

Defense Business Practices Implementation Board
November 21, 2002

Attendees:
Refer to Spreadsheet

Minutes:

Welcome / Old Business

- ❖ 08:05 Gus Pagonis kicked off the meeting and welcomed everyone
- ❖ Tom Modly → the meeting for the day and had an updated contact list sent around for any additions or changes
- ❖ Fred Cook → HR task force
 - October 29, 2002 HR task 1 was officially briefed to the SEC and it was received favorably.
 - Proposed a considerable pay increase for SES level 6
 - This would require legislation because of the capping of salaries by Congress
 - Fallback position would be for significant bonuses for the mission critical positions and exceptional performance
 - Developed a transmittal letter to the Secretary of Defense that was delivered yesterday
 - Task 2 → Bill Phillips → recommendations were developed around building business cases
 - Task 3 → enlisted attrition → help improve the selection process to reduce turnover. There have been some private sector testing methods that will be used by the DoD
 - Task 4 → School Task → work with local schools to improve quality of the schooling at local areas → linked up with Chelsea Project through Boston University
 - There are very limited precedents in the private sector for companies helping local school districts.
 - Corning Glass and IBM do have plants in remote locations
 - David Walker → Merck may do something with school systems in NJ
 - Phil Merrill → Westinghouse may have done some of this also
 - Bill, Fred and Phil will continue to work to move the HR initiatives forward
 - David Walker → Homeland Security Bill → requires that agencies have a Human Capital Officer to elevate the important (this will have implications beyond just the Homeland Security)
 - SESers can have compensation up to the level of the Vice President
 - Streamline hiring process for critical occupations
 - Allows for compensation packages for SESers to move on and to allow for new SESers
 - Gus Pagonis → SES ratings have to be done anonymously to get a real barometer. This would be a major shift in thought of senior leadership
 - Fred Cook → positions will be rated mission critical, mission essential and mission support

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- People will also be rated on how critical they are to the organization, if they possess key technical skills, and how difficult it will be to to replace them
- The SES ranks will rated on a 4 point scale in 5 categories with a top score of 20
- Based on that score, the top folks should be assigned to mission critical positions
- It is essential for the organization to have its best performers in the critical positions
- People should only be in a position for a certain amount of time (for example a 4 year limit)
- Gus Pagonis → I am implementing this rating system and placement of top performers in key positions at Sears
- David Walker → It is critical that the Department move to competency based system. The Department needs good people in mission critical and mission essential assignments but it also needs good people in mission support/“non-line” functions too.
- Mort Zuckerman → Based on today’s system it is difficult to truly differentiate between SESers.

Financial Metrics for DoD

- ❖ 08:25 Bill Phillips led the discussion on Financial Metrics for the DoD
 - Worked with Joanne Bouttelle to develop the critical metrics
 - Most of metrics are the same as last month
 - Selected key measures were chosen
 - To Give a business perspective
 - To Provide consistent financial management framework (Neil Albert)
 - To Track trends on critical components. Metrics taken alone provide less information than trend analysis
 - Would like to walk through the 4 or 5 critical measures of the 15
 - Should be completed by the 5th of December
 - Total budget authority by year → what is our operating budget
 - Need to look at more than this
 - Obligation to total budget ration → does the Department have a plan to how the DoD will use its obligations
 - Amount of budget that lapses may be a good measure → it tells the Department how they are running their business
 - The financial metrics would be part of the quarterly financial reports
 - Gus Pagonis → in the private sector you would look at it monthly
 - Phil Merrill → it's a rare manager that turns money back to the treasury
 - Bob Hale → USAF turns back about 500K per year
 - Neil Albert → Sometimes the inaccurate tracking of money was due to it being keyed in erroneously and that led to the money not being spent
 - David Walker → quarterly obligation plans are required but as the end of the year is coming, the Department should make prudent business decisions about how to use the money. It may allow for more flexibility for next year
 - Gus Pagonis → Is there a limit to how much money can be moved between accounts?
 - David Walker → there is a limit to how much money can be moved between accounts
 - Arnold Punaro → Homeland Security bill may present an opportunity to beat the appropriators
 - Bill Phillips → need to be able to see the cause and effect of certain actions
 - David Walker → need to look at the relevance of some measures to the government. Discretionary vs. non-discretionary spending by major category may be a useful metric. Should also consider what OMB is tracking eg improper payments (e.g., pay something twice)
 - Bob Hale → Another measure to consider is low level accounts for expired funds

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- Bill Phillips → What does the Department want the answer to be? That is how we will know how we are performing
- Phil Merrill → When you return unspent money to the Treasury that hurts the organization when they looking for appropriations in the next year
- Joanne Boutelle → the Government definition of improper payment is a payment that is made when it should not be made. Most of these errors come from defense contract errors or customer billing errors. The contracts that the Department writes are too complex. If a bill is submitted twice with different numbers it is VERY difficult to track.
- Gus Pagonis → the group needs to pick 4 or 5 critical measures. 15 are too many. They can be kept in the report but there is a need to focus on a few key metrics
- Bill Phillips → The data feeding the metrics may be suspect but the budget numbers should be pretty good. The government does not account for capital assets like the private sector
- Gus Pagonis → These metrics are not the dashboard. The Department needs to focus on those metrics that helps senior leadership make a decision
 - Sec Def is not exactly sure what he wants. He wants us to make recommendations. He wants 4 or 5 things for his people to look at and then make an assessment on how well they work and he may switch to 4 or 5 other things down the road
 - Gross margin, net sales → These metrics apply in the private sector, not necessarily in the government
- Gus Pagonis and Bob Hale → It is almost impossible to get asset data
- David Walker → There are data on the working capital. Anything that requires asset data is tough
- Joanne Boutelle → the Department should select 5 financial measures at most especially because the data is suspect. The metrics need to be credible.

Public Deliberation

Deliberation: FMMP Review (Neil Albert)

- ❖ 09:00 Public deliberation → Neil Albert led the discussion of the FMMP Assessment
 - Neil Albert → The FMMP needs to take a look at future risk. Current / short term risks have been considered but they are not considering the future risks
 - On the FMMP effort, there are only 8 or 9 government people who have a small number of contractors working directly for them and Team IBM
 - There is limited government expertise that can challenge / validate the recommendations made by Team IBM
 - David Walker → The biggest problem is that the project needs government people to manage cost and schedule of their contractors effectively
 - Gus Pagonis → The DoD should consider looking for retired executives who could help the FMMP program on the behalf of the government. Has the FMMP considered this?
 - Tom Modly → The DoD has tried to look for qualified retired executives but in a conventional way. The Department may be able to use some of Secretary Rumsfeld's contacts that would do this for less than market compensation to serve their country
 - Bob Hale → The FMMP project is much broader than financial management modernization--that only covers about 15 to 20% of the overall project
 - Neil Albert → The FMMP team needs to spend more effort / time on the design phase. Changes are much more costly to make changes during implementation
 - Neil Albert → It is also critical to the FMMP's success to obtain cross-departmental buy in (from the Services)
 - David Walker → That is a great idea. DoD has been around 55 years. It has 8 of 24 high risk areas that GAO has identified. Average tenure of key personnel is 2 to 3 years, and major initiatives average 7 years to implement. This is a major issue for the Department. This is a Change Management issue. The Department needs a person who works for the Secretary but stays beyond the present Administration to project completion
 - Homeland Security has an Under Secretary for management but that position needs to report to the top.
 - Gus Pagonis → David is proposing a "COO-type position" that can provide consistency from start to finish beyond the Administration
 - David Walker → There is a difference between what systems are required to win armed conflicts and what systems are required to run the Department
 - Bob Hale → The Department really needs to implement this idea of a COO during this Administration because Mr. Rumsfeld is committed to the idea of change
 - Gus Pagonis → Does there need to be a special briefing set up with Tim to outline key issues?

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- Gus Pagonis → The Defense Business Implementation Board needs to write up a formal proposal of what David Walker talked about. Bob Hale will write a rough draft. This will be a far-reaching effort.
- Arnold Punaro → This board has some thoughts on this and will send the input to Bob Hale.
- Jeffrey Steinhoff → There is a risk of assigning dollar values to the potential savings associated with this program. The Department should consider percentages and proxies. The FMMP should be called Business Modernization Change. IT is only a tool. This might be a dashboard item where the Department can measure the chance of failure.
 - Carnegie Mellon and others can come in and give you a grade on how the project is performing
 - The IRS assessed their ability to succeed and they were guaranteed to fail on their present course.
 - Jeffrey Steinhoff → Major projects should not be date driven. This is the kiss of death.
- Gus Pagonis → The Board's assessment of the FMMP was for Dr. Zakheim and the final product will be customized for his needs

Deliberation: Scorecard Metrics (Neil Albert)

- ❖ 09:52 Neil Albert led the discussion on the Balanced Scorecard (BSC) Discussion
 - Neil Albert → BSC is a best practice being used by industry and has been started in the DoD
 - DoD is not profit driven, so the incentives are different
 - DoD has already developed a BSC
 - The BSC framework needs to be understood throughout the organization down to the most junior person in the Department
 - Gus Pagonis → the metrics that have been developed have not yet been quantified. That is a recommendation. The financial measure are distinctly different and should be added as a 5th area.
 - If the SEC agreed to this, they have agreed to be graded.
 - Neil Albert
 - The Army has already developed a Balanced Scorecard and are pretty far along in implementation
 - The Defense Logistics Agency is also pretty far along in implementing a Balanced Scorecard
 - Potentially the Department can tie these scorecards together down the road
 - Tom Modly → There have been some discussions with the Army's BSC folks and they have a system that they can pull down information automatically
 - Gus Pagonis → The Department is heading in the right direction
 - Bob Hale → On the President's Management Agenda objectives, OMB will provide a rating red, yellow, green based on quantifiable numbers

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- When a milestone is not met, OMB examiners evaluate. Mark Everson has the final say

Deliberation: Top Tier MBA Recruiting (Fred Cook)

- ❖ 10:10 Fred Cook led the discussion on the Top Tier MBA Recruiting task
 - Fred Cook
 - Assessed current DoD practices on top tier MBA recruiting vis-à-vis best practices
 - The Navy volunteered to participate in a pilot program
 - As part of this program, they would like to bring in 5 to 10 people from Harvard's MBA program
 - This fits in with Task 1
 - The Secretary of the Navy Gordon England would like to assign these recruits for a 2 year program at GS 14 step 3
 - Department of Labor has a program that brings in MBAs at GS 9 level (MBA or equivalent experience)
 - Gus Pagonis → The recruits can come in as a consultant and then compete for positions to bypass the bureaucracy
 - Lt. Majeranowski → Executive order can circumvent certain restrictions
 - Gus Pagonis → School debt forgiveness may be a possibility
 - Fred Cook → Opening this program up inside the government is also a viable option. This would allow exceptional candidates already working for the Department to attend top business schools and pay their school debt with service to the Department
 - Ginger Groeber → the DoD now has legislative authority to send our people through educational programs
 - Phil Merrill → a letter from the President would carry a lot of weight to the heads of these schools
 - Ginger Groeber → There are issues with sending government employees to the private sector on exchange
 - Gus Pagonis → EPA contacted Sears to have an exchange program
 - Jeff Steinhoff → GAO has a fellows program for accountants who go through a 5 year program from Top Business Schools
 - Gus Pagonis → The recruits from the Top Business Schools need to be put in visible meaningful jobs
 - Tom Modly → This program should be viewed as a way to upgrade the expertise in the government, not to prepare them for private sector jobs.
 - Fred Cook → Need to consider both: folks who want a two year stint (fellows program) and folks who would want to stay (career)
 - career)

Modernizing the DoD Supply Chain

- ❖ 11:00 Modernizing the DoD Supply Chain → Dr. Jacques Gansler from the University of Maryland led the discussion
 - Dr. Jacques Gansler
 - Modernizing the DoD supply chain is truly transformation
 - Logistics is a huge part of the budget and drives readiness
 - The Department is digitizing the old process, not an end-to-end integrated process
 - Successful but not “world class”
 - Working Capital Fund assumes a fixed maintenance cost. I.e. a modernization of an Apache causes an increase in the price of tanks
 - The Department needs a good baseline to do a credible business case
 - The Logistics Management Institute study showed that private sector demonstrated savings while the public sector did not
 - Gus Pagonis → Has the Department considering stratifying inventory?
 - Dr. Gansler → GAO did a study that discovered that the Department has a lot of obsolete equipment and it takes 22 days to get things there.
 - Mort Zuckerman → The Department has had 40,000 attacks on their information systems
 - David Walker → Unless you end up freeing up capacity you don't have any savings. Redeployment should be needed.
 - Mort Zuckerman → Who are the major opponents of supply chain modernization?
 - Dr. Gansler
 - Depot caucus for example Georgia has the largest caucus and they are resistant to change (Newt Gingrich's old district)
 - Resistance from Union, Congress, employees, and industry won't speak up because they don't want to anger other groups
 - Congress needs to make changes to A-76 legislation. It is currently biased toward the public sector
 - David Walker → There may be a need for a COO who will act as an integrator over a period of time. This would also facilitate the modernization of the supply chain
 - Dr. Gansler → Agree but the Department should not focus on reorganization. This is in line with the European model.
 - Gus Pagonis → Why doesn't the Department combine Transcom with DLA and put it under a Civilian CEO with 3 star deputies. They would have control of the supply chain and give them a 4 year and directly report to the SEC DEF. This could be VERY controversial. Homeland Security may act as a model.
 - For example the UK went to a single organization and had a private company run all of logistics for the military
 - Gus Pagonis → Army Materiel Command had a single POC for 7 years and that was a major reason for its success during the Vietnam era. There is precedent for private firms running military functions. It was done during the Gulf War.

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- Dov Zakheim → The business acumen in government is defined quite differently than the private sector
 - DLA was formed due to cuts in the Army budget.
 - A recommendation from the last QDR was to eliminate DLA

Working Lunch with the SEC

- ❖ 12:50 pm Working Lunch with the SEC → Neil Albert led a discussion of the Balanced Scorecard Metrics
 - Learning and growth is the enabler
 - Gordon England → In the past the Department did not worry about cost, but now the thinking is that the Department has limited resources, so there is an opportunity cost of taking a course of action. If the Department uses resources to do one thing, it may lower combat capability.
 - Neil Albert → The Department doesn't want too many metrics. You need to focus on key items. The services should not be developing their balanced scorecards in a vacuum. We should look for linkages, common barriers and themes.
 - Gordon England → Need to select the high level metrics. The SEC needs to come to an agreement of what they want
 - Gus Pagonis → There are some metrics that don't apply to government. I.e. asset ratios
 - Mr. Aldridge → How do you keep the momentum going? AT&L is trying to cut cycle time but I won't know if it's successful for 3 to 4 year. You can track predictions vs. actuals.
 - Ken Krieg → you can decompose cycle time and look at some of those sub-measures but you don't want to create too many measures.
 - Dov Zakheim → some of these sub measures should happen at lower levels of the organization but they should tie into the higher level measures
 - Gordon England → Navy used a measure of the shift: \$10 billion (10% of the total budget) from backend to front end (customer capabilities)
 - Gus Pagonis → Once the organization has established the culture, you have to update the scorecard and need to keep the organization informed whenever the scorecard is updated. The Secretary doesn't have preconceived notions of exactly what metrics to use.
 - Paul Wolfowitz → 1st Things you measure improve, 2nd what you improve in public you improve even more, 3rd the Department needs to measure risk
 - Dov Zakheim → subordinate metrics need to fit in to the overarching metrics and it needs to be communicated
 - Ken Krieg → it's a lot of communication throughout the organization, which is not strength of the organization. Need to get started now.
 - Gus Pagonis → The change management aspect needs to be addressed in our next go around
 - David Walker → # of layers needs to go down over time. For example, 14 units needed to get involved to mobilize 10 people over 20 days.

Working Session III

- ❖ 14:00 Working Session III – Meeting Schedule and proposed topics for next year
 - Gus Pagonis
 - These are possible date, contingent on members' availability
 - January 22, 2002
 - May 14, 2002
 - Other two dates are TBD
 - Board members who have not attended will get letters to confirm that they would like to continue on the board
 - If you have new members you would like, please let Tom Modly know
 - Don't want to be too strategic and don't want to be too down in the weeds. This board needs to be in the middle
 - Tom Modly → There are two extra slots, the board can use those spots to fill in any expertise that is needed. Is there a glaring hole?
 - Gus Pagonis → It is critical that new members can attend all the meetings. There is already have a good cross-section.
 - Phil Merrill → The board needs need who have the confidence of the Secretary Defense and the Service Secretaries
 - Gus Pagonis → Mr. Rumsfeld would personally attend if we weren't in the middle of a War on Terrorism. There are 20 slots on the Board and 18 are filled.
- ❖ Agenda Items for next year
 - Fred Cook → continue HR issues
 - Military representation might be a good this, especially in the field of supply chain
 - Arnold Punaro → Reforming the Defense Working Capital Fund
 - It would help get a true price of goods and services
 - Dov understands the importance of this
 - Phil Merrill → Software upgrade requirements DoD wide
 - Dealt with Personnel, Outsourcing, FMMP, financial metrics
 - Travis Engen → the DBB should look into candidates for the COO position discussed before.
 - We could tap into the White House's candidate pool
 - Bob Hale →
 - HR → the Department moves general officers so quickly (18 months). Rumsfeld has been frozen that during the War on Terrorism
 - Review the implementation plan of the FMMP project. If they are interested in our help, this board can look at it strategically
 - Fred Cook
 - School project should continue
 - How to reward civilian and military personnel?
 - Oversee the HR transformation project
 - Flag diversity
 - Homeland Security Bill and the implications of this Bill on DoD

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- Gus Pagonis will narrow the list down and have the list of items for next year ready for a vote.
- Bring the DoD out from under Title 5
- Andrew Siegel → maybe the board should look at some of the reports developed by the past administration for applicability
- ❖ Rules of Engagement
 - Tom Modly → To help guide the boards thinking on tasks and need to pick things where this board can make a difference

Defense Business Practice Implementation Board							
Quarterly Board Meeting							
21-Nov-02							
Attendee	Working Session I (Old Business)	Public Deliberation (FMMP Recruitment)	Working Session II (Jacques Gansler presentation on Supply Chain)	Lunch w/ SEC	Presentation to SEC (by Neil Albert on Scorecard Metrics)	Working Session III (New Business)	
Deputy Secretary Paul Wolfowitz				x	x		
Secretary of the Air Force Roche							
Secretary of the Army White							
Secretary of the Navy England							
Under Secretary Dov Zakheim		x		x	x		
Ken Krieg, Executive Secretary of the SEC				x	x		
Mark Everson, Controller, Office of Federal Financial Management, OMB							
David Walker, Comptroller General GAO	x	x	x	x			
Jeffrey Steinhoff, Managing Director GAO	x	x	x	x	x	x	
Tina Jonas, Comptroller, Federal Bureau of Investigation							
Jo Ann Boutelle, Deputy Chief Financial Officer	x			x	x		
Gus Pagonis, Sears, Roebuck and Company (Chairman)	x	x	x	x	x	x	
Fred Cook, Frederick Cook & Company	x	x	x	x	x	x	
Admiral Norm Johnson, Dean of Students, Boston University							
Phil Merrill, Capital-Gazette Communications	x	x	x	x	x	x	
Arnold Punaro, Science Applications International Corporation	x	x	x	x	x	x	
Mort Zuckerman, Editor-in-Chief, U.S. News & World Report	x	x	x	x	x		
Bill Phillips, IBM Global Services	x	x	x	x	x	x	
Denis Bovin, Bear Stearns and Company, Inc.	x	x	x				
Neil Albert, MCR Federal, Inc.	x	x	x	x	x	x	
Robert Hale, Logistics Management Institute	x	x	x	x	x	x	
Travis Engen, Alcan, Inc.	x	x	x	x	x	x	
Bill Schneider, Chairman of Defense Science Board							
Tom Modly, Executive Director, DBB	x	x	x	x	x	x	
Kelly Van Niman, Consultant to the Executive Director of the DBB	x	x	x	x	x	x	
Alex Zemek, Defense Fellow of the DBB	x	x	x	x	x	x	
Jim Ireland, Sears	x	x	x	x	x	x	
Maj. Seth O'Cloo, Defense Business Fellow	x	x	x	x	x	x	
Deputy Under Secretary (P&R) Charlie Abell							
Deputy Under Secretary (P&R) Gail McGinn							
Civilian Policy Ginger Groeber	x	x	x				
Terry McKay, Accounting Policy	x	x					
Mike Powers, Accounting Policy	x	x					
Catherine Santana, FMMP Project Leader							
Jim Long, Acquisitions Leader FMMP							
Mike Hampton, Program Management FMMP (Earned Value)							
Marina Portnoy, Human Resources Management Leader FMMP							
Lt. Pete Majeranowski, Navy MBA POC		x					
Betty Welch, Deputy Asst. Secretary of Navy - Civilian Personnel Policy							
Harrison Smith, Presidential Management Intern for Navy							
Dr. Jacques Gansler, University of Maryland			x				
Rachel Dondero, Spec. Asst. to Betty Welch							
Michael Bayer, Vice Chairman of DBB							
Steve Friedman, MMC Capitol							
Andrew Siegel	x	x	x	x	x	x	
Frank Sullivan, Frank Sullivan Associates							
Tom Cocozza, IBM	x	x					
Greg Kuchler, OUSD (Comptroller)	x	x					
Lois Douglas, OUSD (Comptroller)	x	x					
Frank Arcari, OUSD (Comptroller)	x	x					
Jason Reis, SAIC	x	x	x	x	x	x	