

McKinsey on Government

Number 5
Spring 2010

Special Issue:
Defense

4
Lessons from
around the world:
Benchmarking
performance in
defense

14
Improving
US equipment
acquisition

22
An expert
view on defense
procurement

28
Mastering military
maintenance

34
Big savings from
little things:
Non-equipment
procurement

44
**Stabilizing Iraq's
economy: An
interview with the
DOD's Paul Brinkley**

50
Supply chain
transformation
under fire

56
A dynamic strategy
for uncertain times

64
**'Without taboos':
France's new
defense policy**

70
From R&D
investment to
fighting power,
25 years later





Stabilizing Iraq's economy:

An interview with the DOD's Paul Brinkley

The leader of the US effort to revitalize Iraq's economy talks about the lessons he has learned over the past three years, the relationship between economic development and security, Western misconceptions of the Middle East, and the hardest part of his job.

John Dowdy

When the US Department of Defense (DOD) sought to modernize its business practices, it turned to a Silicon Valley executive with a proven track record in streamlining operations. Paul Brinkley had been the chief information officer and a senior vice president at the technology company JDS Uniphase, as well as a licensed industrial engineer with four US patents to his name, when he joined the DOD in 2004. Brinkley promptly went to work improving the department's processes and systems. But two years later, in a turn of events he did not anticipate, he was spending half of every month in Iraq.

An eye-opening first visit to Iraq in 2006 convinced Brinkley that the DOD could do more to improve economic conditions for the Iraqi

people, and that doing so would help stabilize the country. In June 2006, largely through Brinkley's efforts, the DOD established the Task Force for Business and Stability Operations (TFBSO), dedicated to revitalizing Iraq's economy and creating jobs for Iraqis. TFBSO placed civilians with expertise in industrial operations and factory management on the ground in Iraq—skills previously absent from the American presence there.

Under Brinkley's leadership, the task force began on-site assessments of idle Iraqi factories and worked with Iraqi businesspeople to reopen them—providing training for employees, upgrading equipment, and preparing the factories for large-scale private investment. The task force



also engaged leaders from the United States and international corporations to support Iraqi industries, hosting more than 130 private investors and senior executives in Iraq and facilitating several joint ventures. In addition, TFBSO has deployed more than 400 US business leaders, engineers, accountants, and academics across Iraq's provinces. For example, faculty and staff from American universities have worked on farms in central, northern, and western Iraq, helping Iraqi farmers increase production levels and learn modern farming techniques. To date, TFBSO has helped restart production at more than 60 Iraqi factories, facilitated contracts worth more than \$1 billion between foreign private investors and Iraq's state-owned enterprises, and helped provide jobs for 250,000 Iraqis.

In October 2009, Brinkley spoke with McKinsey director John Dowdy in Washington, DC, about his work in Iraq and what lies ahead. Excerpts from the interview follow.

McKinsey on Government: *Before 2005, you had never even been to Iraq; now you are there every two weeks. What surprised you most when you went to Iraq for the first time?*

Paul Brinkley: In my private-sector career, I had been to East Asia and India, but never the Middle East. My image of the Middle East had been formed by what we see on television and the mass media. I probably wasn't atypical of an American businessperson in that I expected to see desert, camels, palm trees, oil. I never went into Iraq expecting to find a skilled workforce and an industrial economy. That was completely surprising to me.

I think the West has a notion of the Middle East and the Muslim world that is colored by the sensational events that dominate the media. Many

Westerners have an impression of an entire people that is extremely unfavorable and not at all representative of that world. I wish every American could get to know the Iraqi people. They have the same hopes, dreams, and aspirations as people in every other country. They aspire to a good life, a job, advancement, an education for their kids. I think so much of what we're exposed to in the media dehumanizes Iraqis and makes the problems in Iraq just seem insurmountable. American businesspeople think, "How could you possibly do business in a place where the people are so different?" But they're not so different. That has been a lesson learned for me, and it's a challenge we really need to confront in the West. How we currently view the Middle East definitely damages our ability to be effective there.

McKinsey on Government: *Most people wouldn't think of economic revitalization as a core defense function. How did you end up doing this in the Department of Defense?*

Paul Brinkley: To answer that question, I'd like to point out a lesson—and I am calling it a lesson because I think what I'm about to say is now a widely accepted proposition in Washington among the people who think about what the government is and should be. The lesson is that we need the ability to use economic improvements as instruments of foreign policy.

Until today, the US government has institutionally had two instruments of foreign policy: diplomacy and force. Yet what the world sees—via mass media, the Internet, mass communications—and what the world wants access to is economic prosperity. America is the predominant actor in terms of projecting economic prosperity. But we've seen in places like Iraq and Afghanistan a synchronous linkage of violence and economic deprivation. We need to look proactively for ways to uplift the



Paul Brinkley

economic prospects of a society to help stabilize it. We don't have that institutionally in the government; the US government is not designed to assist in that capacity.

But the Department of Defense is doing it today. And it is doing it for a couple of reasons. One is that the DOD is in harm's way. It is facing the most immediate consequences of the problems, and it is bearing the brunt of the pain and loss—wounded soldiers and casualties of war. The other reason is that the DOD is itself a huge business operation. It is the world's largest industrial enterprise by a factor of about three, much larger than the world's largest corporation, so it has people who understand business. It can draw on its business expertise. That's how we initially engaged in Iraq.

Institutionally, there's a debate under way about how the government should approach this. Should [business and stability operations] be in the department long term? Should they be in some other part of the government? For the time being, the DOD has been able to marshal the resources to address this problem. There have been challenges in doing it as part of the DOD, and there have been benefits. We'll see how the structures play out over the longer term.

McKinsey on Government: *In the more than three years since TFBSO was formed, what are you proudest of? What do you think has been the task force's biggest accomplishment?*

Paul Brinkley: I'm proud of the way that we as a team have been able to adapt. When [TFBSO] started working in Iraq in 2006, the situation there had deteriorated to a level of violence that no one had predicted, and no one had a plan at that time for how to deal with that violence. Obviously I'm proud of all the successes

we've had, and there are a lot of statistics we can cite about the effects we've had across Iraq. Those successes are heartwarming, but I'm proudest of our team's ability to be nimble and adjust to circumstances, particularly in a government structure that makes adaptability very hard, especially in civilian-type work.

McKinsey on Government: *The conventional wisdom is that there has to be security before economic development can begin. You have a different view—that economic development actually helps establish security.*

Paul Brinkley: It can sound like a cliché, but we have to address the fundamental structural brokenness in places where violence has taken hold. What causes people—not just random actors, because you can have random violent actors in any society—but people in general to reach a point where they sympathize with violent actors, and violence takes hold and becomes part of daily life? People without hope—people with no prospects—will act out.

I look at our own experience in the midst of this economic downturn and the decisions we have made in the West that even two years ago may have seemed shocking. We've made certain decisions regarding our banking industry and our automotive sector. Why have we made these decisions? Because we don't want social unrest; we don't want to create an environment where society begins to degrade—so why would it be any different for anyone else in any other part of the world? I think we have lost our perspective because of our long-term prosperity. We have lost a sense of understanding of how hopelessness can cause one to act out in ways that someone in a prosperous situation wouldn't. And now you see our troops dealing with the results of that—our young men and



women are trying to secure areas where the unemployment rate is 50 percent, where people have no hope and no prospects, and where the sympathy with violence is so great. In my view, it is fundamentally unacceptable to send troops into harm's way like that.

I don't think it's an either/or, and I don't think security necessarily creates economic development or vice versa, but to say there's no relationship between economics and security is, I believe, very naïve.

McKinsey on Government: *It's interesting to hear you talk about the decisions the US government has made in the financial and automotive sectors. You came under heavy criticism for helping to revitalize state-owned enterprises in Iraq. Could you comment on how you see the role of state versus private investment in economic stabilization?*

Paul Brinkley: Our efforts to reverse the policy regarding state-owned industry in Iraq—that is, to get state-owned enterprises up and running and then transitionally privatize, as opposed to the economic “shock therapy” approaches that were taken early on—were only one aspect of our total efforts in Iraq, but yes, they did attract a lot of attention. I think it is interesting and ironic—and, I hope, for the West a little discomfoting—that we project such a sense of certainty about our own economic model, and yet when confronted with difficult decisions

about people's lives and livelihoods, we compromise quickly on those things. By the way, I think it is reasonable that we compromise; it doesn't mean that we're becoming socialists or that we've given up on the free market, but it is an acknowledgment of the fact that government has a responsibility to act in the best interest of citizens. An ideologically driven mind-set on either side is not the right one to have. If we've learned anything in Iraq, it's that you have to take the ideology but then apply some pragmatism to it.

We all agree—and the Iraqis agree—that the end state in Iraq should be a free-market economy. No one is arguing for socialism in Iraq. The question is, how are we going to get there? We're seeing evidence that the approach we've taken is more sound, much less disruptive to society, and results in much less violence.

McKinsey on Government: *The counter-insurgency doctrine says you must protect and help the people in order to win. It sounds like you're suggesting that “help” is at least as important as “protect.”*

Paul Brinkley: I'm not crazy about the word “help” because it implies charity; it implies showering people with our largesse. What we mean by “help” is assisting people to build their own capability to live a good life, have upward mobility, feed and educate their children, live in a safe neighborhood, and eventually protect themselves. That to me

is what counterinsurgency means, and you can't do that without an economic capability as part of that "help" equation.

McKinsey on Government: *How would you describe the nature of the opportunity today for private investors in Iraq?*

Paul Brinkley: I would describe Iraq today as a high-risk, high-return opportunity. It's not for widows' and orphans' money. I would not put an entire 401(k) into an Iraqi fund—but certainly the percentage of the 401(k) that is allocated to higher-risk and higher-return investments. I honestly believe Iraq is one of the last great "ground floors" we will ever have in the world. China in the late 1980s and early 1990s was a ground floor—if you got in at that time, you did very well. India followed. Iraq today is a ground floor. It doesn't have the population of China or India, but it has a huge amount of mineral wealth, oil wealth, and agricultural wealth. Geographically, it is positioned to become one of the most prosperous countries in the world. And I don't think that ground floor is going to stay open for too much longer. I think we have a few more months, and then the acceleration of investment in Iraq will take place. I expect that to happen during 2010.

McKinsey on Government: *There has been a lot of press recently about renewed violence in Baghdad. Do you think that is scaring investors off? Should it?*

Paul Brinkley: If you look at the statistics on Baghdad, the violence has not increased. The number of events in Baghdad has actually continued to decline. The performance of the Iraqi army and the Iraqi police after our troops have pulled back has actually been quite strong. I think that what we have seen,

especially around the election cycle, is a recurrence of very large, spectacular, desperate acts by a shrinking pool of violent actors—people who are desperate to make one last effort to demonstrate that security is not restored. I was talking to someone recently who had spent a lot of time in Northern Ireland during the Troubles, and he said that the closer they got to a peace agreement, the more spectacular the events became and the more desperate the last remaining hard-core insurgents were to try to reverse course. So I suspect that we will see those kinds of spectacular acts that will attract a lot of attention. For investors, these acts will keep the ground floor open a little longer.

It's also interesting that these acts are centered in Baghdad. Iraq, of course, is far broader than just Baghdad. It is a country with many cities—Basra, Najaf, Karbala, Ramadi, and in the north, Kirkuk, Mosul, and so on—so events in Baghdad do not necessarily reflect the security situation in the entire country.

McKinsey on Government: *All eyes are now on Afghanistan. Do you think the approach that you used in Iraq could be productively applied in Afghanistan?*

Paul Brinkley: Offering economic opportunity as part of protecting and helping the population is absolutely critical in Afghanistan. What gets done tactically is going to be very, very different than what we did in Iraq. It's a different culture, it's different people, and Afghanistan has advantages and disadvantages when compared with Iraq—for example, with respect to educational levels or preexisting infrastructure to support business. But the general approach—the acknowledgment that there must be a strong tactical economic and private-sector business-development effort in Afghanistan—is absolutely essential.

We have already been impressed by the caliber of the business community that we've engaged with in just the short time we've been working there. The more we learn, the more we'll see how we can help, but I am optimistic that the approach at the broadest level is absolutely appropriate for Afghanistan.

McKinsey on Government: *You have now spent three years flying back and forth to the Middle East, initially in a very dangerous situation and certainly in a very complicated one. By all accounts, your job is extremely difficult and challenging. What has been the hardest part about doing it?*

Paul Brinkley: On the personal side, the hardest part of my job is having to be away from my family so often. Professionally, the institutional and structural challenges we face in our Western governments have been the hardest part. Our economies have evolved to a level of maturity such that it has created a mind-set—one that is now so deeply ingrained at all levels of our bureaucracy—that the economy just

happens on its own. But if you look at the history of the United States or the United Kingdom or other countries, that's not the way it happened. Interstate highways were built, infrastructure was laid down, industries were created. These were things that the government did; they did not happen spontaneously. Much of our industrial capability here in the United States came about in the middle of the 20th century as a result of massive military spending.

Yet we've grown so accustomed to the success of our free-market model that we've lost sight of the fact that, for a country coming out of violence or engaged in violence, this alchemy isn't natural. So the hardest part of my job has been to confront the deeply embedded belief among people in the government that what we're doing in Iraq isn't necessary, or even that what we're doing is wrong, and this has led to tremendous bureaucratic barriers being thrown up at every stage of the process. That's been our most difficult hurdle. But I think we've overcome it. 