

Defense Business Board

Minutes of Quarterly Board Meeting 14 January 2004:

The Quarterly Meeting of the Defense Business Board (DBB) opened at 0811 in Room 3E869, the Pentagon. Mr. Gus Pagonis, Chairman of the Board, commenced the session and informed the Board that it will be reviewing the Task Groups for the coming year. Mr. Tom Modly, the Executive Director of the Board, highlighted the agenda and the status of the action items from the previous Board meeting. This was followed by the public session deliberations on the Fuel Hedging Task Group by Mr. Denis Bovin and Increasing Minority Representation in Senior DoD Ranks Task Group by Mr. Fred Cook. Mr. Ken Krieg then briefed the Board on the status of the Balanced Scorecard initiative.

Following the Balanced Scorecard Update at 1120, Mr. Tom Modly led the discussion of the Draft Terms of Reference on 2004 Tasks. Upon completion of the discussion, the Board had lunch, followed by breakout sessions for the four Task Groups.

The minutes below attempt to capture the general course of the discussions during the quarterly meeting. These minutes are not to be construed as direct quotes, but rather as paraphrased comments by the indicated participants.

0811 Meeting Opens → Mr. Gus Pagonis

- ❖ The Chairman of the Board, Mr. Gus Pagonis began the proceedings and outlined the reason for the success of the Board is that they are working closely with the SEC and Dr. Wolfowitz. He also outlined the objectives of the meeting to include setting the Task Groups for the year.
- ❖ Mr. Gus Pagonis → We are going to go over the projects for 2004; I don't want us to take on too much. I want to have the flexibility to take on new high-priority initiatives during the year.

0812 Review of the agenda and Previous Action Items → Mr. Tom Modly

- ❖ Mr. Tom Modly → We will review the Balanced Scorecard with Ken Krieg.
- ❖ Mr. Gus Pagonis → At Sears, all incentives will be based on the Balanced Scorecard; we are using the dashboard concept also.
- ❖ Mr. Tom Modly → We will have a review of the draft terms of reference, based on the 15 topics that we had from last year. In the afternoon session, there will be breakouts on how they want to do those tasks.
 - There is paperwork needed for next year. Basically it is a financial disclosure that nothing significant has changed.

- 12 May 2004 will be the next Board meeting; there will be a SEC meeting that afternoon, so we will tie into that.
- July and November dates have not been set yet. I will be sending out an email to find out everyone's availability.

0817 Public Deliberation:

Fuel Hedging (Mr. Denis Bovin)

- ❖ Mr. Bob Hale → There is a significant political cost and would require a change of the law. The press could really use this to show the Department in a negative light.
 - OMB wanted DoD to look at fuel hedging but it will ultimately be the Department's call.
 - By hedging you smooth out the cost variations, in the long run, it will cost money to run the program.
- ❖ Mr. Denis Bovin → Moving money to fuel, it does affect training and decision making.
 - Perhaps you can do an in-house hedge with the Department of the Interior.
 - A pilot program, internally, you can minimize the criticism.
- ❖ Mr. Gus Pagonis → Hedging levels out the budget line. Does this have efficiency?
- ❖ Mr. Denis Bovin → It would allow more certainty in budget.
 - We recommend a very transparent, relatively simple program.
- ❖ Mr. Bob Hale → This is a solution in search of a problem.
- ❖ Mr. Michael Bayer → Did you take into account DoD market place differences? What subset of the market place were you looking at?
- ❖ Mr. Denis Bovin → We were amazed by the similarities between the DoD and the large airlines.
 - They buy in bulk and then distribute to multiple locations.
- ❖ Mr. Bob Hale → Non-market hedging is an option but it puts the entire onus on OMB.
- ❖ Mr. Andrew Siegel → Market price vs. demand, # of times DoD was way off was only a few times.
- ❖ Mr. Denis Bovin → From 1992, we looked at OMB price prediction vs. real price, it has been close but has been off by \$1.7M based on price.
 - We tried to not look at hedging on volume. Just price.
 - Smoothing curve was done through a swap, there are other ways to look at this
 - Consider hedging at the low end and not at the high end.
 - You have to pick a price range and work around that.
- ❖ Mr. Bob Hale → DoD is like a big airline and the market could handle this activities
- ❖ Mr. David Norquist → What is the connection between a price swing and a volume swing?
- ❖ Mr. Denis Bovin → There is a correlation but it is not 1.0. There have been times when prices have gone up and the DoD didn't need more fuel.
- ❖ Mr. Gus Pagonis → Rail has fuel lines along the railways.
- ❖ Mr. Denis Bovin → Railroads hedge when coal demand goes down.
- ❖ Mr. Michael Bayer → DoD demand does not move the market like I thought it would.

- ❖ Mr. Denis Bovin → JP5 is considered an alternative when it comes to hedging jet fuel.
- ❖ The Board voted that if the DoD chooses to hedge they should do so internally possibly with a pilot program with the Department of the Interior.
- ❖ No one on the Board thought that the DoD should hedge in the commercial market
- ❖ Dr. Zakheim → This report clarifies a lot of issues... No one has really gotten to the heart of the matter so quickly. Thank you.
- ❖ ** Mr. Gus Pagonis → I would like a one pager that lays out the facts.

Increase Minority Representation in Senior DoD Ranks (Mr. Fred Cook)

- ❖ Increase Minority Representation in Senior DoD Ranks → Mr. Fred Cook
- ❖ Ms. Madelyn Jennings provided insight on the civilian side.
- ❖ Mr. Fred Cook focused on the military side.
- ❖ Mr. Ivan Thompson focused on the Air Force pilot issue.
- ❖ Mr. Fred Cook → The Board has written a detailed 91-page report for this task.
 - Currently, DoD has 844 flag officers and 1166 SES.
 - Our basic recommendations are applicable to women also.
 - We asked the question, what is the goal? What does underrepresented mean?
 - We chose a narrow definition.
 - We decided to look at the pool of 4 year college degree folks, so equal representation means the U.S. population with a college degree.
 - If the board feels we were too narrow, we can take that on a supplemental project to look at a broader scope.
 - We looked only at men on the military side because of the limitation of women in certain military positions and we feel that women are not precluded from advancement in the SES ranks.
 - For SES positions, we included both males and females, with 4 year college degrees.
 - Military has made more advances than the SES ranks in minority representation.
- ❖ Mr. Arnold Punaro → I don't believe the college population is a fair representation; you have to look at the O6 (CAPT/Col) population. That might be more accurate.
- ❖ Dr. Dov Zakheim → we have greater representation in the uniforms.
 - Our civilian personnel system is so ossified; it is hard to move people around. Once, we can open that up we can have much more flexibility.
 - College graduate demographics have changed greatly in the last 25 years that may skew the view.
- ❖ Mr. Mike Montelongo → Inflexibility in the civilian side is a good insight. Why aren't the numbers better in the military if the flexibility is so much higher?
- ❖ Mr. Arnold Punaro → It's a retention problem of keeping the good people in the pipeline. You don't make flag unless you get the right assignments.
- ❖ Mr. Gus Pagonis → Our previous study of the SES, clearly allows for rotation that will help. Secondly, you have to have a larger population coming in and on the command list.
- ❖ Mr. Fred Cook → The 4 years college degree is a better baseline. The question is where is the problem? At the promotion board or at the pipeline.

- ❖ Dr. Liz Rodriguez-Johnson → You have to get the best-qualified people, but it assumes that there are not enough people at that level, but there are good people. It has not been made a high enough priority by management. Almost 75% of SES decisions are pre-made.
- ❖ Mr. Arnold Punaro → This is not true on the military boards.
- ❖ Mr. Gus Pagonis → You have to increase the base.
- ❖ Dr. Dov Zakheim → Because of the lack of flexibility, it's hard to move people around and why there is a sense of pre-selection.
- ❖ Mr. Fred Cook → Junior officer levels are above the college educated levels for blacks and Hispanics.
- ❖ Mr. Arnold Punaro → You can't look at today's stats because we weren't recruiting blacks and Hispanics 25 years ago.
- ❖ Mr. Fred Cook → The private sector has determined that diversity is a business imperative.
 - Diversity is not an HR function; it has to come from the top down. It has to be backed up with words and deeds.
 - There is some feeling that this is not a high priority of the current leadership
- ❖ Dr. Liz Rodriguez-Johnson → The accountability is the issue. There is not a lot being done right now.
- ❖ Mr. Tom Modly → We were asked not to critique existing programs, we were asked to look at best practices in private industry that could apply at DoD.
- ❖ Mr. Fred Cook → Private sector has moved ahead of the military in terms of diversity. Leaders in the private sector are looking at the diversity characteristics that they would like to have to better serve their customers. Language, orientation, and other characteristics that best serve their customers. They have moved beyond quotas and percentages. DoD is a leader at stage 2 but we should move to stage 3. You don't drop what you did.
- ❖ Dr. Dov Zakheim → Business imperative for the department should reflect that we are involved more internationally than ever before. People who bring different cultural backgrounds can formulate policies that better serve the Department. You have to be able to sell our policies internationally. The more diversity you get the more successful we will be. Everything we do involves international elements.
- ❖ Mr. Fred Cook → The role of diversity is to improve the opportunities for all groups so that under-represented groups are the best qualified.
 - Career enhancing assignment is the key to promotion. Blacks and Hispanics have focused on combat support fields and that lowers the possibility of becoming a flag officer. You have to make sure that folks understand the consequences of career choices.
 - SES → 13 recommendations areas on two slides.
 - The military can't hire in a mid level officer.
 - There are a lot of people eligible for retirement; this may be an opportunity to move minorities and women into leadership positions.
 - Military → If you are not required to follow the groups, you should examine them and decide if they are the best grouping. Maybe each service will have different diversity requirements.

- Big D(iversity) and Little D(iversity) → tier 1 classification (race) and tier 2 (language, other diversity considerations)
- ❖ Mr. Gus Pagonis → We want to end up with what are the 3 to 5 areas, on the military and civilian side, to get the greatest result.
- ❖ Mr. Tom Modly → The military has accepted these definitions. The military should look at these categories but it should be needs-based.
- ❖ Mr. Gus Pagonis → I want to split out what is a drastic change vs. what has to be re-enforced.
- ❖ Mr. Arnold Punaro → An aide or a chief of staff might be a better indicator of a flag rank.
- ❖ Mr. Gus Pagonis → A smart general picks a minority or female aide.
- ❖ Mr. Michael Bayer → Use the term personal staff instead of aide.
- ❖ Mr. Fred Cook → The military is a training ground for the private sector. They can't offer more money or match offers to retain top minority talent.
- ❖ Mr. David Norquist → 2/3 of the SES billets are in the Washington, DC area it may be a challenge to diversity in the SES ranks in areas outside the Beltway.
- ❖ Mr. C.J. Johnson → Key point is that since women are not in combat arms, the availability of minority males is in a dramatic decline in college education pool.
- ❖ Mr. Gus Pagonis → You can give more scholarships to HSIs and it is legal.
- ❖ Mr. Bill Phillips → So much of HR Task 1 can be an enabler to promoting diversity.
- ❖ ** Mr. Gus Pagonis → We need to come up with the list of 3 to 5 recommendations to the Board to decide and then take it to the SEC needs to decide on what they want to do.
- ❖ Mr. Fred Cook → I want to finalize the report and then develop a critical issues piece in that report.
- ❖ Mr. Tom Modly → All the Board need to look at the report because of the sensitivity of the issues.
- ❖ Mr. Arnold Punaro → We can't exclude women if we want to improve the military.

1045 Balanced Scorecard Update → Mr. Ken Krieg

- ❖ Mr. Ken Krieg → Jo Ann Boutelle the Deputy Comptroller is responsible for closing the books and the BMMP project. We have been working with her to develop financial metrics. The SECDEF will review our recommendations this month and start operationalizing. Dr. Chu has already started operationalizing the Balanced Scorecard metrics. Once we start implementing the use of our metrics we want to cascade up and down the organization.
- ❖ Mr. David Walker → DoD is rated last in its performance metrics.
- ❖ Ms. Jo Ann Boutelle → We will be the most improved next time.
- ❖ Mr. Ken Krieg → We want to morph the ADR/PAR documents into one cohesive document.
- ❖ Ms. Jo Ann Boutelle → There are about 30-40 metrics that we will be looking at but we will highlight the key metrics that focus on our important issues.
- ❖ Mr. Denis Bovin → What bases and efficiencies of bases, are you going to drill down to that level?

- ❖ Mr. Ken Krieg → We are actually working on doing that right now. There are some tool sets we have to develop to compare capabilities.
- ❖ Mr. Arnold Punaro → The military has discouraged capabilities comparisons across the Services in the past.
- ❖ Mr. Ken Krieg → You may have a window of opportunity to do this now.
- ❖ Mr. David Walker → Based on what I'm seeing, there are some serious issues with reenlistment and retention. You need more visibility into that. Too many decisions are made on gut feel and not enough on hard data.
- ❖ Mr. Ken Krieg → When you look at the skills mix, the bigger issue is the length of time that they have been called up for. 22 people have been called up more than once. The money is going to people who are already retired and not to the capabilities we need.
- ❖ David Walker → There are some serious issues of where the money is going, which may be more of a Hill Issue.
- ❖ Mr. Arnold Punaro → Are you looking at metrics to move things from overhead to combat?
- ❖ Mr. Ken Krieg → When you look at institutional risk, it is the sum of 3 tools, the right skills, the right amount of those tools, BPR and another set around flexibilities. We are running 35K above end strength. The 3rd one is permanent end strength addition. It will take 3 to 5 years to get there and we are loading a lot of cost at the back end of their career.
- ❖ Mr. Arnold Punaro → Is there anything the Board can do to help?
- ❖ Mr. Gus Pagonis → Is the stuff we are discussing going to be on the BSC?
- ❖ Mr. Ken Krieg → The feedback is in the BSC. It's a big issue on the Hill.
- ❖ Mr. David Walker → How many of the uniform are actually deployable? What is being done that could be done by civilians or contractors? We need to look at these. You can't manage what you don't measure. The hardest part is getting the necessary transparency into these issues.
- ❖ Mr. Arnold Punaro → Maybe you need a metric on the total cost of labor?
- ❖ Mr. Ken Krieg → That is in our metrics.
- ❖ Mr. Michael Bayer → CNO was shocked that he had 50% of the deployable force in Iraq, which was only 15% of the Navy. You need a bridge to get people paying attention to this. We need to look at the expanding role of contractors in the combat theatre. The other part is the industrial base that is needed to support this.
- ❖ Mr. Ken Krieg → I have no way to know how many contractors the DoD has. How do I do that?
- ❖ Mr. Michael Bayer → The DoD is requiring contractors to bring their own security. The pool of security staff is very thin.
- ❖ Mr. Gus Pagonis → You only need to know the cost of the contract and the cost of keeping them. The DoD contracts for bodies too.
 - Is there something here you would like us to look at?
- ❖ Mr. Ken Krieg → I need help looking at labor in certain places. The first question relates to the total labor pool for what you want to do now and in the future and how do we change it.
- ❖ Mr. David Walker → You need to look at how you can use what you have better.
- ❖ Mr. Denis Bovin → There are two issues. Tooth to tail and the full cost of labor.

- ❖ Mr. Ken Krieg → And there is a third one → appropriate skill mix. If you guys could help organize how to look at this from an interested layman's perspective which is what the Hill is...
- ❖ ** Mr. Gus Pagonis → The Board will write up what we think the requirement is and pass it to Mr. Ken Krieg for review.

1120 FY 2004 Initiatives → Mr. Gus Pagonis

- ❖ Mr. Gus Pagonis → The chairs will remain the same for next year.
 - Bill Phillips – Financial management.
 - Herb Shear – Supply Chain Integration Task. ** Get Brad Berkson involved.
 - Fred Cook – HR Task 1 → The logical thing was to wait until the legislation. Dr. Chu was not enthusiastic for the Board to look at this. They didn't want to do this and thought it would traumatize the Department.
- ❖ Mr. Gus Pagonis → I'll get this resolved with Drs. Wolfowitz and Chu. I will have Dr. Wolfowitz put in writing if it is a priority.
 - NSPS gives them more flexibility. How does the union agree to management discretion on pay?
- ❖ Mr. Arnold Punaro → The SECDEF and DEP SECDEF are looking for quick wins. They want 3 or 4 things that would make a difference.
- ❖ Mr. Gus Pagonis → Dr. Wolfowitz wants to know what's in the Personnel Act that can be done quickly.
- ❖ Mr. David Walker → This Act gives broad-based flexibility, but how are they going to implement this. Maybe we can react to something that Dr. Chu has put together. You have to have a system that differentiates performance. We can't get in the middle on how the Department should negotiate with the Unions.
- ❖ Mr. Gus Pagonis → Let's work up a few paragraphs and go to Dr. Wolfowitz.
- ❖ Mr. Fred Cook → Why don't we look at a subset of the diversity issue?
- ❖ Mr. Denis Bovin → There are a lot of areas under HR. Are we spending enough time on the really big issues? What is the most important issue for the DoD?
- ❖ Mr. Fred Cook → Transformation of the civilian workforce is the big issue.
- ❖ Mr. Gus Pagonis → Why don't you look at the blue collar issue that Dr. Chu wants to look at?
- ❖ Mr. Arnold Punaro → What are the fully loaded costs of military, civilian, and contractor?
- ❖ Mr. Tom Modly → New Topic: Transition management for SES folks and political appointments.
- ❖ Gus → We could do some work to institutionalize this.
- ❖ Mr. Tom Modly → New Topic: Financial Management/evaluation of footnotes.
- ❖ Ms. Joanne Boutelle → We have spent a lot of time trying to improve the footnotes. It would be beneficial to have an independent view to see if the quality and clarity they provide valuable? We would like an independent review.
- ❖ Mr. Denis Bovin → This is really about transparency into the budget – not footnotes.

- ❖ Mr. David Walker → The DoD should have a small external group provide advice and council, like the GAO has done. There are some good people who would be willing to help out on this.
- ❖ Jo Anne Boutelle → We have mandated that each of the components establish an audit committee. DoD IG is responsible for the consolidated audit but they use outside auditors. We believe we need a committee at the DoD level to look at issue of consolidation.
- ❖ Mr. Gus Pagonis → Let's get together this afternoon to work out the details.
- ❖ Mr. David Walker → We go through all the footnotes with Treasury and OMB.
- ❖ Ms. Jo Anne Boutelle → DoD IG audit expertise is more in the operational audits and not the financial audits.
- ❖ Mr. Tom Modly → Next Topic: COO position or the Principal Under Secretary for Management.
 - Mr. Gus Pagonis → We are still looking at that. We will keep you posted once we have the mission.
- ❖ ** Mr. Gus Pagonis → We need to write up labor, productivity metrics and get it to Ken Krieg.
- ❖ Mr. Tom Modly → Next Topic: Continued feedback on BMMP. We're going to get Neil Albert to follow up on this.
- ❖ ** Mr. Gus Pagonis → Send me an email if you have any other issues that the Board should examine.
- ❖ Mr. Bob Hale → What does the SEC want us to do?
- ❖ Mr. Gus Pagonis → We are going to personally brief the SEC and have them react to what we are proposing.
- ❖ Mr. Gus Pagonis → On the COO issue, once we find out what they want then we will write it up and get a task leader.
- ❖ Mr. Gus Pagonis → TRANSCOM/DLA → single point of contact should be a 4 star military person. Instead of studying it, they are working on our report.
- ❖ Mr. Gus Pagonis → If there is anyone that you would like to have on the Board, please let me know. We are losing members but I'd rather have a smaller group that gets stuff done. We don't have to fill all the spots. Our Task Group concept has been the key to our success.