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## President's Perspective

# The Rocky Path to a Third Offset

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In November 2014, then-Defense Secretary Chuck Hagel made a presentation at the Reagan National Defense Forum in Simi Valley, California, and announced what was described as the Pentagon's commitment to a "third offset strategy." Two months later, Deputy Secretary Robert Work provided greater detail during a Center for a New American Security speech.

In very general terms, the United States over the past 60 years had enhanced its security by pursuing two "offset strategies." These were operational and technological initiatives, which improved its capabilities in areas our adversaries would be challenged to compete and fully match.

The first of these was the reliance on nuclear weapons during the beginning of the Cold War, with the second being the development of precision-guided munitions and the required intelligence capabilities needed to deploy them. These were both successful efforts to employ asymmetrical advantages, Work said.

Over time, potential adversaries have responded, which has necessitated the need for the next major offset. The hunt is on. Both industry and government are energetically trying to determine what this next offset will be, where the technology to support it resides and how it will be put to use for our national advantage. Autonomy, processing "big data," quantum science and hypersonic technology have all been mentioned as part of this new age.

As many of our speakers at the recent Women In Defense annual conference said, necessity breeds innovation, and we are rapidly approaching a time of need. Leaders must see innovation as a core behavior, acting Undersecretary of the Air Force Lisa Disbrow said.

There are two factors that come into play here: independent research and development (IRAD) and the Defense Innovation Unit-Experimental (DIUx) that has been positioned in Silicon Valley.

IRAD is funding that companies use for their own technological initiatives. It can result in new products or processes, or significantly enhance existing ones. In essence, such research and development is independent of established military requirements and contracts.

The Pentagon recently has made efforts to guide and direct IRAD, thinking that doing so would enhance the possibility of achieving synergy with its own efforts, while potentially reducing its own R&D budgets. As companies were cool to this thought, the Defense Department sweetened the pot a bit in 2014 by allowing companies to record IRAD as an allowable expense on existing contracts — within certain defined limits.

The problem with this approach is that by "guiding" IRAD into areas where it has an existing requirement or known interest, the Pentagon is reducing the odds that a company will look into truly new and innovative concepts or products. In other words, we are unlikely to discover the third offset by directing — or merely encouraging — research down a known path.

Moreover, several companies have reported that the government, despite the new policies, has been reluctant to make IRAD expenses allowable. Company funding directed by the Pentagon is, therefore, a less than promising avenue for discovering a truly innovative approach leading to the next offset.

Much the same can be said about the DIUx effort. Silicon Valley companies are known for their innovative character; they are also known for closely guarding their intellectual property and for being secretive about the next major "offset" they plan to drop on the IT market. As many have already observed, there are many barriers within the defense acquisition and federal budget processes that are, by nature, unattractive to Silicon Valley.

Making the overture to this great community, as Secretary Ashton Carter did in April 2015, is certainly worth the effort, but we should be realistic about the prospects that it will uncover the next major innovative item in the defense market place. Recently, Carter and Undersecretary for Acquisition, Technology and Logistics Frank Kendall returned to Silicon Valley and conducted a meeting described as being similar to the popular television show, Shark Tank. Several companies came before them with ideas they felt were worth some defense R&D investment.

Of course, whether such funding can be provided within defense acquisition rules remains to be seen, but reviewing the offerings of the five firms that made presentations to the Pentagon leadership does not provide much encouragement that this effort will lead to either a major military enhancement, or the third offset.

Why do I offer such a pessimistic assessment? Mainly because the first two offsets were primarily developed initially as large government programs, or through expansive government support of industry initiatives. Several companies invested their own funds to develop the concept of precision strike only to find the government refining the idea and then contracting the procurement with someone else.

I encourage this effort to find the third offset, and like many I am fascinated to learn what it might be. But to get there, especially in an era with a very diverse set of threats and a large amount of technology residing in commercial firms, the Pentagon likely needs to open up its own thinking on how it views IRAD and how it interacts with the commercial technology base. Trying to guide the former, and trying to entice the latter through a reality-show approach, may be neither helpful nor efficient in achieving the desired goal. In addition, we still have significant government assets available in the military services' research labs, and the Defense Advanced Research Projects Agency. We should not neglect agencies that have provided some impressive offsets in the past.

Fundamentally, finding the third offset requires firms — those already producing great military hardware now in the defense industrial base and those now outside it — to devote time, thought and money to the project. The best way to encourage them to do so is to take more fundamental steps that make the defense market place more attractive than many currently believe it to be.

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