

Testimony of
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Committee on Homeland Security
Subcommittee on Oversight and Management Efficiency

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Chairman Duncan, Ranking Member Barber, Members of the Committee, my name is Paul G. Stern. I am honored to be here as a private citizen and a member of Business Executives for National Security. I plan to address, from the business perspective, several areas of your concern. I will speak from my own knowledge and operational experience. I have spent my career in strategic planning, corporate mergers and acquisitions—and, most recently, in private equity financing for corporate restructuring and improved shareholder performance.

I am a member of the Board of Directors of Business Executives for National Security, a non-partisan organization of business executives concerned about national security. Although reflective of BENS' perspectives on what the private sector can contribute to better managing our national security organizations, the views I express are my own.*

A key focus of this hearing is, I believe, the opportunity for cost savings by eliminating duplication, particularly in research and development expenditures. I will comment on that issue. But, I will also suggest other management areas that, in the private sector, have proven to contribute as much, if not more, to improving the bottom line—or, more appropriately for the public sector, to improving organizational efficiency and effectiveness.

1. Eliminating Duplication and Wasteful Spending

I think it important to understand the mechanics of eliminating duplication or redundancy. The objective is to merge and combine overlapping functions, which is readily accomplished by redrawing organization charts and “x-ing” out redundant units. However, the next step is crucial. That is, rationalizing the organization to reduce its size and cost. This is hard, because it ultimately means moving people out of the organization and changing policies and procedures to match the new scope and mission. The government does not do this well.

Here are some considerations from my private sector experience that you might appreciate.

* Dr. Stern has held numerous senior management positions with IBM. He was Chairman and Chief Executive Officer of Braun AG in Germany, Corporate Vice President at Rockwell International Corporation and President of their Commercial Electronics Operations. Dr. Stern joined Burroughs Corporation (later Unisys) as an Executive Vice President and rose to become the President and Chief Operating Officer. From 1988 to 1992, he served as the Chairman and Chief Executive Officer of Northern Telecom, now known as Nortel Networks. In private equity, he joined Forstmann Little & Co. in 1993, and, later, co-founded Thayer Capital Partners, LLC, prior to starting Arlington Capital.

The goal of eliminating duplication and overlap is to improve effectiveness. If this objective can be achieved, cost savings will surely follow. However, effectiveness is measured only over the long-term, so one needs an interim tool or tools to gauge progress. I suggest two: managerial performance and attention to financial expenses.

You need to get managers to perform and you need to know the cost of operations. Here's how:

- Review management aggressively: qualifications, capability, willingness to execute the plan. Make changes to leadership, if necessary
 - However, find ways to positively reinforce change through incentives and bonuses tied to performance objectives
- Be cautious in trimming the financial function. You need the data they provide to know and control expenses
- Manage IT platforms with an eye to collecting accurate financial data
 - Track expenses across all operating accounts
 - Audit cost of inventory to determine where resources are tying up organizational funds
- Look at the HR function. It tends to be overstaffed without adding a great deal of value, except where needed to help transition individuals out of the organization
- Finally, review layers of management with an eye toward flattening the organization. This allows you to place responsibility much closer to the act of decision making
 - Because they slow down the decision process, buy things and create staff, trimming the number of department heads saves more than just a salary

In sum, identifying redundancy, having accurate expense and performance data, and moving rapidly carries risk. But leaders must be prepared to take risk. Incenting the change makers, taking intermittent satisfaction surveys, and having the clichéd “skin in the game” has the ability to change hearts and minds quickly—especially when they see the success that changes are making.

2. Strategic Business Process Reorganization and Change

Let me turn to another set of management tactics and techniques that, as I mentioned, are prevalent in private sector turn-arounds and restructurings. Applied aggressively and purposely, they can be equal or more productive than the elimination of redundancy that we just discussed.

But first I must add a caveat: It is that while instituting change rapidly is better than moving slowly, enacting too much change too rapidly can be damaging to morale and

counterproductive to effectiveness. Instead, choose a few transformative actions; follow through to completion, then choose the next set and repeat.

The Department of Homeland Security under your purview is, by any measure, a conglomerate of diverse missions, capabilities and functions. Even after ten years under the same management umbrella, the Department is riven with conflicting cultures and customs. However, putting its face-to-the public operating divisions aside, there is a common management infrastructure that is not at all unlike service-oriented private sector businesses. Here is where I believe lessons from the private sector can be brought to bear on government management challenges.

The first two have already been discussed:

- 1) Eliminate duplication /redundancy while maintaining safety back-up
- 2) Consolidate and appropriately rationalize functionally-related activities

Here are a few more to consider:

- 3) Eliminate excess real property. The Department of Defense has fought this battle with Congress since the late 1980's, but has developed the Base Closure and Realignment (BRAC) process to bring practical resolution to this politically unpalatable necessity. Has DHS considered doing the same? Furthermore, has it done the analysis to determine in a corporate-wide—not independent operating division sense—what excess exists that could intra-departmentally be put to more productive use?
- 4) Reduce duplicative procurement of commercial services, especially professional services. An inventory of commercially provided services by category can yield large opportunities for eliminating waste. In fact, the act of inventorying can itself put managers on warning for possible duplicative and unneeded expenditures
- 5) Streamline levels of management review. Touched on earlier, this action has system-wide flow-down effects, particularly with regard to manhours consumed. Fewer levels of approval mean fewer meetings, which occasion fewer pre-meetings, less audio-visual demands, fewer PowerPoints and less travel. That is in addition to staff reductions and need for office space.
- 6) Reduce inventory to demand levels plus a safety buffer. Owning your own inventory outside of a safety stock is an obsolete and costly proposition in a globally dispersed and digitally connected commercial marketplace. Does DHS know how much of its common inventory is commercially available either through strategic sourcing or from the GSA schedule?
- 7) Rightsource maintenance, repair and overhaul. Most commercial service providers outsource the MRO function to take advantage of the MRO's

economies of scale and obviate the need to replace and upgrade repair facilities and equipment

- 8) Intensely manage real property maintenance/establish a capital budget. Capital budgeting, which requires a long term commitment of resources to effect the replacement of aging or worn out equipment or infrastructure has never caught on with the annual budgeting cycle of the federal government. Congress is loath to give up its short run appropriations hold on the purse strings. However, there is nothing illegal about approaching projects and planning from a capital budgeting perspective and many states and local jurisdictions have embraced the concept. The technique has the advantage of isolating the year-to-year variability of operational resource demands from the known replacement rates of long-term infrastructure and equipment lifecycles.
- 9) Evaluate compensation, pay and benefits. Pay-for-performance, pay banding and other innovative alternatives to the civil service general schedule had their moment of ascendance in the 1990s, but were struck down by economic and other forces. However, in an era of declining federal resources, the “war for talent” with the competitive private sector—where these plans have become the norm—argues for a relook at the federal workforce’s compensation systems. DHS should press to reinstate its pilot program, but this time with greater transparency and workforce input.
- 10) Rightsource logistics, transportation and sustainment. Next to the digital revolution, no other sector of the private economy has made the leaps in efficiency and effectiveness than the transportation logistics sector. Few major equipment and materiel manufacturers and many service sector providers use third-party logistics (TPL) and many operate their fleets and equipment on a service rental agreement
- 11) Rationalize and consolidate IT platforms and services. It is important to have the right data, but owning the means to that data has become less and less sensible. To keep abreast of rapid changes in the IT sector, it is better to specify a level of service and to let the marketplace provides solutions. Security is a consideration, but today’s security is more likely to be found in the cutting edge technology of the independent IT providers than in legacy government systems

3. Reorganization and Change is a Process to Undertake, not a Prescription to Swallow

I have given you a list of management stratagems that, at one time or another, have worked in the private sector. I will admit that they are difficult to consider from a government standpoint given the nature of our political system and the criteria on which we place success, that is, failure is not an option. However, many of the business

processes and organizational structures which backstop our nation's security have their analogs in the private sector. It would be unwise, if not inopportune, not to emulate them where they apply. That has been BENS' mantra since its founding over thirty years ago.

As in any business, people are at the heart of any attempt at change. The leadership and the rank and file both have to be committed to improvement in the way government business is done. Leadership, by definition has to set the tone and lead by commitment or no change is possible. They must assign clear responsibilities; then measure performance. Set discretionary spending targets; then enforce spending discipline. Define the goals; then make the changes transparent and equitable.

Those affected by such change have responsibilities too. First they must define and embrace what success means for them and for the organization. They will see—sooner than management—what measures of effectiveness are working and which are not. They had better speak up or they jeopardize the likelihood of success.

Today, the popular test of inclusion or participation, I guess, are the phrases “all in” or “lean in”. Here's my test of whether successful change is happening in an organization. It's a set of questions that, when answered in an affirmative and confident manner, can predict the outcome. Why are you here? Why are you coming to work? What makes you think you are making a difference? If you are gone, what would happen to the organization?

4. Conclusion

I recognize that my comments have not been as specific about how DHS can reduce its overlap in R&D and other areas as you may have expected and may receive from other witnesses. However, I believe the plate is bigger and the opportunities far broader to set the Department on the path to greater effectiveness and efficiency. Certainly 10 years-worth of data should be sufficient to give a basic sense of where the frictions and the inadequacies lie. I am confident that with the help of this Committee the Department can, in the face a certain resource restraints in the coming years, commit to structural and organizational changes in its overhead and infrastructure functions that can put it in the company of the best managed organizations—public or private—in the nation.

Thank you for having me. I am prepared to answer any questions you might have.