Update Report on DoD Reduction of Overhead

presented by:

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- *We are spending more in the DOD overhead account at $212B than the entire economy of Israel*

- *On any given day 40% of DoD is tied up in overhead. Not to mention the 342,000 active duty military personnel working in commercial areas. A lot of combat manpower tied up 'in the tail'*

- *Antiquated compensation system encourages military to leave at the end of 20 years....we pay them for 60 years to serve for 20 years.*

- *Health care costs are out of control -- $50B a year- most of the cost is from retirees and their beneficiaries.*

- *Heath care and Military retirement - 5.5M beneficiaries - "eating the Department alive" (Gates)*

- *Military retirement account largest unfunded liability in the federal government*

- *TRICARE for life...most expensive health care system in our country*

- *Reduction of defense budget is not new*
  - Secretaries of Defense Johnson, Wilson, McNamara, Laird, Schlesinger, Rumsfeld, Brown, Weinberger, Cheney, Aspin, Cohen, Rumsfeld (term 2), and Gates have all concluded that continuous improvement is essential and have launched numerous reform and change initiatives
  - Not to repeat the mistakes of the past by making drastic and ill-conceived cuts to the overall defense budget
  - Use taxpayer dollars to invest in key priorities critical to the core mission while cutting or reforming programs that are outdated, duplicative, or ineffective

- *Focus on OSD, the Joint Staff, the Combatant Commands, and the defense agencies and field activities (consolidation, reduction, and efficiences)*
  - Already identified in August 2010
    - Eliminated office of Network Intelligence and Information
    - Redistribute the Business Transformation Agency into other departments
    - Eliminate Joint Forces Command (relooking at decision)
    - Reduction of contractors at 10%/year for 3 years
    - Improve efficiencies in operations due to consolidation/shared service support
  - Additional reductions announced in January 2011
    - Reform the use of Information Technology infrastructure and processes
    - Rebalance resources, staff, and functions to reflect the department's priorities
    - Downsize intelligence organizations and consolidate the various redundant programs
    - Eliminate more than 100 general officer and flag officer positions out of the roughly 900 to create fewer, flatter, more agile, and more effective organizations
    - Reduce excess force structure in Europe and reduce General Officer level to 3 star
    - Eliminate nearly 400 internally-generated reports that over the years have consumed vast amounts of staff time and energy, often to produce documents that are of questionable relevance, value, and in many cases, have been rarely read
    - Continue to find opportunities to reduce contractors

- *Each service contributing by:*
  - Consolidating operations centers and management commands
  - Use of multi-year procurements
  - Reducing infrastructure costs
- *Looking at modernization portfolio for weapons programs that were having major development problems, unsustainable cost growth, or had grown less relevant to real world needs*
  - Cancel procurement of the Army's SLAMRAAM surface to air missile
  - Cancel Army's Non-Line of Sight Launch System, the next-generation missile launcher originally conceived as part of the Future Combat System
  - Put on the equivalent a two year probation the Marine Corps' short take-off and vertical landing (STOVL) variant
  - Fill the gap created from the slip in the JSF production schedule, by buying more Navy F/A-18s (comparable cost savings)
  - Cancel the Navy and Marine Corps Expeditionary Fighting Vehicle
- *Prioritize savings to budget the funds necessary to*
  - Develop a more affordable and sustainable amphibious tractor
  - Propose funds to upgrade the existing amphibious vehicle fleet to conduct ship-to-shore missions until the next generation of systems is brought on line

Health Care Cost Savings

- *TRICARE enrollment fee was set in 1995*
  - $460 a year for the basic family plan and has not been raised since
  - Comparable health insurance program for federal workers costs roughly $5,000 per year
- *Initiative to increase TRICARE fees indexed to adjust for medical inflation*
  - Congress against any increase
  - Compromise needed given the cost of paying vs. the cost of executing

- *$100B from Military services*
- *Additional $78B of top-line reductions including:*
  - Approximately $54B in DoD-wide overhead reductions and efficiencies including a freeze on all government civilian salaries
  - Roughly $14B reflecting shifts in economic assumptions and other changes relative to the previous FYDP – for example, decreases in the inflation rate and projected pay raises
  - $4B of savings to the Joint Strike Fighter program to reflect re-pricing and a more realistic production schedule given recent development delays

DEFENSE BUSINESS BOARD

A CULTURE OF SAVINGS
IMPLEMENTING BEHAVIOR CHANGE IN DOD

Task Group

January 20, 2011

Task Process – Due Diligence

- **DOCUMENTS, STUDIES, CONFERENCES, OFFICIALS, AND WORKSHOPS**
    - Goldwater - Nunn - Defense Reorganization: The Need for Change - 1985
    - President's Blue Ribbon Commission on Defense - Packard Commission - 1986
    - Clinger-Cohen Act of 1996 requiring establishment of performance measures on IT
    - Defense Reform Initiative - DRI - 1997
    - GAO Improved Performance Measures to Enhance DoD initiatives - 1999
    - Beyond Goldwater - Nichols - Center for Strategy and International Studies (CSIS) - Phase II - USG and Defense Reform for a New Strategic Era - 2004
    - Beyond Goldwater - Nichols - CSIS - Phase IV - Defense Governance – 2005
    - DoD 2006 Quadrennial Defense Review
    - Project on National Security Reform - 2008 - Forging a New Shield - 2008
    - Overview of National Security Strategy - White House - 2009
    - DoD Agency Financial Report for FY 2009
    - DoD 2010 Quadrennial Defense Review
    - DoD Defense Budget 2010
    - Revised Organizational Structure for the Office of the Secretary of Defense (to Congress - 2010)
    - Debt, Deficits, and Defense: A Way Forward - Sustainable Defense TF - 2010
    - The Defense Manpower Requirements Report (DMRR) - 2010
    - US Budget for FY 2011
    - DoD Defense Budget 2011
    - Summary of DoD Reorganization Studies - ODAM
    - Biennial Review of Defense Agencies and DoD Field Activities
    - Creating Defense Excellence: Defense Addendum to Road Map for National Security

Task Process – Due Diligence

- **DOCUMENTS, STUDIES, CONFERENCES, OFFICIALS, AND WORKSHOPS (Continued)**
  - U.S. Commission on National Security/21st Century
  - "Creating a Chief Management Officer in the Department of Defense Task Group Report" - DBB Report FY06-4. Robert Hale Task Group Chairman
  - Navy Future Personnel and Pay Solution (FPPS) - Business Case November 30, 2009
  - Case for Shared Services in the Public Sector - Accenture Shared Services in Government - AT Kearney
  - 2009 Global Shared Services Survey Results - Deloitte
  - Shared Services A Benchmark Study - The Johnson Group
  - Economics of Business Process Outsourcing - Technology Association of Georgia
  - State of Shared Services and Business Process Outsourcing - Accenture
  - Public Sector Outsourcing Surge in 2010 - National Outsourcing Association
  - Naval Postgraduate School - NPS - Culture Change and Shared Services models
  - Center for Strategy and International Studies - CSIS
  - Institute for Defense Analysis - IDA
  - Business Transformation Agency
  - ODAM – Office of the Secretary of Defense
  - American Society for Quality - Cultural Change
  - Cost Assessment and Program Evaluation - DoD
  - Comptroller DoD
  - Vice Chairman Joint Chiefs of Staff - SKI WEB - Information sharing
  - Deputy Chief Management Officer
  - GAO findings - CMO - High Risk List

Findings
Leadership's Call to Action

- "Changing spending as usual requires changing politics as usual. The bottom line is this; we simply cannot continue to spend as if deficits don't have consequences, as if waste doesn't matter." *President Obama*

- "DoD cannot expect America's elected representatives to approve budget increases each year unless we are doing everything possible to make ever dollar count." *Robert Gates*

- "If we are to meet the myriad of challenges around the world in the coming decades……new institutions are needed for the 21st century, new organizations with a 21st century mindset." *Robert Gates*

- "The biggest challenge in instilling a culture of savings at the department is changing the way people think. We need to change people's thinking so they think about the costs of things they're doing as well as the value. It's the biggest challenge, but it's probably the most important endeavor." *William Lynn*

- "I can't underplay the fact that so much is about cultural change – we still have these cultural change issues that get in the way of CIOs being able to move at amazing speed. It usually comes down to one main cultural issue, and that's personal control." *Dave Wennergren*

- "There are too many programs under way. We cannot afford everything we might desire; therefore, in the future the Department must balance capacity portfolios to better align with budget constraints and operational needs, based on priorities assigned to war fighter capabilities." *Dr. Ashton Carter*

Findings
Main Barriers to Change as Perceived by DoD Personnel

- Cultural / Institutional change is difficult

- Turf protection – stovepipe structure

- Unprepared workforce – change management skills

- Leadership rapid turnover and organizational misalignment

- Unrealistic expectations – short-term vs. long-term

Findings
Cultural Resistance Is Real and Change Is Necessary

- The Department needs dedicated governance and structure to drive and sustain real behavioral change, especially in business support areas

- Limited data collection and cost accounting methodologies handicap officials who desire to promote more effective and efficient operations

- Cumulative implementation of directives, regulations, and congressional mandates on top of organizational layers, outdated legacy systems, and fragmented manual processes have taken a heavy toll

- Support functions grow relentlessly, are disconnected, and increase in complexity

- Impressive 'titling' conventions, and many well-intentioned change efforts and studies are often diluted down to 'prototype units'

- Attempts to modernize business systems have met considerable resistance causing a proliferation of stand alone platforms

- Inhibitors are not related to technology, but rather functional governance, structural alignment, fragmented ownership of processes, skill sets, and a deep-seated cultural resistance to change

- Reward and incentive systems are not set up to promote the achievement of shared goals along end-to-end process performance outcomes

Findings
Senior Leadership is Key to Drive and Sustain Cultural Change

- The DSD, as the Chief Management Officer (CMO), is the most senior official responsible for the execution of all support functions and the first position where unity of command and authority for all support processes occurs in the current DoD organizational structure

- The leadership of a senior-level, fully empowered, and dedicated change agent is essential to drive and sustain change

- The issue is one of 'time allocation' and 'operational focus' for senior leadership to drive change and create higher levels of efficiency and cost effectiveness - Secretary of Defense - Deputy Secretary of Defense/Chief Management Officer

- Military Departments are under intense GAO criticism for failure to deliver on their business modernization programs that consistently under perform and significantly exceed cost and schedule

GAO High Risk List

IN ADDITION…..Year That Areas on GAO's 2009 High-Risk List Were Designated as High Risk **

Area	Year designated high risk
Medicare Program	1990
DOD Supply Chain Management	**1990**
DOD Weapon Systems Acquisition	**1990**
DOE's Contract Management for the National Nuclear Security Administration and Office of Environmental Management	1990
NASA Acquisition Management	1990
Enforcement of Tax Laws	1990
DOD Contract Management	**1992**
DOD Financial Management	**1995**
DOD Business Systems Modernization	**1995**
IRS Business Systems Modernization	1995
Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
DOD Support Infrastructure Management	**1997**
Strategic Human Capital Management	2001
Medicaid Program	2003
Managing Federal Real Property	2003
Improving and Modernizing Federal Disability Programs	2003
Implementing and Transforming the Department of Homeland Security	2003
Pension Benefit Guaranty Corporation Insurance Programs	2003
Establishing Effective Mechanisms for Sharing Terrorism-Related Information to Protect the Homeland	2005
DOD Approach to Business Transformation	**2005**
DOD Personnel Security Clearance Program	**2005**
Management of Interagency Contracting	2005
National Flood Insurance Program	2006
Funding the Nation's Surface Transportation System	2007
Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests	2007
Revamping Federal Oversight of Food Safety	2007
2010 Census	2008
Modernizing the Outdated U.S. Financial Regulatory System	2009
Protecting Public Health through Enhanced Oversight of Medical Products	2009
Transforming EPA's Processes for Assessing and Controlling Toxic Chemicals	2009

** One reason that DoD has never achieved removal of a single item from the GAO High Risk List is that many in the Military Departments have historically not been focused on the management and execution of the business side of the organization. The primary responsibilities for military leaders are in the warfighting mission, with business enablement perceived as secondary back office support.

Findings
Cultural Change Is Not Technology Driven

DoD has spent nearly $6B on its Enterprise Resource Planning (ERP) based transformation efforts to date but less than 10% of the Department's total obligation authority is actually being transacted and managed through these systems.

This integration challenge is primarily due to the lack of effective governance and alignment around best practices to utilize these tools as designed to achieve mission outcomes.

Risk Areas

Technology — Most of the focus in DoD

Organizational Alignment
Governance
Scope/Requirements
Business Processes
People
External
Strategy

80%+ of risks stem from things other than technology
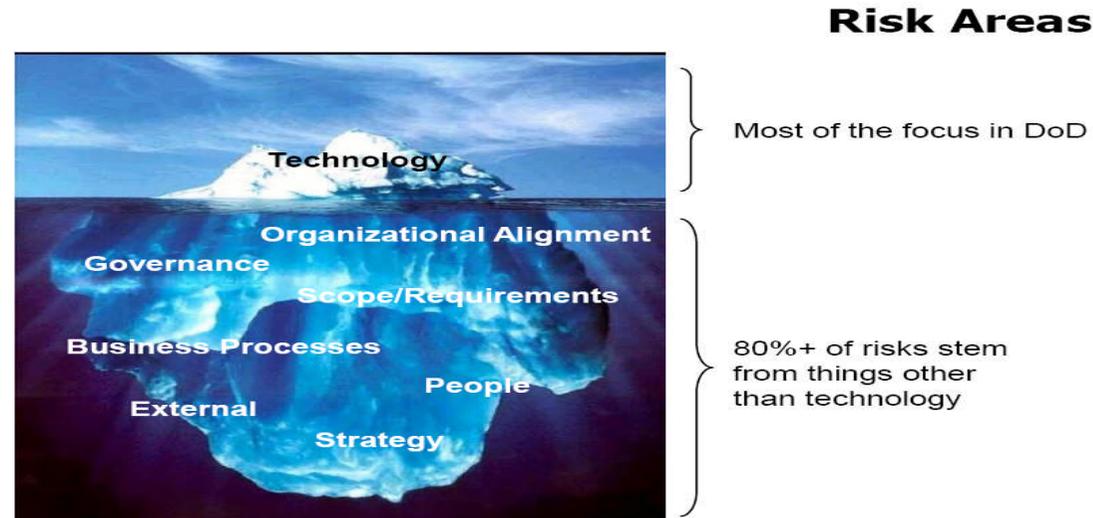
Technology will not fix the underlying business problems by itself

Findings
Command and Control Structures Are Not Aligned with End-to-End Processes

- DoD procures business solutions based on a premise that all stakeholders involved in implementing that solution are aligned around a common approach, scope, requirements, and expected outcomes. That is usually not the case.

- The Department, which is a strong hierarchical organization, may believe it can overcome this lack of alignment through military-like discipline but since there is no process ownership taking control of the existing systems, each organization involved has its own interests at heart

- There are many functional organizations involved with no clear ownership or leadership of the problem. This means that communication of policies is cumbersome and coordination is usually insufficient or lacking.

- Command and control organizational structures are not aligned with end-to-end processes on the supply side (business operations and support functions) – Example: Could reduce redundancy by implementing a shared service center opportunity

Potential Shared Services

- Administrative

- Information Technology System

- General Counsel

- Congressional -Legislative Relations

- Internal Audit

- Finance and Accounting

- Travel and Expense

- Processing Purchasing/Strategic Sourcing Agreements

- Data Warehouse

- Maintenance

- Renovations/Construction

- Governmental Relations (Federal)

- Human Resources - Benefit Administration

- Education and Training

- Health Care Administration

- Compensation Analysis and Records

- Job Posting and Applicant Tracking

- Helpdesk Support

- Marketing and Communication

- Public Relations

- Environmental Health and Safety

Example: Culture of Shared Services

- ## Tangible benefits
  - Typically measured against business performance indicators in quality, unit costs and profit margins
  - Delivered by the center should show a direct correlation with increased satisfaction and decreased costs of doing business
  - Demonstrate cost avoidance through economies of scale, standardization, automation, and critical mass.

- ## Technology infrastructure and physical facilities should be scalable (equipped to grow).
  - The more an enterprise can leverage and build on a core set of existing technologies (i.e., systems, applications and networks), the less costly and complicated the shared services solution will be.

DEFENSE BUSINESS BOARD

- ## Reforming How We Do Business
  - "[T]he Department needs a means to quickly prioritize and quantify requirements and to ensure that resources are available to enable rapid fielding of capabilities inside of the Department's Planning Programming, Budgeting and Execution System (PPBES) cycle."

Department of Defense
Secretary of Defense
Deputy Secretary of Defense

Office of the Inspector General of the Department of Defense

Office of the Secretary of Defense

Under Secretaries of Defense, Assistant Secretaries of Defense, and other specified officials

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Department of the Army
Secretary of the Army

Office of the Secretary of the Army	The Army Staff

The Army

Department of the Navy
Secretary of the Navy

Office of the Chief of Naval Operations	Office of the Secretary of the Navy	Headquarters Marine Corps

The Navy — **The Marine Corps**

Department of the Air Force
Secretary of the Air Force

Office of the Secretary of the Air Force	The Air Staff

The Air Force

The Organization of the Joint Chiefs of Staff
Chairman of the Joint Chiefs of Staff

The Joint Staff

The Defense Agencies
- Defense Advanced Research Projects Agency
- Defense Business Transformation Agency
- Defense Commissary Agency
- Defense Contract Audit Agency
- Defense Contract Management Agency
- Defense Finance and Accounting Service
- Defense Information Systems Agency
- Defense Intelligence Agency
- Defense Legal Services Agency
- Defense Logistics Agency
- Defense Security Cooperation Agency
- Defense Security Service
- Defense Threat Reduction Agency
- Missile Defense Agency
- National Geospatial-Intelligence Agency
- National Reconnaissance Office
- National Security Agency/Central Security Service
- Pentagon Force Protection Agency

DoD Field Activities
- Defense Media Activity
- Defense Prisoner of War/Missing Personnel Office
- Defense Technical Information Center
- Defense Technology Security Administration
- DoD Education Activity
- DoD Human Resources Activity
- DoD Test Resource Management Center
- Office of Economic Adjustment
- TRICARE Management Activity
- Washington Headquarters Services

Combatant Commands
- US Africa Command
- US Central Command
- US European Command
- US Joint Forces Command
- US Northern Command
- US Pacific Command
- US Southern Command
- US Special Operations Command
- US Strategic Command
- US Transportation Command

Prepared by: Directorate for Organizational and Management Planning/Office of the Director, Administration and Management/Office of the Secretary of Defense May 2010

Outline

- ## Big Picture: New Organizational Structure
  - Demand (Planning and Programming: Current & Future Capabilities)
    - SECDEF: COCOMs; Joint Chiefs of Staff; Armed Services;…
  - Supply (Budgeting: Optimal Mix of Personnel, Equipment, Facilities, Materiel)
    - DEPSECDEF: Armed Services, SSCs (Defense Agencies, Field Activities, etc.)

- ## Goals for SSCs: Better, Faster, Cheaper
  - Demand (SSC Users)
  - Supply (SSC Providers)

- ## "Make-or-Buy" Decision
  - Vertical Integration=>Internal Markets=>External Markets
  - Economies of Scale, Scope; Transfer Pricing; Transaction Costs

DEFENSE BUSINESS BOARD

DEMAND

SUPPLY

Joint Chiefs of Military Staff
Chairman JCS
The Joint Military Staff
Vice Chairman JCS
Chief of Staff, Army
Chief of Naval Operations
Chief of Staff, Air Force
Commandant, Marine Corps

Secretary of Defense
Deputy Secretary of Defense

Office of the Inspector General
of the Department of Defense

Joint Chiefs of Enterprise Staff
Chair JES
The Joint Enterprise Staff
Under Secretaries
Assistant Secretaries
Of Defense
and Equivalents

Department of the Army
Secretary of the Army

| Under Secretary and Assistant Secretaries Of the Army | Chief Of Staff Army |

Department of the Navy
Secretary of the Navy

| Under Secretary and Assistant Secretaries Of the Navy | Chief Of Naval Operations | Commandant Of Marine Corps |

Department of the Air Force
Secretary of the Air Force

| Under Secretary and Assistant Secretaries Of the Air Force | Chief Of Staff Air Force |

Army Major Commands & Agencies

Navy Major Commands & Agencies

Marine Corps Major Commands & Agencies

Air Force Major Commands & Agencies

Combatant Commands

US Africa Command
US Central Command
US European Command
US Joint Forces Command
US Northern Command
US Pacific Command
US Southern Command
US Special Operations Command
US Strategic Command
US Transportation Command

Defense Agencies

Defense Advanced Research Projects Agency
Defense Business Transformation Agency
Defense Commissary Agency
Defense Contract Audit Agency
Defense Contract Management Agency
Defense Finance and Accounting Service
Defense Information Systems Agency
Defense Intelligence Agency
Defense Legal Services Agency
Defense Logistics Agency
Defense Security Cooperation Agency
Defense Security Service
Defense Threat Reduction Agency
Missile Defense Agency
National Geospatial-Intelligence Agency
National Reconnaissance Office
National Security Agency/Central Security Service
Pentagon Force Protection Agency

DoD Field Activities

Defense Media Activity
Defense Prisoner of War/Missing Personnel Office
Defense Technical Information Center
Defense Technology Security Administration
DoD Education Activity
DoD Human Resources Activity
DoD Test Resource Management Center
Office of Economic Adjustment
TRICARE Management Activity
Washington Headquarters Services

SSCs

Tenets to Create and Sustain Change

- Behavioral change implies a long-term effort. It is an ongoing campaign.

- 'Cultural' behavior cannot change without winning hearts and minds

- Transformational and lasting change is a major strategic undertaking

- Requires direct, active involvement of the most senior leader/commander; time; experimentation; and incentivized objectives

- The will and skill to lead and execute a sustainable change process must be nurtured, developed, and rewarded

- Do not underestimate resistance forces. Engage and lead them.

- Controlled and careful planning is essential to prevent service disruption, maintain defense readiness, and improve stakeholder morale

- Leadership, organization structure, empowerment, and associated alignment are all necessary to make a collaborative environment possible

- Behavioral change implies new rituals, some re-organization, change agents, intensive communications, education, rewards, and persistence

A Future State Vision for the Department of Defense

AS IS
Transaction-oriented
Isolated Workers
Local information
"Silos" of data
No common architecture
Stand alone applications that lack
interoperability
Redundant systems; capability gaps
Tactical utility to individual programs
Increased cycle times and transaction costs

FUTURE
Strategic, enterprise approach
Knowledge-bases, collaborative workers
Shared business intelligence
Integration - Logistics, Finance, & other
Communities
Enterprise Architecture
Net-centric, interoperable applications
Rationalized systems
Strategic Value to the Department
Decreased cycle times and transaction costs

Recommendations
Action Plan: Sense of Urgency, Communications, and Planning

PHASE 1 – Leadership, Planning, and Governance (2011)

- Launch a formal cultural change management process led by SD or DSD and publish the rationale and a vision statement to get from the "As Is" to the "To Be"

- Develop and launch a high level on-going communication program to inform all DoD stakeholders of benefits (why, what, when, who, and how)

- Establish the CMO as the Lead Cultural Change Agent

- Create or reinstate a Change Management Program Office reporting to the CMO (see model in Appendix A)

- Bring in subject matter experts to consult, facilitate planning, and help design the culture change blueprint

- Identify an operational initiative with which to drive behavior change, while further integrating support areas, re-defining end-to-end functional processes, reducing costs, and increasing efficiency and accountability

Nothing is more critical for sustainable cultural change than senior leadership who will articulate the vision, create the framework, and drive change with goals, metrics, and reward systems to yield desired behavior and outcome over time

Recommendations
Define Goals, Roles, and Responsibilities

PHASE 2 – The Journey Begins (2011 – 2012)

Embark on the journey to change from the 'As Is State' to the desired 'Future State'

- Overwhelming the system with "too much too fast" will increase the backlash that can build up against the change effort. Set achievable goals to create traction and confidence.

- A well-structured and sequential plan, with the lead change agent in place, will steer it in a way to minimize disruptions and promote buy-in

- Given typical turnover period for senior managers, necessary organizational changes of any position can be prudently transitioned in a two-year period

- These changes can occur at the time of an administration change, or begin in a phased approach as current leaders depart during a current administration

- Ensure current and incoming leadership is properly trained and skilled in managing large organizations and breaking down institutional barriers to progress

- Require cross-organizational career responsibilities within the business mission area to foster the importance of end-to-end alignment in business operations as a prerequisite for promotion to the Senior Executive Service

  - Effort would mirror the successful requirement for military personnel to serve in joint billets before becoming eligible for promotion to General or Flag Officer

PHASE 2+ – Intellectual Capital, Consolidation, and More Accountability (2011 – 2013+)

- Conduct periodic personnel reviews of key Business Department Heads' capabilities to ensure administrative personnel have the appropriate experience and training to oversee large-scale business functions and change management processes effectively

- Produce and require completion of training and information modules for all staff on change management skills

- Change hiring profile for key business positions as the appropriate skill sets are redefined and validated

- Align individual and shared reward systems to incentive programs in support of change initiatives through performance metrics

- Produce reporting scorecards to communicate results, substantiate performance, give recognition, and rewards

- Celebrate visibly and often

Benefits to Congress and Department of Defense

- Enable DoD leadership to focus on defense core missions, turbo charge business support capabilities, and instill a culture of savings and accountability

- Enable SD and DSD to improve communications with congressional oversight committees, the media, and with internal and external DoD stakeholders

- Enable SD and DSD to foster closer relationships with intra-government security agencies, coalition partners, and allies

- Foster with GAO a working process to bring and maintain all business support operations in auditable status to ensure efficient and effective use of taxpayer funds

- Enhanced war fighter support (supply and service) performance

- Better supply side governance and organizational alignment

- Clearer roles and responsibilities for internal and external service providers

- Creating a continuous improvement environment which challenges the status quo

- Break down barriers that constrain business transformation and behavioral change