

Even before I first decided to come over here I said to many people that the thing that would most likely make me leave Iraq before I was ready was going to be the political BS and bureaucracy of working for a large company like Halliburton. Well I have been largely silent on that issue in my Journal entries. There are many reasons for my silence about the company its management and its operation. First and foremost is paranoia. Big Brother is watching. Second is I have been giving the company the benefit of the doubt. I did not feel like I knew enough about how it operated to really be in a position to judge good or bad. Don't get me wrong, I am not saying I am in a position now to be an expert on how things operate in fact I will go so far as to say I really don't know how much of everything operates but I can speak to what I see everyday and what others relate to me.

First, let me talk about the contract that Halliburton has with the Government. The contract as many of you may or may not know is a no bid contract. Lots of people have complained about that. Frankly, I don't care about that. How do you bid on a war? Who is supposed to right the spec sheet on the war? Anyone that has ever done any government project through a bid process knows it would be nearly impossible to develop a bid sheet for a war. That is not my concern although it seems to be Michael Moore-on's biggest concern.

My beef or criticism of this contract is in the manner of compensation and its effect (outright and subliminally) on operations and costs. Halliburton (Halliburton and KBR are interchangeable) gets paid via a mechanisms called "cost plus". What does that mean? Well it means that they are paid what ever it costs plus a certain percentage. I don't know what the exact percentage is and as I understand it, the percentage varies according to what the cost/item is.

So image for a moment you are a small business owner and you get paid in this fashion. You get to keep, for conversations sake lets say 2.5% beyond what it costs you to do whatever it is your small business does. You don't submit a bid, no estimated costs, no nothing. Just a guaranteed 2.5% above what your costs are. Are you going to be concerned about the costs of running your business? Are you going to be concerned about the most efficient way of doing things? Is there an incentive for you to do things, cheaper, better, faster? Let's say you want to buy that cute little red corvette you have had your eye on and therefore you need to make a little more money. What do you need to do to make more money under this situation? Pause for a moment and think about it. Don't just read this, seriously think about. You're a business, you get paid 2.5% above costs no matter what, and you want to make more money.

Pause: Think.....think.....think some more.....a little more.....O.K.

Done? If you really thought about it, you probably at first realized that this is unusual. It is a strange situation in that most people, especially business people, are rarely in a position where they have no concern about costs and efficiency. Costs and efficiency are typically paramount in business but under this scenario, there is not much concern. For you business people out there it takes awhile to get that thought out of your head and to come to grips with the fact that costs don't matter. Now the second part. How do you

make more money? You got it! You spend more money. The more you spend the more dollars that 2.5% add up to be.

Now take another moment and think about how the first part “**costs don’t matter**” plays on the second part “**spend more, make more**”.

Costs don’t matter. Spend more, make more!
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Do you see the point I am trying to make. Costs don’t matter, they really don’t. Don’t get me wrong. There is a concern about costs, but that concern is derived from a perspective of “what can we slide by the regulators and the auditors” rather than the traditional business motivation of cheaper, better, faster. In business when you spend money, that money usually belongs to someone and usually that someone wants to know why and how you are spending his or her money. If you don’t spend it wisely, you are going to have to answer. People tend to look after their own money. In the scenario above, the KBR scenario, it’s government money. It’s everyone’s money and no one’s money. It’s not looked after nearly as well as someone’s personal money.

The other point about making more money ties directly in the cost thing. I can tell you that efficiency and cost savings are not rewarded. Halliburton is like a typical company in that it has pressures from all angles to make money as a company. Well as we discussed in this scenario in order to make money we know you need to spend money. This thought process seeps into the management philosophy. Don’t get me wrong, there are not secret memo’s (at least I don’t think so) that tell people to increase costs and to spend more money. There are no clandestine meetings to discuss indiscriminate corporate wide spending sprees. It’s quite simple; efficiency and cost cutting are not rewarded. On the contrary, an inefficiency cost more, thus makes more money. Poor planning causes delays and increases costs; benefit to the company. Lack of maintenance causes break downs and requires new equipment purchases; more money for the company. Inadequate construction management requires re-do’s and construction changes, you guessed it, more money for the company. That’s why I said “subliminally” earlier. It’s not right out there in the corporate policy manual, it’s subliminal. A Site Manager is judged by how much money he/she can make for the company and still slide by the regulators and auditors. Sales baby! It’s simple psychology, action, and reward. If the more **inefficient** you are the more money you make, guess what, most people would become more **inefficient**.

Let me give you a few real life examples from the base that I am on.

1) The site that I am currently on has 58 generators powering the site (plus or minus a couple). These generators are not your typical Honda generators you will find in someone’s garage either. These are large generators that cost between \$100,000 and \$250,000 each. Well according to one of the head generator guys at here at KBR most of the generators only operate at about 10% - 15% capacity. Well rather than run wires and

telephone poles around the base and have one generator run at 65-80% (which I understand is way better on the generator than running it at 10% -15%) and power multiple locations they just add another generator near where they need the power and lay a wire on the ground. Now consider the fuel needed to power 58 generators running at 10% - 15% capacity all day long. Why do we do this? Well maybe because this technique makes more money for the company. Just basic consolidation of generators could probably reduce the number of generators required by 20% saving at least one million dollars in generator purchase and operation costs. The head generator guy also explained to me that the base could be run on just three generators. If he had his way he would have just three, plus a back up for each one of the three for a total of six. He would then run the wire wherever you need the power. He goes on to explain how much time and effort and money it would save.

2) Nearly everyone here has his or her own vehicle to drive around on the base. When I say their own, I mean a vehicle bought and paid for by the US taxpayer. Most of these vehicles are not cheap little vehicles either. We are talking Tahoe's, Excursions, Toyota Land Cruisers and Crew Cab pickups. Granted some people need vehicles because they need to haul things around the base and sometimes move several people to various work sites. However, these vehicles are mostly used to drive one or two people to, from a work location, to and from the dining hall. These vehicles are \$35,000 vehicles and that is not counting shipping to the middle of a war zone. You could buy 6 - 10 golf carts for the price of one vehicle. They could be electric which could be produced from the excess capacity from the 58 generators on the site. You would save probably a half million dollars on all the vehicle purchases, fuel and maintenance on this base alone. We do need some trucks and such but not as many as we have. But why not, the company makes money on every vehicle here and on the gas to run them.

3) If you will recall my very first journal (the one with all the typos), I talked about the 3 week training that they put everyone through in Houston prior to being shipped over here. Well that 3-week training is a farce. They teach you essentially nothing. Most of the time is spent waiting around while they have you staying in a very nice, and I am sure very expensive Hotel. I was in a Marriot but they had people spread out over 6 - 8 similar hotels. Oh, they do stuff for you like a background check and they get your passport for you and they do a physical and drug testing and such while you are there. However, most of that stuff could be done before you get there. For instance they could do the background check before you get there. I don't know the exact statistics but a good portion of the people (I'm thinking 20% -30%) don't get past the background check and passport phase. If you owe more than \$5,000 in back taxes or back child support the US government will not issue you a passport. Well they fly dozens, dozens of people into Houston from all over the country every week only to find out these people are deadbeat dads and owe back child support, and they can't get a passport. Therefore, you the taxpayer get the bill for putting these people up in a hotel for a week and for flying these dead beat dads back home. Nice little vacation at the taxpayer's expense. But why not? KBR makes there little percentage off it so why change it. I say if you are not bright, enough to get your own passport prior to going to Houston you are not bright

enough to work overseas. Have it in hand before we put you on a plane at the taxpayer's expense. Folks, I just saved probably another million dollars.

4) If you will recall, I work in what is called the HAZ-MAT Department. In my short time here, I have worked on three bases in the Mosul area. Keep in mind that these bases were recently built and in fact for the most part are still under construction. As in any construction project there is a lot of heavy equipment around that perform all kinds of tasks. The HAZ-MAT Department Head in the Mosul area however has decided that the HAZ-MAT Department should have its own heavy equipment in the event that we "might" need it. So KBR (you the taxpayer) purchased a new "large" front-end loader (appx. \$200,000) for "his" base and numerous Bobcats (\$30,000 each) for all the other bases. Well I can tell you, there is plenty of heavy equipment already here that belongs to the KBR construction department. At my base we already have a Bobcat for the construction department that sits in the parking area 95% of the time and yet any day now I should be receiving "my" HAZ-MAT Department Bobcat which I did not ask for. There is no reason why we can't use the construction department's equipment in the rare instance that we might need it. It might involve some scheduling of the equipment but I can tell you that when the HAZ-MAT department does a clean-up project on the base (and we only work on the base) which requires heavy equipment, it does not take long and it can wait while someone pulls the equipment off a construction project 200 yards away. If KBR were spending its stockholders own money, there is no way that they would allow the purchase of this heavy equipment for the HAZ-MAT Department. This is purely an issue of some Department Head wanting to have his own collection of toys and these toys sit around 99% of the time. However, under the current system, there is an incentive to let this Department Head do this. In fact, the Department Head is probably being rewarded for being able to come up with some feeble justification for the purchase thus increasing corporate profits.

5) What's harder to quantify in terms of waste and excess spending is the extreme nature of the poor project planning that occurs here. Almost every job completed here that I am aware of needs to be done over. There is this attitude that planning and thinking are not that important because if you need to change something you can just do it over and why not? Why get paid for a job once when you can get paid two or three times? I am currently loosely involved with an incinerator construction project where the people planning and managing the construction are refusing the advice from an experienced incinerator operator for some basic design changes that would make the incinerator more efficient and less costly to operate, thus ultimately saving taxpayer money. Don't get me wrong I don't think these guys doing the planning really want it to cost more but the culture of poor management and "we can just re-build it if we need to" mentality is so ingrained that they really just don't care about getting it right the first time. In fact, if they have to "reconstruct it" after six months they will look like heroes for making the company even more money.

6) Again, what is harder to quantify into hard dollars is the wasted labor dollars from poor management practices. There are numerous what are called "third country nationals" (TCNs) working on the base. KBR subcontracts all these TCNs to do the

majority of the actual labor conducted on the base. You can tell that this is a government run project because like any government run project you see allot of people standing around watching other people work. To see a group of TNCs standing doing nothing is not uncommon. In fact, it is very common. Now I am not saying we should work these guys like dogs but it just seems like if the job requires two people we will have six people working on it. If it's a ten-person job, take twenty, there cheap. I can assure you that if KBR were spending the stockholders dollars, it would be a completely different story. However, why do it now, this way makes more money. There is currently a push on to start documenting things to show that you needed them and that they worked the entire time you had them. However, I can assure you this push is more of a "cover your a\$\$" than an effort to actually reduce costs.

So what's my point about all this? I'm not sure. However, one thing I do know is that the traditional model of a private company being more efficient than a government operation does not work when the structure of payment is set up as it is. Something needs to be done to encourage efficiency and cost savings. The inadvertent rewarding of inefficiency will only encourage and lend to more inefficiency. Its human nature. When efficiency makes you more money then efficiency will improve. What the exact structure of the system should be, I don't know and it is beyond my little journal here. I do know that it needs change and should change soon.

I often wonder why it is that the US can afford to pay me what I am making here (very well in excess of six figures) and a regular soldier is lucky to make 25% of what I am making. It seems a bit out of whack with traditional thinking. I have not done the math but I have a hard time imagining how this saves the US money. Typically, when you switch to a different labor source to save money, don't you usually pay less? Someone show me a business that moved to a new location because the thought they could save money by paying more for labor. Could it be that because KBR makes their percentage that they want to pay others and me more? Maybe.

I think that if we paid our soldiers more money. I mean like \$100,000 per year, we would not have a problem with the draft and no one would ever want to get out of the army. Problem solved. With that kind of money you could be more selective in your candidates and you would naturally get a higher caliber candidate selection pool as a job in the military would be very lucrative. The security contractors that I have mentioned in the past all make about \$15,000 per month, that's \$180,000 per year and there are hundreds of them on this base alone. If we can afford to pay them that kind of money, why can't we pay our soldiers more?

I can tell you one thing about my being over here. Although my experience here has answered many questions I had about what this war is all about, it has raised even more questions. One thing I want to make people clear on after all this is the fact that I do support what we are doing here. My criticisms are merely about efficiency and some of the profiteering that appears to be occurring. Our short-term pain for a free Iraq is a long-term gain for the entire world.