

*Report of the
Defense Science Board Task Force*
on
Department of Defense Business Practices



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This report is a product of the Defense Science Board (DSB). The DSB is a Federal Advisory Committee established to provide independent advice to the Secretary of Defense. Statements, opinions, conclusions, and recommendations in this report do not necessarily represent the official position of the Department of Defense.

This report is Unclassified.

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TABLE OF CONTENTS

I. Overview	1
Introduction.....	1
Key Assessments	1
Five Major Recommendations.....	2
Consistent with Previous DSB Studies.....	2
Directionally Consistent with DoD Leadership.....	3
II. Business Planning	7
Current DoD Fiscal Position.....	7
Authority and Accountability	8
The Business Plan Construct	9
Joint Capability Requirements and Financing Process.....	10
The Business Plan – Relating Resource Allocation to Combatant Command Missions.....	11
Recommendations.....	12
III. Logistics.....	13
Logistics Transformation Progress.....	13
Strategic Imperative – Why Now?.....	17
The Logistics Opportunity	18
Performance Based Logistics (PBL).....	20
Transformation Best Practices	24
Summary and Recommendations	26
IV. Personnel.....	30
Civilian and Military Personnel.....	30
Recommendations.....	31
V. Management Information Systems	34
Business Management Information Systems.....	34
Lessons Learned on Implementation of New Enterprise IT Systems.....	34
Recommendations – Management Information Systems	36
Some Initial Thought on Implementation.....	36

VI. Agency Support	38
Reasons to Appoint and Utilize Board of Advisors.....	39
Recommendations.....	41
VII. Recommendations	42
Compelling Reasons for Moving Forward	43
General Observations.....	44
Appendices.....	44
A. Terms of Reference.....	46
B. Task Force Membership.....	50
C. Briefings Received.....	51
D. 1998 DMC Budget Breakdown	53
E. Memo on COO Duties.....	105
F. Memo on DBSMC.....	106
G. Department of Defense Appoints TransCom as Distribution Process Owner.....	110
H. Market-Based Sourcing Results.....	111
I. Acronyms	112

I. OVERVIEW

INTRODUCTION

One of the truly incredible benefits of Society in the United States has been the ability to create, stimulate, and propagate the continued efficiency and productivity of the industrial and business community, in the private sector, to power the economy. The Department of Defense (DoD) has a great opportunity to capitalize on the practices of this community. The Business Management processes of the Department are complicated and conflicting, and the systems that support them are inadequate, relative to the private sector. Improvement in this area offers a great opportunity for the Department to operate more effectively and efficiently to provide national security to its citizens.

The objective of the present study is to "Assess the Department's progress towards transformation in areas of business processes, their interrelationships, their management structures, and recommend actions for improvements". The business process areas considered by the Task Force began with the most critical area – Development of the strategy and objectives of the Department for the missions it has to support for the National Security objectives; and then moved to the Use and Management of the Department's Resources (money and people) to support those objectives. The Task Force's studies included the management and process systems that cover the areas of finance, acquisition, logistics, personnel, and medical.

Task Force membership is shown in Appendix B. The Task Force is composed of leaders with both private sector and government experience at senior levels.

KEY ASSESSMENTS

The Task Force's review concluded the following key assessments of the business processes and the systems that support them:

1. The Department does not have an effective multi-year business plan that aligns the resources of the Department, both personnel and financial, to its missions.
2. The capability-needs process continues to be dominated by the force providers and the Joint Staff, and is under-represented by the COCOM needs.
3. Logistics performance is well behind world-class standards in responsiveness, dependability, cost, and inventory management. The system is sub-optimized for each structural organization's accountability, and many items are lost or mishandled at organizational hand-offs.
4. The allocation of the personnel resources of the Department, both civilian and military, does not reflect on mission priorities.
5. The Department management does not focus on outputs and metrics of performance with the same energy and focus as it does on acquiring resources; and accountability for performance-to-objectives is weak.
6. The Department needs integrated business management systems to support the management of resources and tracking for their use. The current systems are not interoperable and they do not reflect best practices.

7. The Department needs *better methods* for measuring and assuring Defense Agencies' performance.

In the remainder of this report the Task Force reviews the status of the business management processes and systems in the Department; expands on the above observations; and makes key recommendations based on these assessments. The Task Force's recommendations are summarized below:

FIVE MAJOR RECOMMENDATIONS

The Department should:

1. Create a resource-constrained, output-metric-based, multi-year business plan (with effective COCOM involvement).
2. Create a Joint Logistics Command to assure end-to-end optimization of the management of the DoD supply chain.
3. Achieve better personnel resource utilization by shifting all non-inherently governmental support to competitive sourcing.
4. Achieve a horizontally-integrated Defense Management Information System using COTS systems and processes.
5. Enhance the use of customer feedback and commercial best practices for Defense Agency Management by establishing Agency Management Advisory Committees.

CONSISTENT WITH PREVIOUS DSB STUDIES

The current task force assessments and recommendations on business practices are consistent with previous Defense Science Board (DSB) studies. The problems of business process transformation have been long standing, and although conceptual solutions are well known, they have been very difficult to accept and implement in the DoD for reasons embedded in complexity, culture, and management.

The 2003 DSB Report on Enabling Joint Force Capabilities recommended changing the PPBE process to have a stronger role for joint priority setting. Three of its recommendations are as follows:

1. Assign and enforce clear responsibilities and accountability for force capabilities among the joint world (Joint Chiefs, Joint Staff, combatant commands); force providers (military departments and defense agencies); and the Office of the Secretary of Defense (OSD).
2. Strengthen the influence of the combatant commanders in identifying joint force needs and setting priorities for filling those needs.
3. This report also recommends that the DoD adopt a multi-year business plan with responsibilities and accountability for mission execution, and a baseline against which performance can be measured.

The 2002 DSB Report on The Impact of e-Business on DoD Acquisition Processes dealt with the IT infrastructure in the DoD and recommended the adoption of commercial software and practices. This study compared DoD systems and practices with those in industry, and concluded that there would be great benefits to having common, interoperable, commercial business software in the Department. Advantages would include lower initial cost, lower maintenance cost, and increased interoperability. Few systems were seen as needing to be service specific.

The 1996 DSB Report on Outsourcing and Privatization recommended shifting all non-inherently-governmental support to utilize competitive forces for better performance at lower costs. Among its conclusions, the report states, "The task force believes that all DoD support functions should be contracted out to private vendors except those functions which are inherently-governmental, are directly involved in warfighting, or for which no adequate private sector capability exists or can be expected to be established."

There have been three recent DSB studies on Logistics Transformation:

1. "Logistics Modernization", 1996;
2. "DoD Logistics Transformation", 1998; and
3. "Logistics Transformation Phase II", 2001.

In 1996, the DSB Task Force recommended providing "unified and specified" CINCs with the authority and resources to pull required support from the logistics system. In 1998, the DSB Task Force encouraged DoD to empower a logistics systems architect – an owner of the logistics process. The DSB Task Force in 2001 reiterated that unless the logistics system's architect controls the budget, real improvement will not be possible.

The Task Force's logistics recommendations are very consistent with these previous studies. Thus, the Task Force's recommendations are not totally new, as the DSB and others have recommended many before.

So then the question is: Why has none of this been done? First, there has been no perceived compelling reason to manage efficiently (similar to P&L in the private sector). Second, decision times are too long, driven in part by risk avoidance and diffusion of authority. Third, the system focuses on allocation of resources to the Service Providers, versus to the mission priorities. Finally, there is little incentive to use output metrics to monitor effective resource utilization. Sub-optimization is more consistent with organizational assignments. In fact, there is little consequence for not meeting – or even setting – targets.

In this report, the Task Force has sought ways to:

1. Focus resource allocation against mission priorities;
2. Implement resource constraints;
3. Implement a mission-based personnel allocation system;
4. Manage using output metrics; and
5. Assure clear accountability.

DIRECTIONALLY CONSISTENT WITH DoD LEADERSHIP

All of the major recommendations contained herein are completely consistent with prior DSB studies, and – very encouragingly – recent actions by the DoD have begun to take significant steps in the directions recommended by this report. Specifically:

1. At the overall management level, making it explicit that the Deputy Secretary of Defense is the COO of the DoD – as recommended by the "Defense Business Board" on June 13,

2005, with the clear delineation of responsibilities (that cover Business management systems modernization, integrated supply chain management, financial management and auditable financial data, DoD personnel, etc. – as shown in Appendix E).

2. Initiating steps toward a more top-down, resource-constrained, multi-year, mission (vs. supplier)-focused, business planning process – including a new PPBE calendar (that links programming and budgeting together).

It can be expected that this new process (initiated over the past year, in response to a 2003 Secretary of Defense-directed study of the DoD resource allocation process, chaired by former USD(AT&L) Pete Aldridge) will meet significant resistance; but it is clearly moving the DoD in the direction advocated by this report's proposed planning process.

3. Establishment of the "Defense Business Systems Management Committee," chaired by the DepSecDef and with the USD (AT&L) as the Vice Chair (see Appendix F for full membership and charter). This group of senior DoD leaders (Services, Agencies, OSD and JCS) will be responsible for assuring "world-class business operations in support of the warfighter." It is intended to be the "governing board" to assure "cross-Department, end-to-end interoperability of business systems and processes." Implementation of this "horizontally-integrated," Enterprise Management Information System (a revised version of the Business Management Modernization Program (BMMP)) has been made the responsibility (via DepSecDef memo dated March 28, 2005) of the USD(AT&L) – with the full support of the CIO, the Comptroller, the USD(P&R) and the Services and Agencies clearly going to be required for successful implementation.
4. Identifying TransCom as the responsible organization for DoD's "synchronized transportation, distribution, and sustainment." Officially announced on September 25, 2003, the U.S. Transportation Command was appointed as the "Distribution Process Owner" (see Appendix G for the announced purpose of this change).

While this doesn't cover the end-to-end full logistics process, since it is focused on distribution, it is an important, and necessary, step.

5. Secretarial direction to "shift non-warfighting military portions to civilians" (For example, refer to Secretary Rumsfeld's statement before the House Armed Services Committee, February 16, 2005). When combined with the DoD's response to President Bush's Management Initiative #5 (to shift all non-inherently-governmental work to competitive sourcing) these represent a clear step toward a major shift in personnel resources; resulting in a more effective and efficient focus on the DoD mission.
6. The DoD has recognized the value of having senior management advisory boards for its Defense Agencies, and has been working to establish one for the Defense Logistics Agency (which manages an annual budget of \$27 Billion).

However, over the past year, due to political pressure, a number of Defense Agencies have eliminated (or are in the process of eliminating) their advisory boards. Since effective and efficient management of the 14 Defense Agencies is so important to the DoD mission, this report recommends that an external advisory board can be of great value – and the members must be appointed solely on the basis of their expertise.

These six steps are explicitly recognized by the DoD and the desirability of this report's recommendations. In addition, these six steps are a sign of their necessity, and their achievability with leadership and perseverance. Initial steps are already underway, while recognizing the

possibility of encountering severe resistance, especially since they go further than the steps taken to date.

While these steps are directionally correct, this Task Force believes that they do not go nearly far enough to achieve significant transformation of the management of the Department's business processes to align resources with the Department's missions.

1. The first part of the document is a list of names and their corresponding addresses. The names are listed in a column on the left, and the addresses are listed in a column on the right. The names are: John Doe, Jane Smith, and Bob Johnson. The addresses are: 123 Main St, 456 Elm St, and 789 Oak St.

II. BUSINESS PLANNING

CURRENT DOD FISCAL POSITION

DoD is in the difficult fiscal position of having to do more with fewer available resources. There is a fiscal train wreck looming on the horizon – federal entitlements/non-discretionary funding is likely to grow in the out-years, which will adversely impact DoD's available topline. This "discretionary funding challenge" is further complicated by the Administration's commitment to "fix" (i.e. hold steady) other potential sources of available topline, e.g. tax cuts, as a means to halve the federal deficit by 2009. Given the rising nature of military personnel compensation costs, annual health care costs, and facilities programs, one discovers that a sizable portion of "defense discretionary" spending is not so discretionary. All these factors combine to produce a daunting fiscal environment for the Defense Department.

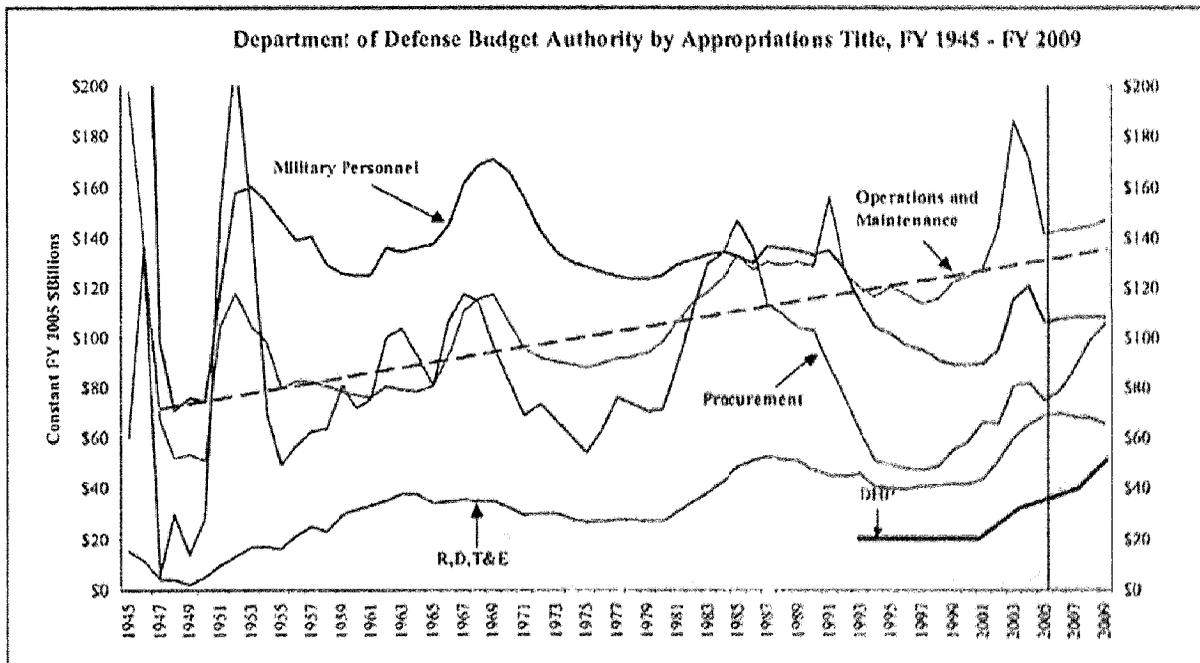


FIGURE 1. DoD Defense Budget Authority

As depicted by the chart, above, there are four pressures concerning DoD budget authority. The first is the fact that MILPERS accounts will be rising for the next decade. The cost of maintaining a highly qualified workforce in a competitive environment ensures that expenditures will continue steady growth. Second, O&M is growing at a rapid rate and will remain a significant expenditure over the near future. Third, RDT&E will continue to move along as weapons development costs increase and Congress receives pressure for continued spending on new programs in their respective districts. And, fourth, expenditures for the Defense Health Program (DHP) are rising rapidly. Conversely, procurement is trailing behind its necessary state and full recapitalization will not occur until at best 2018. And, long-term research continues to

be cut, to pay for the urgent, short-term needs of the Services. Herein, lays the burning platform for genuine transformation.

AUTHORITY AND ACCOUNTABILITY

Figure 2, below, simplistically presents the basic definitions of authority and accountability. Key responsibilities are underlined for emphasis. Responsibility and accountability overlap. As an example of that overlap, while it is OSD's responsibility to make overall priority solutions and allocate resources, the SecDef and his staff cannot do that competently without full access to the in-depth expertise of the force providers. Moreover, OSD should also interface closely with the customer, the Combatant Commanders, to determine force capabilities and needs.

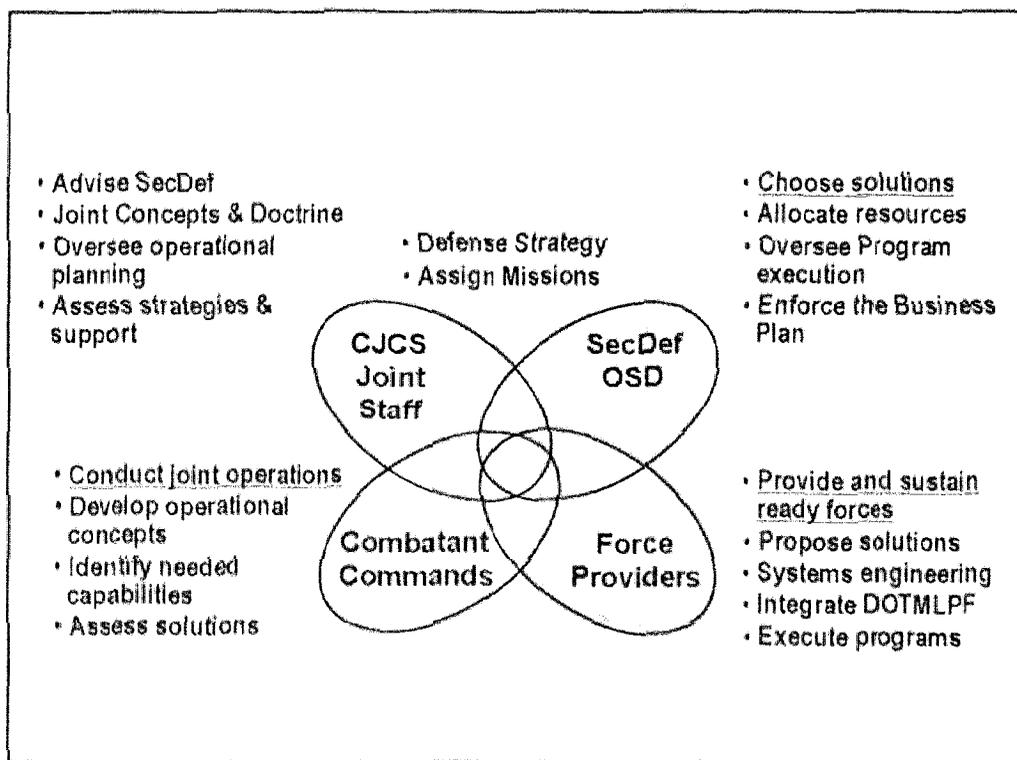


FIGURE 2. Defense planning and programming lead responsibilities

By contrast, and will be discussed further, the force providers dominate the current process for defining the right capabilities. While Figure 2 represents current state, in execution, the force providers collect "requirements," translate them into recommended individual (and Service-centric) programs, aggregate the proposed programs into proposed budgets, and usher them through the joint, OSD, and Congressional gauntlet. During this process, Combatant Commanders' views of their own capability needs and excesses have marginal impact on most major materiel program decisions. The issue is whether the major materiel programs that are identified as new requirements are the most appropriate platforms and weapons to execute an integrated, unified military approach to joint warfighting needs, rather than the approach of each

single Service. A similar problem exists regarding the allocation of human resources (as will be discussed later).

It seems clear that the Combatant Commanders need more influence on the priorities of needed capabilities and associated resources. Only the Combatant Commanders have operational requirements that employ all the armed forces as a joint team. The decisions over what to buy for that joint team must be made from a joint perspective, with OSD exercising far more authority on resource allocation, early in the process. The mechanism for ensuring programs deliver the expected value for the resources expended is a multi-year, output-driven DoD Business Plan.

THE BUSINESS PLAN CONSTRUCT

The interactive, resource-constrained construct for creating and executing the Business Plan is depicted in Figure 3.

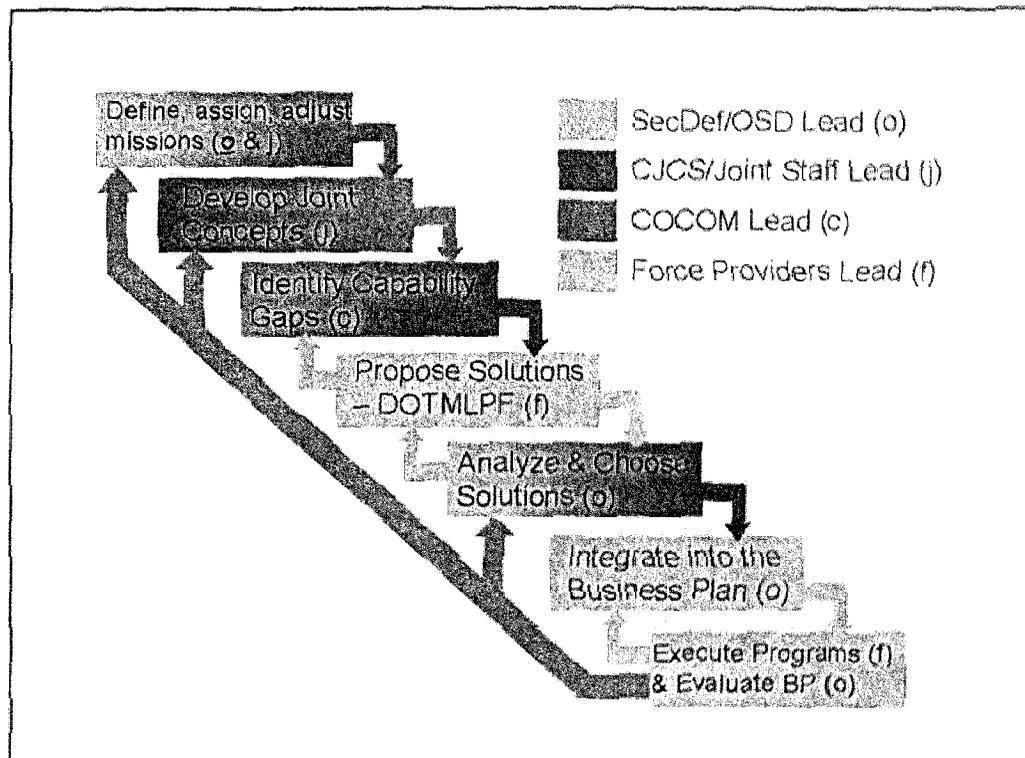


FIGURE 3. OSD multi-year, resource-constrained, output-based Business Plan construct.

The critical aspects of the figure include shared responsibilities for most of the activities. Although there is a clear lead role (as indicated by the bold underline font), feedback throughout the process, the thesis that must be all activities are conducted in a resource-constrained environment. The result is disciplined resource allocation to the missions promulgated in the national military strategy and the formulation of military requirements with a mechanism for coherent execution.