



**Testimony before the
Committee on Armed Services
United States House of Representatives**

**Hearing on
Acquisition Reform**

March 29, 2006

Statement by

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**Opening Statement of Pierre A. Chao
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Mr. Chairman, distinguished members of the House Armed Services Committee, my name is Pierre Chao and I am currently a Senior Fellow and Director of Defense-Industrial Initiatives at the Center for Strategic and International Studies. I should note that CSIS as a non-profit, non-partisan, 501(c)3 think tank does not take any positions as an institution, that I am here representing myself and that the comments that I am about to make solely reflect my own views and opinions. Furthermore, in the interest of full disclosure I would note that I have not personally received any federal grants or contracts in the last three years to date, although as an unpaid consultant to the Defense Science Board in 2005 and 2006 certain travel expenses were covered. I would also note that I am also currently a Senior Advisor with the investment bank, Credit Suisse. Finally, I would remark that the CSIS *Beyond Goldwater-Nichols* study, one of the key topics of discussion today, was funded through a combination of foundations and the Congress, via the FY04 and FY05 Defense Appropriation Acts.

Mr. Chairman, first let me commend you for holding this hearing on this complex and strategically important topic. It has become very clear that after 15 years of post-Cold War adjustment, reform and transformation and, more recently, the pressures of war, it has been the military portion of the Pentagon that has made greatest strides in adapting to the new environment of the 21st century – it fights more jointly, has altered doctrine and training, and changed its organizational structures. The business processes of the Pentagon, however, have been much harder to transform and, today, represent the strategic weak link in the chain. This is particularly evident in the arena of acquisition reform – and I use the big “A” definition of acquisition that encompasses the requirements, little “a” acquisition, and budget processes of the Pentagon. There has certainly been no lack of trying and in the last year four major analytical exercises – the *Beyond Goldwater-Nichols* study’s Phase Two, the Defense Science Board 2005 Summer Study’s Assessment of Transformation, the Gordon England commissioned Defense Acquisition Performance Assessment Panel, and the Quadrennial Defense Review, all looked at the issue of acquisition reform. I was privileged enough to have worked on all four efforts and although my comments will focus primarily on the *Beyond Goldwater-Nichols* study, I would like to share my thoughts on some cross-cutting themes that emerge.

If I may begin with the CSIS *Beyond Goldwater-Nichols* study, which was conducted under the strategic guidance of Dr. John Hamre, CSIS CEO, and directly managed by Dr. Clark Murdock, CSIS Senior Fellow. He graciously invited me to be co-chair of the

working group that focused on acquisition issues and we spent the better part of twelve months immersed in the topic.

The Context of the 1986 Goldwater Nichols Acquisition Reforms

One of the key goals of our look at the acquisition system in the *Beyond Goldwater-Nichols* project was to identify any negative unintended consequences of the 1986 reforms and to see where the fundamental landscape had changed.

When Goldwater-Nichols was passed there was certainly a lot of controversy in the acquisition world, as there is today. The Department of Defense at the time was being sharply criticized for sloppy acquisition procedures, lurid “examples” of \$600 toilet seats and \$427 hammers filled the press. There was huge pressure to ensure that similar mistakes not be repeated. And so when a solution was created in 1986, the necessity to avoid mistakes was elevated above all other considerations and the supreme objective of the reform process was to fix the mechanical process of buying things. Some have said it was not acquisition reform, it was really procurement reform.

As you know, Congress reflected this by creating a new position, the Under Secretary for Acquisition. The Congress demanded emphasis on the mechanics of buying things. One of the unintended consequences of this legislation, however, was the devaluing of the previous position of the Director of Defense Research and Engineering, the DDR&E. Since the end of the Cold War, the DDR&E (or its predecessor roles) had been the third most important position in the civilian hierarchy of the Pentagon—behind the Secretary and Deputy Secretary and featured such prominent scientist-policy makers as Vannevar Bush, William Webster, Harold Brown, John Foster, and Bill Perry. The position sent the signal that technology was of strategic importance to the Pentagon and it ensured there was a strong institutional champion.

One of the unintended consequences of the Goldwater-Nichols reforms is that it changed the role of the Pentagon’s number three person from being focused on “what to buy” and instead elevated the “how to buy” issues. Dr. Hamre has been using the phrase, “it shifted the focus from ‘marksmanship’ to ‘gunsmithing’.” The old DDR&E position was the senior marksman of the acquisition process—what should the Department be buying? What technologies should be invested in? After the acquisition reforms of the mid-1980s, the emphasis was shifted to the mechanics of acquisition, gunsmithing—how are we buying things? Today, the acquisition system in the Department of Defense is a bewildering complex of procedures and processes. Clarity of action is now missing.

Lack of Institutional Accountability

Another major problem identified with the DoD’s current acquisition system is the fractured accountability that was created by the original Goldwater-Nichols reform legislation. At the time there was a great imperative to create greater professionalism in the acquisition process, a desire to create a more direct chain of demand and a need to

simply provide some focus on acquisition. The legislation however created a fault line within the Department. The acquisition system was carved out to be a differentiated process, insulated from the procedures that establish requirements and develop budget priorities. Our study found that this fault line in the Department between the acquisition processes on the one hand and the requirements and budgetary processes on the other, is the primary contributor to the lack of institutional accountability in our system today. Certainly, the acquisition community is accountable for acquisition procedures, but the Department as a whole does not have systematic accountability of action that links requirements with budgets with acquisition.

Solutions Suggested by *Beyond Goldwater-Nichols*

The CSIS study concluded that the primary problems are institutional, and that institutional change was required. It recommended the following.

Creating a Clear Advocacy for “Supply” and “Demand”

First, remove the institutional fault line created by Goldwater-Nichols.

The original 1986 Goldwater-Nichols made a major change in the structure of the department—it created two distinct power centers with the Department of Defense. The voices of “demand” for better military capabilities were strengthened by elevating the power and prestige of the Chairman of the Joint Chiefs and by strengthening the regional combatant commanders. The service chiefs were made the chief advocates of “supply” of military capability. In essence, Goldwater-Nichols created a healthy balance between supply and demand.

But there are important ambiguities in the current system. One of the major “demand” procedures—determining the joint requirements of future combat forces—is still controlled by the chief “supply” officers. The service vice chiefs comprise the Joint Requirements Oversight Council. The CSIS study team believes that this needs to be changed and that the JROC needs to be populated by “demand” oriented institutions. The study advocates giving representation on the JROC to the combatant commanders, make it a council of “users” rather than “suppliers” by replacing the Service Vices with the COCOM deputies.

The study was also careful to point that in order to balance the views on the JROC, the Under Secretary for AT&L, the Undersecretary for Policy and PA&E should also be statutory members of the JROC.

This theme has certainly been picked up by the other studies, although in less ambitious formats in some. I would note that in current Pentagon practice the combatant commanders are certainly playing a more active role in the JROC, but it is certainly not through formal membership.

Return the Service Chiefs to the Acquisition Chain of Command

Second, the study recommended returning the military service chiefs to the chain of command for acquisition. Goldwater-Nichols made the service chiefs the primary advocates for the “supply” function of military capability. They are responsible for determining the manning levels of their respective services, the priority given to recruiting and training. They manage the long-term shaping of the service by determining requirements for new weapons and personnel. However they are excluded from the acquisition process. This is an institutional fault line that needs to be removed.

So while some may say that the service chiefs do participate in the acquisition process, the study focuses on the fact that is indirectly through budgeting and requirements determination. As such, the current system creates a deep fault line. A central belly-button that can be pushed for accountability in acquisition must be created. Service chiefs need to be held accountable for the whole supply function and need the authority to carry it out.

This is also a theme that was reiterated in the Defense Science Board Summer Study and the DAPA Panel.

Clean up the Responsibilities for Acquisition between OSD and the Military Departments

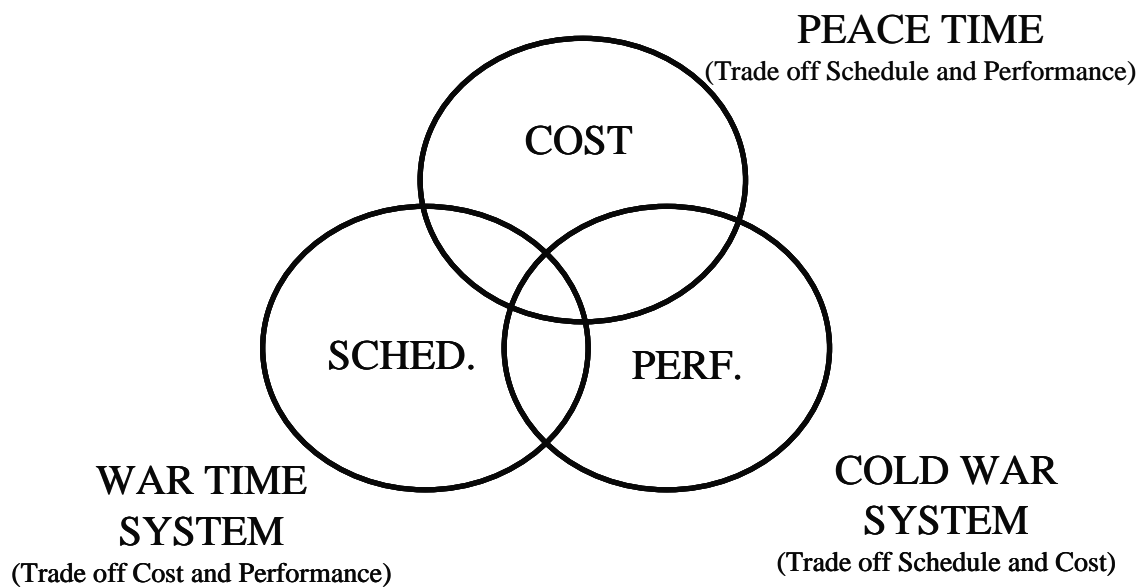
Third, Goldwater-Nichols created two large acquisition bureaucracies in the Department—one at the military department level and one at the OSD level. This needs to be rationalized. The CSIS study argues that OSD should not be running things, but overseeing procedures and decisions. A strategic focus on the part of the Under Secretary for Acquisition, Technology and Logistics, on the “marksmanship” aspects of the job requires a fundamentally smaller staff. It is the “gunsmithing” aspect of the job that requires big headquarter staffs and vice versa, big staffs that look for “gunsmithing” tasks.

Restoring the strategic focus to defense acquisition as the OSD level, and leaving the execution of programs to the Services becomes a critical recommendation.

I would note that there is one area where the CSIS study makes an exception in terms of pushing acquisition execution down to the Services— which is the area of joint command, control and communications (C3). The track record of the Service’s ability to deliver joint, integrated C3 remains disappointing. Here the study team recommended created a Joint Task Force with budgetary and acquisition authority for joint C3, and taking it away from the Services.

Strengthen Rapid Acquisition Systems

Fourth, one lesson that has been learned and relearned by the nation since the Revolutionary War is that the acquisition system is designed and optimized for peace time. Each time this system hits war time, the wheels fall off the cart. There are the inevitable scandals, the new learning under the pressure of war and recovery while the nation is at war – this Pentagon is reliving the history of prior Pentagon's and War Departments. Unfortunately, in the past all the lessons are forgotten when peace returns. What makes the current situation even harder is that the nation is in a “dual mode”. Half the system is focused on being in a war time mode – where time is critical, technologies must be off the shelf, testing less relevant and agility, innovation, experimentation and risk-taking are critical. Meanwhile, the other half of the system is focused on the longer term, potential near-peer competitors twenty years out – where the traditional acquisition works fine, the central focus is cost and performance, it can move more slowly, deliberately and efficiency is critical. The central dilemma is that scandals and reforms related to one mode makes the other worse.



Current Problem – We are in Two Modes!

One size simply does not fit all and it argues that we may need very distinct and different “tracks” for the acquirors to work on. The Chairman’s and this Committee’s efforts in establishing rapid acquisition tools for the Department should be commended. The *Beyond Goldwater-Nichols* study simply argues that the current rapid acquisition processes should be expanded, pre-set waivers to particular laws granted and the processes be made more permanent so we don’t forget the lessons currently being learned in Iraq and Afghanistan.

Conclusion

Mr. Chairman, distinguished members of Committee, once again I applaud you for holding this hearing. Acquisition reform will need some Congressional champions if it is to progress meaningfully. I can only hope that this is just the beginning of a long and fruitful dialogue. I know that I, and my colleagues at CSIS, are prepared to support you in any way as you tackle this critical issue.

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Mr. Chao is currently a Senior Fellow and Director of Defense-Industrial Initiatives at the Center for Strategic and International Studies. There he heads a team of four professionals focused on issues related to the health of the defense-industrial base, government-industrial relations, acquisition reform and globalization.

Before joining CSIS in 2003, Chao was a managing director and senior aerospace/defense analyst at Credit Suisse First Boston from 1999-2003, where he was responsible for following the U.S. and global aerospace/defense industry. He remains a Credit Suisse independent senior adviser.

Prior to joining CFSB, Chao was the senior aerospace/defense analyst at Morgan Stanley Dean Witter from 1995-1999. He served as the senior aerospace/defense industry analyst at Smith Barney during 1994 and as a director at JSA International, a Boston/Paris-based management-consulting firm that focused on the aerospace/defense industry (1986-88, 1990-93). Chao was also a co-founder of JSA Research, an equity research boutique specializing in the aerospace/defense industry. Before signing on with JSA, he worked in the New York and London offices of Prudential-Bache Capital Funding as a mergers and acquisitions banker focusing on aerospace/defense (1988-90).

Chao garnered numerous awards while working on Wall Street. Institutional Investor ranked Chao's team the number one global aerospace/defense group every year eligible from 2000-02 and he was on the Institutional Investor All-America Research Team every year eligible from 1996-2002. He was ranked the number one aerospace/defense analyst by corporations in the 1998-2000 Reuters Polls, the number one aerospace/defense analyst in the 1995-99 Greenwich Associates polls, and appeared on the Wall Street Journal All-Star list in four of seven eligible years.

In 2000, Chao was appointed to the Presidential Commission on Offsets in International Trade. He is also a guest lecturer at the National Defense University and the Defense Acquisition University. Chao has been sought out as an expert analyst of the defense and aerospace industry by the Senate Armed Services Committee, the House Science Committee, House Small Business Committee, Office of the Secretary of Defense, DoD Defense Science Board, Army Science Board, NASA, NATO and the Aerospace Industries Association Board of Governors.

Chao earned dual Bachelor of Science degrees in Political Science and Management Science from M.I.T.