kinds of resource commitments by clearly defining objectives, minimizing technology risk, setting schedule criteria, and holding performance requirements stable. Once we do that, I intend to hold managers at the right levels accountable for performing within these terms. As our thinking matures, we will work with the Congress to implement these ideas appropriately, with your oversight responsibilities in mind.

As important as it is to ensure funding stability, we must also ensure that requirements, once approved, are not altered without executive review and approval. When a requirement is changed, and there are always many apparently good reasons to do so, there is a strong likelihood that we will not achieve approved cost and schedule outcomes. As a result, costs go up, schedules are delayed and our overall investment plan

is undermined. We are exploring policy that makes it harder to make such changes in requirements, schedules or resources without understanding and taking account for the resulting effect on the program.

Authority for Execution of Acquisition Programs in “Big A” Acquisition Decisions

The initiatives outlined above, I believe, are within the Departments current authorities, and can be implemented in the near term. If we determine that some of these initiatives require legislative relief I will work with you on them.

Role of DDR&E in Maintaining Technical Edge

The QDR recognizes that we are in the fourth year of the Long War, a war that is irregular in its nature, with insurgent terrorist extremist groups presenting a new and difficult threat. The challenge of an irregular war means that the uniformed men and women of our nation need new and different capabilities to address the emergent threat. The Director of Defense Research and Engineering continues to shift focus to fight this Long War by changing the overall investment portfolio for S&T to develop new and different capabilities, and to continue to expand efforts to prototype and transition technology. Coupled with the shift in investment, it is clear we should also review our business practices to ensure they provide greater agility and flexibility in developing, maturing, and transitioning technology to operational use. The Congress has been very helpful in providing funds for Combating Terrorism Task Force and Quick Reaction Special Projects, programs which allow us to act with great urgency providing solutions

to emergent operational issues, or to quickly apply a new technology to our military needs. Moving toward the future, these kinds of programs and responsive business practices will be essential for the Department as we try to outpace an adversary who lives by no requirement, budget or procurement rules.

I believe it is also important to develop and better understand the strategy-based technology vectors for this next era of competition. In the late 1970s, the Department and the Congress began to coalesce around stealth, speed and precision as key capabilities needed for the Cold War. Behind those strategy-based vectors, the nation arrayed its impressive technical capabilities and today have advanced our capabilities in these areas significantly. The DDR&E and Defense Science Boards have work underway to begin focusing our views on this issue. Without such direction, I believe, every technology can be as interesting as the next.

Implement Supply Chain Logistics

The Department of Defense Supply Chain is a strategic weapon, used to project and sustain American power worldwide, while operating to ensure the taxpayers are receiving best value for their money. The Department's supply chain processes have performed admirably in a range of missions, from OEF/OIF to recent disaster relief around the world. With that said, we must do more to provide ever improving levels of cost effective warfighter support. To accomplish this, the DoD is pursuing a number of strategic supply chain initiatives to truly make our supply chain an offensive weapon. We have expanded the joint supply chain distribution by establishing TRANSCOM as the

distribution process owner and my position as the Defense Logistics Executive. Together we are making the Joint Supply Chain more responsive. Our success in the distribution subset of Joint Theater Logistics in OEF/OIF has shown the entire Department the benefits of collaboration and streamlining in logistics. I hope we can devote our efforts to applying these lessons learned about the benefits of joint logistics across our entire supply chain, instead of going through the time-consuming and disruptive process of creating another Command and new reporting chains for existing commands.

We continue to employ best-in-class commercial supply chains in areas such as fuels and clothing, and we are implementing supply chain best practices across our logistics operations, including Continuous Process Improvement, Lean/Six Sigma and performance based logistics. We are driving the use of data and metrics as the basis for accountability in use of resources and performance across the supply chain. Third, we are proceeding with the strategic deployment of information technology in business systems such as the Business Systems Modernization at DLA, the use of unique identification on assets and parts, and the use of both active and passive Radio Frequency Identification, or RFID, to provide materiel asset visibility in support of our forces. By doing so, we will continue to provide our warfighters with the logistic support they so richly deserve. In addition, Joint Supply Chain will be one of the portfolio experiments we undertake this year.

Joint Logistics Command

The Center for Strategic and International Studies (CSIS) in its “Beyond Goldwater-Nichols: Phase 2 Report” recommended that the Defense logistics and transportation functions should be fused into an integrated U.S. Logistics Command (USLOGCOM). I might note that although "Logistics" in the Department includes weapon systems maintenance and other functions, the CSIS report focused on forming a new command comprised of the current air, land, and ocean transportation components of the U.S. Transportation Command and the warehousing, order fulfillment, and distribution roles of the Defense Logistics Agency. Even the latter omits significant components of DLA, notably supply sourcing and procurement, as well as stockpiling and many technical functions such as cataloging. Therefore, if the command were created as proposed, it would be more aptly named "U.S. Distribution Command" rather than a true "U.S. Logistics Command." I believe the creation of a USLOGCOM will not achieve the benefits of joint logistics. The enterprise is too large and complex to create a single hierarchy to run it all. Our focus needs to be on developing the best joint processes and capabilities, rather than on creating new organizational structures.

Acquisition Workforce

Our DoD AT&L workforce analysis and human capital strategic planning efforts are progressing and we will publish our first DoD Acquisition, Technology & Logistics Human Capital Strategic Plan in June. This plan will set the stage for improved, enterprise-wide and component efforts to achieve and sustain the right acquisition,

technology and logistics workforce capability into the future. As you know, I have established as my number one goal to have a “High-Performing, Agile and Ethical Workforce.” Goal objectives include: 1) a Future DoD AT&L Workforce Shaped and Recapitalized to Enable Smart Workforce Decisions; 2) Improved Outcomes by Developing an AT&L Performance Management Construct and Culture and Deploying Enabling Leadership Initiatives; 3) A Knowledge-Enabled AT&L Workforce to Support the DoD Acquisition, Technology and Logistics Mission; and 4) Ethics Awareness Training and Performance Standards Fully Integrated within the Workforce. These initiatives support the DoD and QDR human capital objectives and initiatives. I am engaged with our component acquisition leaders to improve the competency- and performance-based management of the workforce, and to continue improving the resources available to support and improve workforce performance. With respect to the DAPA Project recommendation regarding Big A acquisition, we are developing approaches to address the performance needs of all key players that contribute to successful acquisition outcomes, including requirements and budget workforce members. It is important that all Big A workforce members have the training and performance support resources they need to achieve the broader acquisition mission. We look forward to working with you and your staffs as we further improve and pursue our acquisition-related human capital initiatives.

Industrial Base Issues

The Department desires that the industrial base on which it draws be reliable, cost-effective, and sufficient to meet strategic objectives.

DoD research, development, and acquisition, and associated policies and program decisions, play the major role in guiding and influencing industry transformation by focusing market demand across a broad spectrum of industry segments to meet emerging and projected DoD requirements. First, the Department's weapons system acquisition policies and decisions shape the technological and programmatic focus of industry. Second, decisions made on mergers and acquisitions involving defense firms continue to shape the financial and competitive structure of the industry. Third, DoD assessments of sectors or specific industry issues help identify future budgetary and programmatic requirements. Finally, the Department incorporates industrial base policies into its acquisition regulations and strategies on an ongoing basis to promote competition and innovation, and in specific cases to preserve critical defense industrial capabilities and technologies.

Although the industrial base supporting defense generally is sufficient to meet current and projected DoD needs, there always are problem areas that the Department must address. Our challenge is to holistically consider and leverage these Department processes and decisions to establish and sustain the industrial capabilities needed to secure the nation's defense, generally; and address problem areas that arise.

Conclusion

In closing Mr. Chairman, there is much underway in improving the effectiveness and efficiency of the Department of Defense. We are committed to this program of change. Thank you for the opportunity to testify before the Committee about our acquisition policies and processes, and, especially, our people. I would be happy to answer any questions you and the Members of the Committee may have.