

# **FOCUSING A TRANSITION**

**A REPORT BY THE DEFENSE BUSINESS BOARD**



**JANUARY 2009**

This report, DBB Report FY09-4, is a product of the Defense Business Board

The Defense Business Board is a federal advisory committee established by the Secretary of Defense to provide independent advice and recommendations on best business practices to improve the overall management of the Department of Defense. The content and recommendations contained in this report do not necessarily represent the official position of the Department of Defense.

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## Introduction

**THE DEFENSE  
BUSINESS BOARD  
IDENTIFIED FIFTEEN  
ENTERPRISE-LEVEL,  
TRANSITION-  
RELATED TOPICS  
AND DEVELOPED  
RECOMMENDATIONS  
ON EACH**

The Defense Business Board provides the Secretary of Defense and the Chairman of the Joint Chiefs of Staff with independent advice and recommendations on best business practices to improve the overall management of the Department of Defense. The Board is comprised of highly-respected, proven leaders and subject matter experts from the private sector and is appointed by the Secretary of Defense. A list of the board members and brief biographical summaries are in Appendix C.

Anticipating the 2009 presidential change of administration, the members of the Defense Business Board identified fifteen enterprise-level, transition-related topics and developed recommendations on each. The recommendations are intended to assist the Secretary of Defense in building a strong leadership team that will organize and manage the Department of Defense to successfully face the challenges of the future.

The members of the Defense Business Board were assisted by its consultants, Pierre Chao, Alan Schwartz, Steven Price, and Dan Peterson, and received additional support from Kenneth Krieg (former Under Secretary of Defense, Acquisition Technology and Logistics), and Leigh Warner (Defense Science Board Consultant).

Each of the fifteen enterprise-level topics and related draft recommendations were deliberated and approved during the public session of the Defense Business Board's October 2008 quarterly meeting. Copies of the Board-approved slides and minutes of the public session from that meeting are available at <http://www.defenselink.mil/dbb/>. Additionally, copies of the Board-approved slides are contained in a CD located at the end of this report.





## Executive Summary

**THE SECRETARY  
MUST PERSONALLY  
FOCUS THE  
TRANSITION  
EFFORT IN ORDER  
TO BUILD, AND  
THEN ON-BOARD,  
A STRONG AND  
ALIGNED SENIOR  
LEADERSHIP TEAM**

The next administration will face extraordinary pressure from an evolving global economic crisis, continuing military operations in Iraq and Afghanistan, and a broad range of new and enduring domestic issues. These, and other challenges yet unseen, will likely require the Department of Defense to re-balance the resources for institutional capabilities against the resources required for the forces engaged in current and future operations. In this context, and to prepare it for those challenges, the Defense Business Board believes that it is important for the Department to implement the recommendations contained in this report.

Based on global best business practices, the Board identified recommendations in four broad areas that will help ensure the Defense Department is better positioned and resourced for success: (1) items requiring immediate attention, (2) near-term obstacles that could hamper long-term success, (3) organizational issues for the Department to address for real change to occur, and (4) necessities to achieve a successful legacy.

Early in the transition, the Department must focus on reducing the risks associated with the transfer of power. History has shown that it is highly likely that a national or global crisis will occur within the first 270 days of a new administration. The senior leadership team must be able to immediately respond to and effectively manage any crisis.

The Secretary must personally focus the transition effort in order to build, and then on-board, a strong and aligned senior leadership team. It is crucial that the Secretary maintains that alignment beyond the opening months of the new administration in order for his team to realize real gains over the unique management challenges of the Department.

Strong leadership is especially necessary to address three significant near-term financial obstacles facing the Department: (1) excessive overhead costs, (2) the ballooning cost of Defense healthcare, and (3) the root causes of acquisition cost growth.

While the private sector is never complacent about overhead and constantly “goes to war” on it, the Department has run a 42 percent “overhead” rate since Fiscal Year 2002. This overhead rate has occurred as the Department’s Total Budget Authority has increased 189 percent between 1980 and 2009 (not including supplemental authorizations). The Board believes that no enterprise should be complacent with this level of overhead.

Additionally, a dramatic increase in health benefits expenditures has resulted in further restrictions on the Department’s discretionary spending. Defense healthcare is projected to grow to around \$66 billion by Fiscal Year 2015. The root cause of this increase is not the growth in the cost of basic medical services; it is rather more the result of Congressionally mandated expansions of benefits. The Board believes this trend is unsustainable, and it is imperative for the Secretary to work with the Congress and the Military Services to stem this growth.

The total acquisition budget for the major defense acquisition programs has more than doubled in the past seven years from \$783 billion to \$1,702 billion – yet the return on such an investment is difficult to quantify. Increasing program costs also include cost overruns which divert needed resources from other programs and operations. Given the Department’s many failed efforts to reform acquisition, it is now up to the Secretary to drive a targeted reversal of this trend.

The scarcest commodity for the senior leadership of the Department is time. The Secretary’s available time for strategic thought and planning has been diminished by the press of day-to-day events. To be more effective

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HIS DIRECT  
REPORTS**

and strategically focused, the Secretary must utilize his management systems to return more of the day-to-day issues to his direct reports. Doing so will more fully engage his civilian and military teams, and give the Secretary more time to focus on future strategic issues.

To effectively tackle the tough strategic challenges the current environment demands superior leadership skills at all levels of the incoming political team. The Secretary must invest the time to attract, retain, and motivate quality people for both career and political positions. It will require him to proactively reach out to find those with significant public and private sector senior leadership experience – if necessary, with the help of top executive search firms with successful experience recruiting for high-level executive positions.

The Secretary should more forcefully exploit the many points of intellectual friction within his Department. Through them he can create a flow of competitive ideas as an alternative to the natural flow of a consensus-driven bureaucracy. The intellectual energies of multiple “Solarium-like” engagements will better serve the Secretary and his senior leaders by arming them with access to the best possible ideas in order to make the best possible decisions.

The strong and diverse cultures of three Military Services and multiple Defense agencies create a management environment that requires constant attention. Excessive management layers around the Secretary can potentially isolate him from some of his most senior advisors – the Service Secretaries. Occasionally, these key direct reports have “gone native” within their own organizations - subordinating the overall goals of the Department to the advantage of their own enterprise. Only the Secretary can create and sustain the true team relationship with these most senior subordinates to ensure all remain synchronized in support of the overall mission.

One of the most significant leadership challenges will be organizing the Department to operate in a fiscally-constrained environment. Bold action is necessary to redefine the Department's approach to financial management in order to confront the increasing cost of personnel, fringe benefits, and overhead. It is essential that the Secretary promulgate a management model that anticipates, responds to, drives, and sustains his changes. The Secretary's senior team must have proven fiscal "turnaround" experience to guide the Department in the right direction.

The expected future financial challenges, coupled with the growing importance of international partnerships, will require the Comptroller to take a strong leadership role in expenditures and resource allocations. In selecting a Comptroller/Chief Financial Officer, the Secretary should look for a leader with strong global financial management expertise and experience. To emphasize this new chief financial officer responsibility, the position should be renamed: "Under Secretary of Defense (Chief Financial Officer and Comptroller).

Effective leaders articulate a strategic vision for the organization and then communicate and reinforce it continuously. A crisp vision statement for the vast institutional aspects of Department of Defense would help align disparate interests of the senior leadership team and drive and reinforce strategy, policy, sourcing, accountability, and performance.

In the Department, all authority, responsibility, and accountability begin with the Secretary. Therefore, to further enhance Departmental effectiveness, the Secretary and Deputy Secretary must require a performance management system that cascades critical objectives down the organization, translates them into measurable metrics, and provides for periodic updates for evaluation and feedback.

**THE SECRETARY  
SHOULD  
LOOK FOR A  
COMPTROLLER/  
CFO WITH  
STRONG GLOBAL  
FINANCIAL  
MANAGEMENT  
EXPERTISE AND  
EXPERIENCE**

The Defense Business Board hopes this report will stimulate action and solution, not conversation and missed opportunity. The Board believes these recommendations will help ensure the Department is better managed to deliver excellence in defense of the Nation.



1

Items Requiring Immediate Attention

FOCUSING THE TRANSITION EFFORT

The Administration must be ready to govern immediately upon taking office and respond to any national crisis. Departmental transitions traditionally begin too late in the campaign and hand-off is often difficult. There is little time to develop a “plan” due to the short duration between the Secretary’s selection and his first day. Therefore, it is imperative that the incoming team be prepared to respond to a likely first 270-day crisis.

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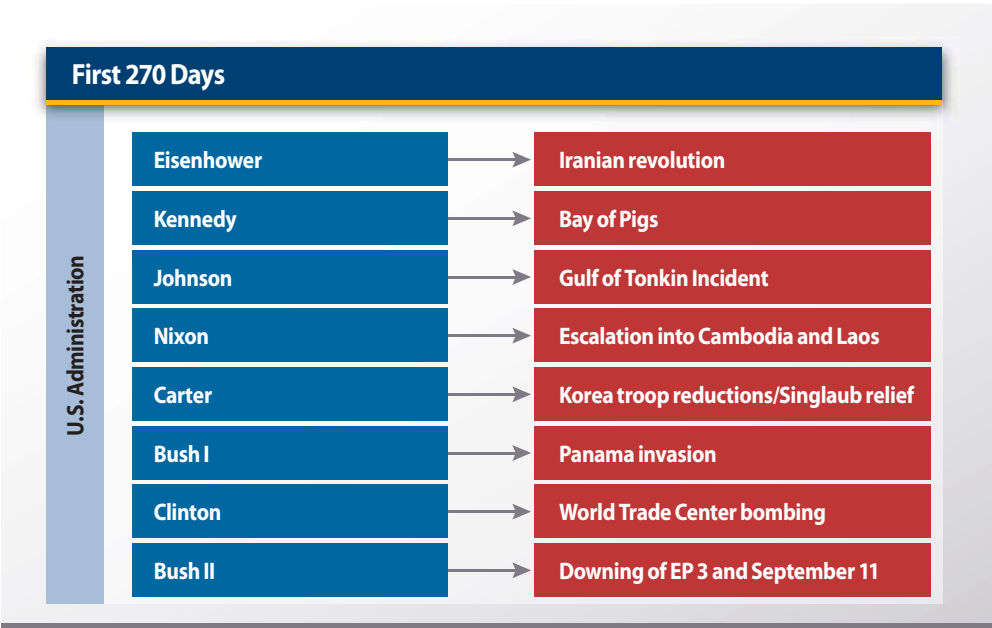


Figure 1-1. National Security Issues Faced by New Administrations



**Figure 1-2.** DoD Civilian Leadership Vacuum

## PREPARE FOR CRISIS CHALLENGES

Over the past 20 years, Department transitions have been fraught with inefficient processes, requiring many months to get the new team established. However, the incoming team does not have the luxury of time. In light of the current national security situation and global economic crisis, the next transition must begin early – long before January 20th - to avoid major leadership gaps (see Figure 1-2) and unnecessary vulnerabilities to the Department. Department of Defense transitions have a history of ill-preparedness resulting in a lack of time for proper strategic planning, deep leadership vacuums, and a leadership team that is disjointed and misaligned with the President's goals and objectives.

**IN LIGHT OF  
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SECURITY  
SITUATION AND  
GLOBAL ECONOMIC  
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TO AVOID MAJOR  
LEADERSHIP GAPS**



**THE SECRETARY  
MUST ALSO  
ASSEMBLE A  
TEAM OF LEADERS  
WITH EXECUTIVE  
COMPETENCY...  
AND EXPERTISE  
TO EXECUTE  
PROGRAMS AND  
MISSIONS  
ON DAY ONE**

It is hard to ignore the probability of a critical national security issue arising early on in a new administration. But that is only the first part of the problem.

Upon inauguration, the Secretary's agenda is quickly filled dealing with financial compliance, preparing for hearings, and responding to the media – there is no question these initial responsibilities leave little time to set a strategic agenda. In the first days of office, the Secretary is also left with only a few hold-over team members who barely comprise the staff necessary to keep the Department running on course. Also, as the team ramps up, many past Secretaries have found themselves initially surrounded by a deluge of people focused on developing policy vice managing the Department. Although policy personnel are necessary in the current global environment, the Secretary must also assemble a team of leaders with executive competency and the necessary skills and expertise to execute programs and missions on day one of the new administration.

**ESTABLISH EXPECTATIONS**

The necessity of early planning – very early planning – cannot be emphasized enough. Emphasis must be placed on maintaining alignment between the Department and the President's objectives—alignment is often mistakenly assumed. Intense scrutiny will surround the new team with the electorate expecting concrete outputs from the new government. The intentions, and even the efforts, of the new team are not enough to satisfy expectations – this can only be done by solid execution of pre-determined goals and objectives. The incoming team must apply forward-thinking strategies to drive a results-oriented transition – using specific metrics (dates, dollars, etc.) to shape the entire team's performance goals. To succeed, the senior leadership team must convert a mandate to actual governance change.

The selection process for senior officials should be informed by the President's goals, objectives, and resource constraints. The President should get agreement on those expectations from each Cabinet candidate (individually quantifiable and delivery date specific). Those specifics should be monitored by quarterly performance reviews conducted by the Vice President and annually by the President. Performance failures should not be sanctioned.

In summary, by starting the planning process early, the White House team, together with the Secretary of Defense, can make the transition process smoother, avoid leadership gaps, enable top personnel performance, and be prepared for any situation the future may hold.

## **Recommendations**

The Board offers the Secretary of Defense the following recommendations:

1. Set aside time in the transition to identify the planning, gravitas, and interagency process necessary to respond to a likely first 270-day crisis.
2. Establish cabinet-level performance expectations up front and review the transition team's plans for governance.

## DOD'S UNIQUE MANAGEMENT CHALLENGES

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The Secretary must reconfigure the management structure of the Department by defining objectives and expectations, modernizing management systems, aligning leaders and organizations according to management and budget responsibility, and utilizing feedback mechanisms and metrics to gauge progress.

### ASSIGN A TEAM OF EXPERTS

Better alignment of functional and budget responsibility with strategic planning will enhance the effectiveness of the Department of Defense in executing its mission to provide military forces to deter war and to protect the security of our country. The decision-making process will become more effective by aligning each tier of the leadership hierarchy to the appropriate management responsibilities. Driving down decision-making, while reducing excessive layers of management, will allow greater opportunity for the Secretary to conduct deep future strategic thinking.

The Department lacks effective modern management systems that can predict, analyze costs, and make effective trades. Today, there is little connection between strategic intent and force structure or investment decisions. It is difficult for the Department to synchronize these elements and make effective trades, due to the lack of knowledge regarding costs and value.

The Department of Defense, the Nation's largest enterprise with such important public trust, cannot afford such shortcomings. The Department behaves more like an economy than a corporation – it would be the 17th largest nation globally if expenditures were gross national product. With over 1.3 million men and women on active duty, and more than 700 civilian personnel, the Department is the nation's largest employer. Another

**DRIVING DOWN  
DECISION-  
MAKING...WILL  
ALLOW GREATER  
OPPORTUNITY FOR  
THE SECRETARY  
TO CONDUCT DEEP  
FUTURE STRATEGIC  
THINKING**

1.1 million serve in the National Guard and Reserve forces. About 2 million military retirees and their family members receive benefits, which they have earned. In fiscal year 2007, the Department consumed more than 56 percent of the discretionary budget for the entire United States Government and many of its decisions drive the Nation's industrial base, technological competitiveness, and social structure.

### **BUILD A SENIOR LEADERSHIP TEAM**

The Department engages in a broad range of initiatives that include fighting the Nation's wars, humanitarian aid, peacekeeping, disaster relief, and homeland security. Within the Office of the Secretary of Defense there are staffs that plan, advise, and carry-out the Nation's security policies in the critical areas of policy, finance, force readiness, purchasing, and personnel (active, reserve, and retirees). These staffs also formulate policy to support national security objectives, oversee budgetary and fiscal matters, conduct program analysis and evaluation, oversee personnel policy matters, and buy goods and services. The Department trains and equips the Armed Forces through our three Military Services: the Army, the Navy, and the Air Force. The Marine Corps, mainly an amphibious force, is part of the Navy. The primary job of the Military Services is to train and equip their personnel to fight wars, help with peacekeeping, and provide humanitarian and disaster assistance tasks as directed by the President through the Combatant Commanders. Such a broad mission requires a strong, highly-skilled, and competent senior leadership team.

### **ESTABLISH CLEAR AND MEASURABLE OBJECTIVES**

The Department's systems continue to have difficulty providing relevant management data to make trade-off decisions. The \$100 billion-a-year hardware and services acquisition system continues to be criticized for costly acquisitions that are late-to-need. Despite significant increases in

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funding to address the serious shortfalls, the Department continues to be challenged in its efforts to provide timely support to on-going operations and personnel in Iraq and Afghanistan.

### **EXPLOIT DEEP STRATEGIC INITIATIVES**

Further, the Department's difficulty in consistently synchronizing strategic intent with force structure and investment decisions has resulted in excessively high overhead for decades. Some studies have shown that the overhead rate is as high as 42 percent. An important strategy document, the *Quadrennial Defense Review*, rarely impacts more than several percent of the Department's budget. These are decade-long issues that have battered both the Clinton and the Bush administrations. This is mostly the result of the absence of an effective, competent management system.

Modernizing the Department beyond Robert McNamara will require the Secretary to commit the personal time and energy necessary to drive this change. To do this, the Secretary must move forward to select a Deputy to be the Chief Management Officer and realign the necessary staff under that person to improve the systems and instill discipline in the Department.

### **Recommendations**

The Board offers the Secretary of Defense the following recommendations:

1. Assign a team of experts to review, validate and/or alter Department of Defense management systems/processes in order to get underway on January 20th, 2009.

2. Build a senior leadership team with the skills and experience that complement the Secretary's strengths and compensate for any gaps.
3. Establish clear and measurable management objectives and organizational and individual expectations, and demand ongoing alignment essential to achieve goals.
4. Develop leading indicator metrics to measure progress and improve accountability.
5. Synchronize the capability to identify and exploit deep strategic initiatives that are as important as pressing near-term actions.

**THERE IS LITTLE  
ROOM FOR ERROR  
IN A WARTIME  
TRANSITION**

## **BUILDING THE STRONGEST TEAM** \_\_\_\_\_

Department of Defense transitions over the past 20 years have been slow and lagged with many months required to get the new team in place. Once the candidates have been identified, the on-boarding of the new leadership team has been both haphazard and inconsistent, resulting in a stuttering start and limited effectiveness in the opening months of a new administration. Given the current national security situation (Iraq, Afghanistan, Russian assertiveness, the global economic crisis, etc.) the next transition must be far smoother and faster. There is little room for error in a wartime transition. To be successful, the next transition must be carefully planned, aggressively implemented, and receive Congressional cooperation.

## **LIMIT THE NUMBER OF EMPTY CHAIRS ON DAY ONE**

Whether through mergers, acquisitions, or market dislocations, global businesses face the task of leadership transition on a frequent basis. Because of this, they offer a unique perspective and potential lessons-learned for application within the Department.

The corporate on-boarding process is carefully planned and executed. It begins by bringing a clear focus on understanding the issues and challenges faced by the organization, and by spending time to build relationships with the senior leadership team.

A different type of transition is the leveraged buy-out, which is more akin to a political transition. One or several key leaders may be replaced early on. The new management team (including hold-overs) is identified, briefed, and ready to go on day one. A 100-day plan is often used to drive change, post buy-out.

By comparison, transitions within the Defense Department have become longer and more difficult with each successive change in administration. It has become harder and more time-consuming to attract well-qualified candidates due to the onerous nature of the selection/confirmation process, the highly political environment, and financial considerations. White House vetting is also a major factor in the extended confirmation process (financial and personal history forms, Federal Bureau of Investigations checks, and political clearance). In addition, the Congressional review is often slow and involves duplicative paperwork.

### START THE PROCESS EARLY

The outgoing team departs on January 20th creating a serious leadership vacuum in most cases. During past transitions, little attention was given to identifying strong transition leaders to act during the interim. At most, a handful of new appointees will be in place three to six months after January 21 (only the Secretary of Defense and the Deputy Secretary of Defense were in place by May 1, 2001). The risk, of course, is not having a “seasoned” leadership team in place ready to handle a crisis. (Historically, each new administration is almost always “tested” early on as previously indicated in “Focusing the Transition Effort”).

On-boarding within the Department has typically been given little priority and has had uneven success. During the 2001 transition, a more simplified (both in time and substance), but structured approach was used and achieved good results in bringing the new senior executives into the organization. It was a difficult task to accomplish in three to five weeks, but was especially useful for the nominee who was new to the role of a senior political appointee.

**THE RISK...IS  
NOT HAVING A  
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IN PLACE READY TO  
HANDLE A CRISIS**



FOCUS ON THE KEY POSITIONS

A rapid and effective transition will be a major driver in the success of the new Secretary’s policies and programs. Keys to a far more effective transition include starting the personnel selection process early, focusing on the initial key hires, and maintaining continuity throughout the process to avoid lapses in leadership. The timely and efficient process of integrating new employees into their agency work environments will ensure that they are fully productive and engaged as quickly as possible.

Table 1-1. Brief Comparison of Political and Corporate Transitions

| Political Transition  | Corporate Transition   |
|---|--|
| Leadership vacuum is created due to many top leaders leaving simultaneously                       | Executive team stays in place during top leadership transition. New team is built slowly – over 3 to 12 months |
| Transitions without sufficient succession planning  | Early, in-depth succession planning  |
| Insert several new leaders, one at a time, over many months                                       | Insert one new leader into a large existing team   |
| Usually an outside candidate  | Often an in-house candidate  |
| Focus on one candidate at a time  | Two to three candidates identified for each position   |
| Insufficient vetting of external hires  | External hires carefully vetted  |
| New leaders expected to “get on the ground running” without formal executive training and support | New leaders receive special attention/offered the services of executive coaches and industrial psychologists   |
| New leaders often not offered substantial support   | New leader given clear show of support from top management   |
| Limited goals first year  | Aggressive goals for the first 6 to 12 months  |
| Second tier leadership in for the duration (goal is 4 years)                                      | Second tier rotates regularly to prevent going “native”  |
| Gaining “control” is key  | Changing direction is key  |

## Recommendations

The Board offers the Secretary of Defense the following recommendations:

### **BUILDING A STRONG TEAM TO SUPPORT THE SECRETARY OF DEFENSE**

1. Develop a slate of “hold-over” candidates for key positions to limit the number of empty chairs on day one.
  - a. Apolitical presidential appointees.
  - b. Strong, experienced civil servants.
  - c. Senior military officers may be appropriate in some cases.
  - d. Goal – no dropped balls or leadership vacuums.
2. Start the personnel process early.
  - a. Develop an organization plan that spells out the primary responsibilities of the key positions to guide the selection of the right person for each job.
  - b. Identify multiple candidates for key jobs before the election. Ensure you have a strong alternative in case problems arise.
  - c. Start the clearance process for 30 to 40 people from each party right after the conventions (both transition team members and possible appointees).
  - d. Start the formal vetting process day after election – not necessary to know exactly which jobs they will fill.
3. Reach out for candidates; don’t just settle for those eager for appointments.
4. Focus initially on the key positions (see Table 1-2).
  - a. Select preferred candidates.
  - b. Ensure Federal Bureau of Investigations gives the candidates priority.

- c. Target getting names to Capitol Hill within 30 days (60 days is the norm).
- d. Drive to get them in place by January 31 (February 15 at the latest).
- 5. Work closely with the Federal Bureau of Investigations personnel and key congressional committees to get their full cooperation.
- 6. Careful selection of military assistants is very important. Don't just accept those that are nominated. The right ones can be invaluable.

#### **ONBOARDING NEW APPOINTEES<sup>1</sup>**

- 1. Carefully structure the on-boarding process and start as early as possible.
  - a. Provide a strategy to guide key changes in policy/programs.
  - b. Focus particular attention to early challenges/immediate issues.
  - c. Identify potential "land-mines."
- 2. Utilize focused, short briefing papers (no thick books).
  - a. One-pagers on key issues requiring early attention/decisions.
  - b. Provide background, options, timelines (no recommendations).
  - c. More in-depth education will take place during the confirmation process.
- 3. Outline key responsibilities of the positions.
  - a. Brief summary of functions and key roles/relationships.
  - b. Short bios of senior career officials.
- 4. Carefully select briefers for prospective appointees.
  - a. Independent, creative thinkers – military and civilian.

---

1. Reference DBB Report FY04-3, "Civilian leadership Task Group" for greater detail.

- b. Don't be defensive, locked in on prior administration policies/ programs.
- c. Expect suspicion/skepticism from the new appointee.

**Table 1-2.** DoD Civilian Presidential Appointment/Senate Confirmation Positions

|   |
|---|
| Level I   |
| Secretary of Defense  |
| Level II  |
| Deputy Secretary of Defense   |
| Under Secretary of Defense (Acquisition, Technology, and Logistics) |
| Secretary of the Army   |
| Secretary of the Navy   |
| Secretary of the Air Force  |
| Level III   |
| Under Secretary of Defense (Policy)                                 |
| Under Secretary of Defense (Comptroller)                            |
| Under Secretary of Defense (Personnel & Readiness)                  |
| Under Secretary of Defense (Intelligence)                           |
| Deputy Chief Management Officer                                     |
| Deputy Under Secretary of Defense (Acquisition and Technology)      |
| Under Secretary of the Army   |
| Under Secretary of the Navy   |
| Under Secretary of the Air Force                                    |

**Table 1-2.** DoD Civilian Presidential Appointment/Senate Confirmation Positions (continued)

| Level IV   |
|--|
| Deputy Under Secretary of Defense (Logistics & Materiel Readiness)         |
| Deputy Under Secretary of Defense (Policy)                                 |
| Deputy Under Secretary of Defense (Personnel & Readiness)                  |
| Director, Defense Research & Engineering                                   |
| Assistant Secretary of Defense (Networks and Information Integration)      |
| Assistant Secretary of Defense (Health Affairs)                            |
| Assistant Secretary of Defense (International Security Affairs)            |
| Assistant Secretary of Defense (Global Security Affairs)                   |
| Assistant Secretary of Defense (Asian & Pacific Security Affairs)          |
| Assistant Secretary of Defense (Public Affairs)                            |
| Assistant Secretary of Defense (Reserve Affairs)                           |
| Assistant Secretary of Defense (Homeland Defense)                          |
| Assistant Secretary of Defense (Special Operations/Low Intensity Conflict) |
| Assistant Secretary of Defense (Legislative Affairs)                       |
| Director, Operational Test & Evaluation                                    |
| General Counsel  |
| Inspector General  |

Source: DoD Executive Schedule Positions (Civilian Presidential Appointment/Senate Confirmation (PAS) Positions), as of 28 January 2008.



2

Near-Term Obstacles that Could Hamper Long-Term Success

LOWERING THE OVERHEAD COST

Industry is constantly seeking to maximize resources and gain greater efficiencies to reduce overhead. While the Department of Defense does not track overhead precisely, it tracks the relationship between the combat force structure executing the Department’s mission (tooth) and the

Table 2-1. Characteristics by Presidential Administration

A logical question: How much defense do we get for \$670 Billion per year?

| Category                                   | End of<br>Carter | End of<br>Reagan | End of<br>Bush | End of<br>Clinton | GW<br>Bush | Change<br>1980–2007 |
|--|------------------|------------------|----------------|-------------------|------------|---------------------|
|  | 1980             | 1988             | 1992           | 2000              | 2007 (Est) |                     |
| Total Budget Authority (\$B - Constant \$) | \$412            | \$491            | \$412          | \$354             | \$441      | 7%                  |
| Total Budget Authority (\$B - Current \$)  | \$178            | \$284            | \$282          | \$291             | \$441      | 148%                |
| Supplementals (\$B)                        | \$0              | \$0              | \$4            | \$0               | \$190      |                     |
| Active Duty Personnel (K)                  | 2,101            | 2,209            | 1,886          | 1,449             | 1,406      | -33%                |
| Reserve and Guard Personnel (K)            | 851              | 1,158            | 1,135          | 865               | 843        | -1%                 |
| Civilian Personnel (K)                     | 1,019            | 1,090            | 1,006          | 698               | 702        | -31%                |
| Active in Commission Ships                 | 521              | 573              | 471            | 341               | 236        | -55%                |
| Army Divisions (active)                    | 19               | 20               | 20             | 10                | 10         | -47%                |
| AF Fighter/Attack (Total Active Inventory) | 2,789            | 3,027            | 2,000          | 1,666             | 1,619      | -42%                |

Sources: National Defense Budget Estimates for FY 2006, April 2007  
<http://www.history.navy.mil/branches/org9-4c.htm>; AFA Almanac

infrastructure used to manage and support those forces and other DoD missions (tail) (see Table 2-1). Spending on infrastructure has remained relatively constant at approximately 42 percent of the Department’s total spending between FY 2002 and FY 2006 and is projected to remain at the same level. In the private sector these expenses generally would be considered overhead (“tail” to the Department) that management would work aggressively to continuously reduce to achieve greater efficiency.

**Table 2-2.** DoD infrastructure \$(billions) remains steady at ~42 percent

| Infrastructure                         | FY2002           | FY2003           | FY2004           | FY2005           | FY2006           |
|--|------------------|------------------|------------------|------------------|------------------|
| Force Installations                    | 29               | 35               | 33               | 35               | 28               |
| Communications & Information           | 7                | 10               | 9                | 9                | 9                |
| Science & Technology Program           | 11               | 12               | 13               | 14               | 14               |
| Acquisition                            | 9                | 10               | 12               | 12               | 12               |
| Central Logistics                      | 22               | 29               | 26               | 25               | 25               |
| Defense Health Program                 | 28               | 25               | 27               | 27               | 28               |
| Central Personnel Administration       | 8                | 13               | 13               | 12               | 13               |
| Central Personnel Benefits Programs    | 9                | 10               | 10               | 10               | 10               |
| Central Training                       | 33               | 36               | 33               | 33               | 34               |
| Departmental Management                | 18               | 22               | 21               | 29               | 27               |
| Other Infrastructure                   | 4                | 4                | 12               | 25               | 5                |
| <b>Total Infrastructure (% of DoD)</b> | <b>180 (44%)</b> | <b>206 (42%)</b> | <b>209 (42%)</b> | <b>230 (43%)</b> | <b>205 (42%)</b> |

(Total obligated authority) Source: PA&E

REDUCING THE  
DEPARTMENT’S  
OVERHEAD RATE  
IS AS MUCH  
A CULTURAL  
PROBLEM AS A  
MANAGEMENT  
ISSUE

SECRETARIAL LEADERSHIP

Reducing the Department’s overhead rate is as much a cultural problem as a management issue. Thus, only the Secretary of Defense can lead



**IT IS TIME FOR  
THE DEPARTMENT  
OF DEFENSE TO  
EMBRACE THE  
PRIVATE SECTOR  
BEST PRACTICE OF  
“GOING TO WAR”  
ON ITS OVERHEAD**

the Department to address this critical obstacle. It is important that the Department work to shrink its overhead costs and to free-up resources to support critical Defense priorities.

**SET A GOAL TO REDUCE OVERHEAD**

The Department is likely entering a prolonged period of fiscal constraint in a tough economy of increasing deficits and competitive spending pressures. The Secretary of Defense will need all available resources invested as effectively and efficiently as possible to maintain operational readiness. It is time for the Department of Defense to embrace the private sector best practice of “going to war” on its overhead.

Specifically, industry maximizes its resources and gains greater efficiencies by undertaking the following strategies:

- Continuously “going to war” on waste – targeting cuts on low value-add areas.
  - Apply “Value-chain” and “Activity Analyses” tools to reduce inefficiencies/overlaps.
  - Leverage technologies to achieve better than one-to-one ratios in workforce redesign.
- Designing organizations to facilitate and encourage prudent risk taking.
  - Decentralize to encourage innovation; centralize to eliminate duplication.
- Continuously charting “core competencies and incompetencies.”
  - Create incentive for, measure, and reward desired outcomes.
  - Constantly monitor performance.
  - Identify leaders early and develop succession and promotion plans accordingly.

- Career map to core competencies – builds on people’s strengths.
- Measuring and analyzing human capital performance and work-force engagement to drive a culture of excellence.
  - Apply benchmarks and projects three to four years ahead (lead, don’t lag).
  - Compare results to competition and/or most efficient organization.

## Recommendations

The Board offers the Secretary of Defense the following recommendations:

1. Conduct a review of all indirect and direct costs to determine if 42 percent is an appropriate level of overhead, and to identify opportunities to constantly reduce overhead.
  - Set a goal to reduce overhead.
2. Mandate the use of management tools and processes that are based on an enterprise vision to drive down overhead spending.
  - Metrics should focus on outcomes (not outputs) to provide strong measures of implementation and achievement of goals.

**SET A GOAL  
TO REDUCE  
OVERHEAD**

**THE  
DEPARTMENT'S  
HEALTHCARE  
COSTS ARE  
"EATING UP"  
DEFENSE  
RESOURCES**

## **SLOWING THE BALLOONING COST OF DEFENSE HEALTHCARE**

The ballooning cost of Department of Defense health benefits represents a critical obstacle to the Department's long-term success. The Department's healthcare costs are "eating up" Defense resources that otherwise could be used to increase the quality and quantities of systems that warfighters need now and in the future. Over the Future Years Defense Program defense healthcare spending is forecasted to grow to around \$66 billion by fiscal year (FY) 2015. Gaining support from Congress and the Military Services to slow the growth of Defense healthcare costs is as much a cultural problem as a management issue, and thus, only the Secretary of Defense can lead the Department to address this healthcare budget crisis.

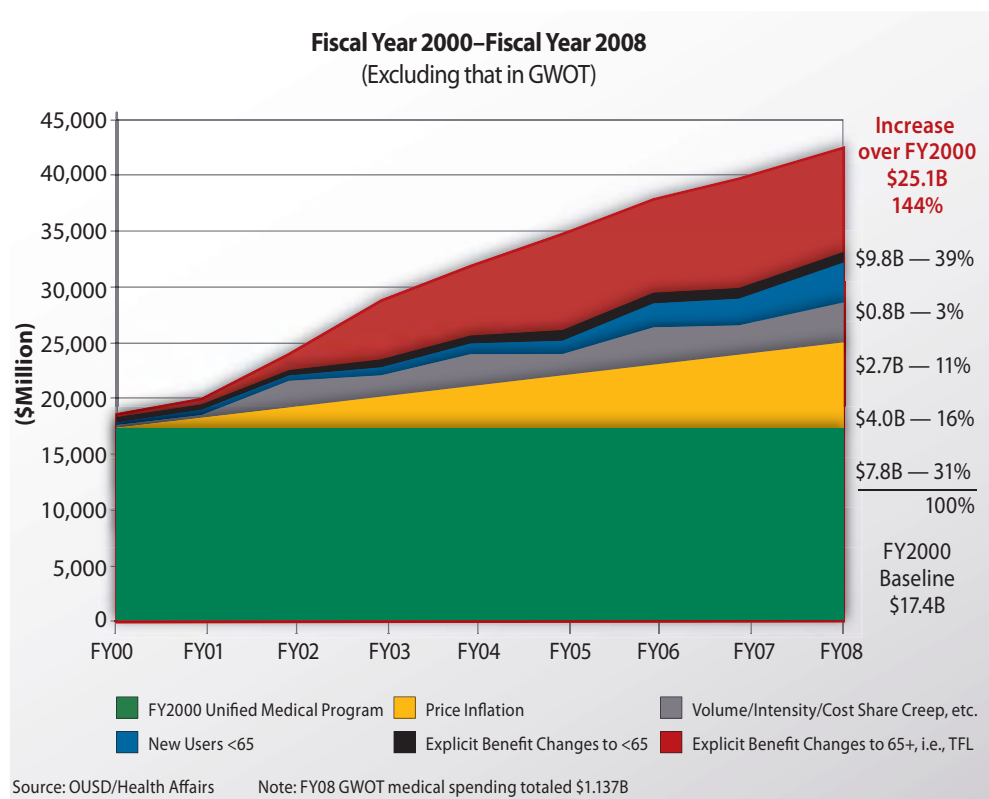
### **SECRETARIAL LEADERSHIP**

In FY 2007 the U.S. Government spent \$93 billion related to Department of Defense healthcare, which included \$17 billion to pay down the Department's \$488 billion unfunded liability (FY 2007) for "TRICARE-for-Life" healthcare benefits.

Department spending on healthcare is growing at a rapid pace - \$25.1 billion from FY 2000 to FY 2008, representing a 144 percent increase. At this pace, healthcare spending is growing faster than the Defense Department's discretionary spending. One of the primary drivers of this growth is the growing number of Congressional mandates for increased healthcare benefits. It is likely that Congress will continue to increase the Department's healthcare benefits making it difficult for the Department to find tough funding trade-off decisions.

## ENGAGE THE CHAIRMAN, JOINT CHIEFS OF STAFF, AND SERVICE CHIEFS

With Defense healthcare programs in financial competition with other critical Defense acquisition and operational programs, it is critical that the Secretary work to gain agreement from the Department's uniformed leadership to aggressively pursue savings in Defense healthcare spending. Only the Secretary can lead the Department and its uniformed leadership (Service Chiefs and Chairman Joint Chiefs of Staff) to a solution.



**Figure 2-1. Growth in the Unified Medical Budget**

**THE SECRETARY  
OF DEFENSE  
WILL NEED ALL  
RESOURCES  
INVESTED AS  
EFFECTIVELY  
AS POSSIBLE  
TO MAINTAIN  
OPERATIONAL  
READINESS**

The Secretary of Defense will need all resources invested as effectively as possible to maintain operational readiness. The Department cannot continue to let its overall spending on Defense healthcare grow at the same pace it has over the past seven years (see Figure 2-1) – 144 percent from FY 2000 to FY 2008 (\$17.4 billion to \$42.5 billion - does not include Global War on Terror and supplemental spending authorizations).

The Department must address the primary drivers behind this rapid growth: retiree spending (which has grown 39 percent from FY 2000 to FY 2008 and accounted for 64.8 percent of healthcare expenditures in FY 2008); pharmacy spending (which is growing faster than overall Defense healthcare spending); and Congressional mandates (which accounted for \$11 billion of Defense healthcare spending in FY 2008).

As Congress continues to push for expansion of Defense healthcare coverage, the Department's unfunded liability for "TRICARE-for-Life" continues to increase. In FY 2007 this unfunded liability totaled \$488 billion, representing a true existential threat to the Department. The FY 2007 pass-through to the Department of Treasury to pay down this debt (\$17 billion) was less than the annual FY 2007 growth of the debt (\$22 billion).

## **Recommendations**

The Board offers the Secretary of Defense the following recommendations:

1. **Lead the Effort** – Only the Secretary can lead the Department to address this financial constraint.

2. **Build a Team** – The Secretary must convene his senior military and civilian leadership to reduce Defense healthcare spending.
  - This is an issue that can only be solved with the active support and engagement of the Chairman, Joint Chiefs of Staff, and Service Chiefs.
3. **Identify High Pay-Off Items** – The Secretary’s team must focus on areas of highest potential savings.
  - Place emphasis on the areas of retiree spending and pharmacy costs.
4. **Work with Congress** – Any changes to the trajectory of expenses will require the support of the Congress, as many of the fastest rising programs are mandated.
  - Utilize a bi-partisan commission (similar to the National Bi-partisan Commission on Healthcare) to address the Department’s rapidly increasing healthcare expenditures.

**UTILIZE A  
BI-PARTISAN  
COMMISSION  
TO ADDRESS  
HEALTHCARE  
EXPENDITURES**

**ACQUISITION  
PROGRAM COST  
OVERRUNS  
CONSUME MONEY  
THAT...COMBAT  
FORCES NEED  
NOW AND IN  
THE FUTURE**

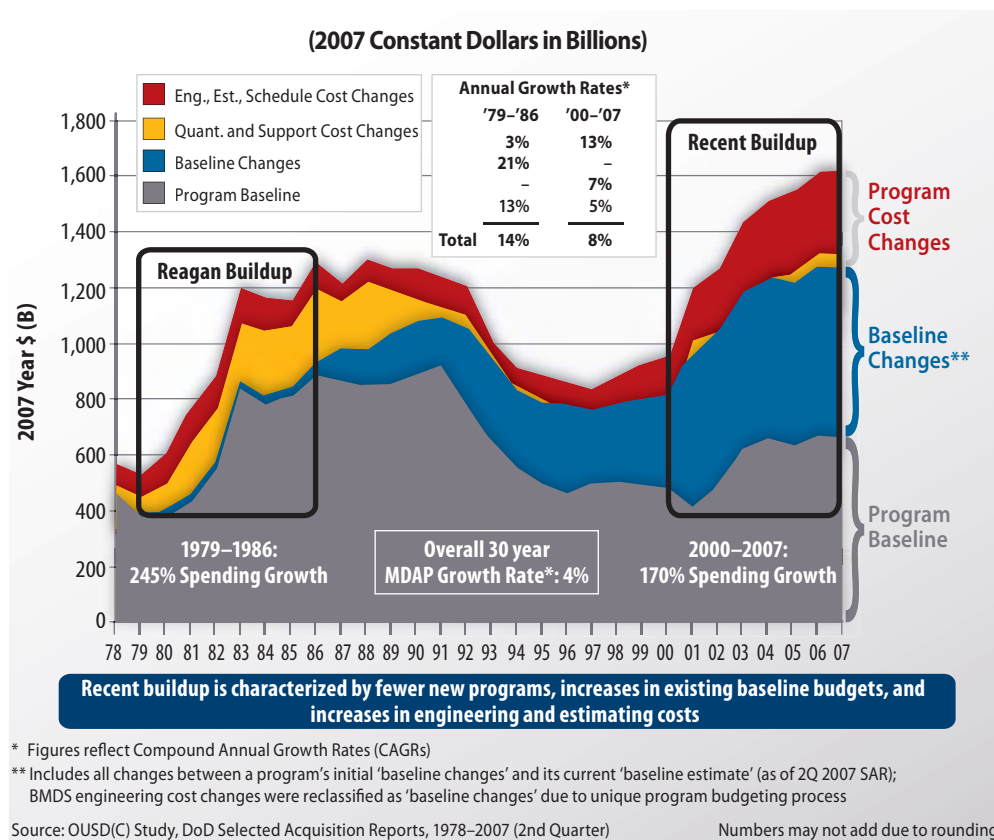
**ADDRESSING ROOT CAUSES OF ACQUISITION  
COST GROWTH**

The rapidly increasing cost of defense acquisition programs represents a critical near-term obstacle to the Department’s long-term success. Acquisition program cost overruns consume money that otherwise could be used to increase the quality and quantities of systems and training that combat forces need now and in the future. Reversing acquisition program cost growth is another cultural problem that will require the focus and leadership of the Secretary of Defense.

**SECRETARIAL LEADERSHIP**

In the past seven years, the total acquisition budget for all Major Defense Acquisition Programs has more than doubled – from \$783 billion to \$1,702 billion (see Figure 2-2). Rapid growth has been fueled by increases in program costs (\$401 billion) and changes to program baselines (\$328 billion). These rising program costs lead to increases in unit costs – Augustine’s Curve – limiting the Department’s ability to recapitalize the force. Historical analysis and current trends indicate that the Department is entering a prolonged period of fiscal constraint in a tough economy of increasing deficits and competitive spending pressures. The Secretary of Defense will need all available resources invested as effectively as possible in order to maintain operational readiness.

Also during the past seven years, five Major Defense Acquisition Programs accounted for over 50 percent of the program cost growth over the baseline: Future Combat System (Army); Joint Strike Fighter (Navy / Air Force); USS Virginia class submarine (SSN 774) (Navy); Chemical Demilitarization (Army); and Evolved Expendable Launch Vehicle (EELV - Air Force). Estimating, engineering, and schedule changes were responsible

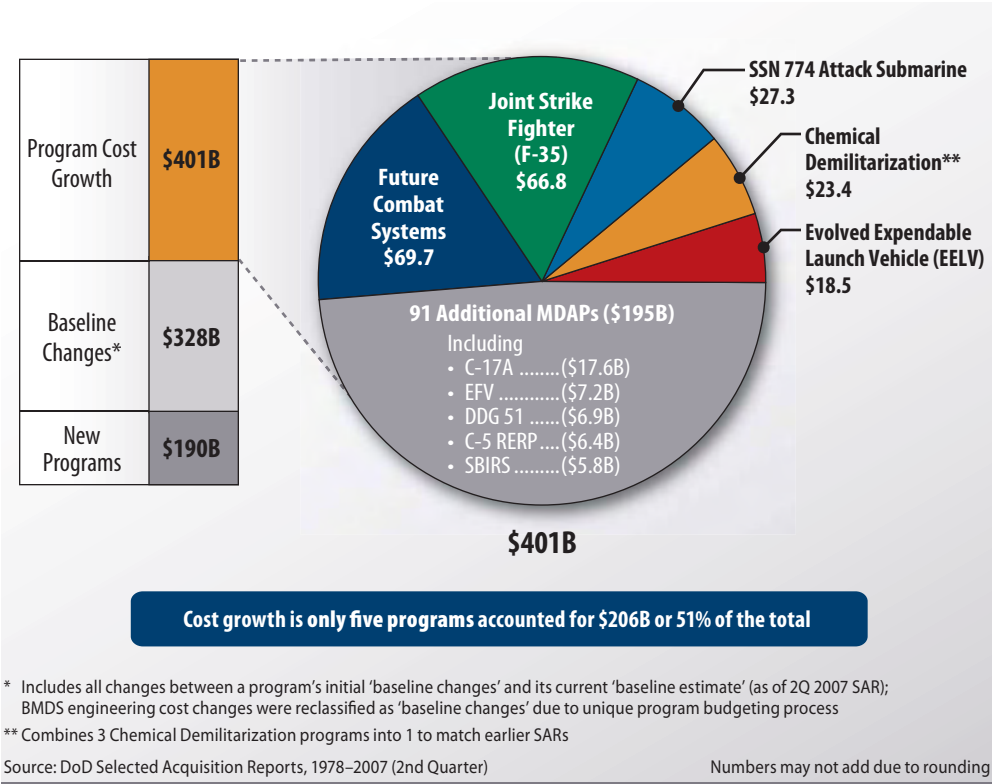


**ESTIMATING,  
ENGINEERING,  
AND SCHEDULE  
CHANGES WERE  
RESPONSIBLE FOR  
OVER 80 PERCENT  
OF THE COST  
GROWTH**

**Figure 2-2. Major Defense Acquisition Program Portfolio: 1978-2007**

for over 80 percent of the cost growth above the baseline cost during this period (2000 to 2007) (See Figure 2-3).





**Figure 2-3.** 2000–2007 Major Defense Acquisition Program Portfolio Cost Growth by Program (Dollars in Billions)

IDENTIFY AND TRACK COST DRIVERS

In addition to program cost growth, which the Department tracks according to the above categories (and is recorded in Selected Acquisition Reports), the Department makes ongoing decisions to change program cost estimates, called “re-baselining.” Unfortunately, the Department does not

track the cost drivers behind such decisions using similar categories when a decision to re-baseline a Major Defense Acquisition Program is made. Hence, the true nature of associated cost growth is lost once re-baselining decisions occur. In the period between 2000 and 2007, managerial insight was lost for \$328 billion worth of “re-baselining” decisions.

## DEVELOP JOINT MANAGEMENT TOOLS

The rising cost of acquisition programs is not just an acquisition problem. Rather, it is the requirements, budget, and acquisition processes that are the drivers that fuel this unsustainable trend. Fundamental to this problem is an atrophy of the acquisition workforce (skills, numbers, and capabilities) that the Department must address.

## Recommendations

The Board offers the Secretary of Defense the following recommendations:

1. Work with the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Service Secretaries to drive a targeted reversal of this trend which addresses the previously listed key drivers of program baseline changes and program cost growth.
  - a. Maintain metrics for each re-baselining decision to track/monitor drivers of growth.
  - b. Focus on fundamental drivers not on “fixing” symptoms, including the human capital issues.
  - c. Set and then propagate the cultural change necessary to reverse behavior.
  - d. Establish non-negotiable objectives and supporting metrics and hold the leadership accountable for achieving them.

**REQUIREMENTS,  
BUDGET, AND  
ACQUISITION  
PROCESSES...  
ARE THE DRIVERS  
THAT FUEL THIS  
UNSUSTAINABLE  
TREND**

2. Hold industry executives accountable to the same objectives and supporting metrics as the Department of Defense.
  - a. Initiate dialogue with industry independent of the requirements process to minimize future program baseline and estimate changes.
3. Develop joint management tools to fix and manage the authority, responsibility, incentives, and accountability across the relevant parts of the Department of Defense and industry.



## 3

## Organizing the Department for Real Change

### IDENTIFYING AN OPTIMAL MANAGEMENT MODEL TO DRIVE CHANGE

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External factors and management challenges will be major influences on the way the Secretary manages the Department of Defense. In the past, events (e.g. Sputnik<sup>1</sup>) or new threats (e.g. terrorism) have resulted in significant organizational change and management focus. The Secretary of Defense will likely face challenges, ranging from tighter budgets, to cyber threats, and asymmetrical warfare, which demand a responsive, agile, and synchronized management approach that capitalizes on the skills of a myriad of people and organizations.

The optimal management model will anticipate and respond to key national security and management challenges, expand the Department's organizational capacity, and fit the Secretary's personal and management style.

### ADOPT A MANAGEMENT MODEL

Past Secretaries have had very different management models and approaches, in part driven by their personalities and management styles. The roles of the Secretary, Deputy Secretary, and the Office of the Secretary of Defense have evolved as well. In the 1940s, the Secretary's role was

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1. Sputnik – The Soviet Union's successful launch of Sputnik 1 was the world's first artificial satellite to orbit the earth. It marked the start of the space age and the United States and Soviet Union space race.

limited; however, by the 1960s that role was far stronger. In addition, the staff, especially acquisition and policy functions, has expanded its role and influence. Models have differed based on the world situation, past events, and primary threats. In the 1940s and 1950s the focus was on improving coordination and integration of the Services and operating forces. Later, events drove change: Sputnik (Department of Defense Research & Engineering), Missile Gap<sup>2</sup> (Civil Defense Office), and asymmetric warfare/terrorism (Under Secretary of Defense for Intelligence). Then, in the 1980s, Goldwater/Nichols increased the role of the Combatant Commands and strengthened the role of the Chairman of the Joint Chiefs of Staff to provide independent and coherent military advice.

Factors driving the Secretary’s management approach will need to incorporate the fiscal and budget outlooks, threats and military challenges, and the role of the Department of Homeland Security. The Secretary will also have to take into consideration the nature of the interagency and National Security Council processes, and how they impact staffing and structure. The Board offers an assessment of the issues and challenges that the Secretary is likely to face (see Table 3-1).

**SUPPORT AND STRENGTHEN CRITICAL MANAGEMENT PROCESSES AND HUMAN RESOURCES**

Several weaknesses in management systems and structure have repeatedly surfaced and need early and sustained attention. Poor management and information systems (finance, personnel, and logistics), a weak requirements process, and lack of adequate cost estimating remain problematic. Lack of clear authority and accountability, poor response time, and speed of effort are issues across the organization. Most of the Department’s systems and processes are reactive and seldom anticipate. This is further

**THE OPTIMAL  
MANAGEMENT  
MODEL WILL  
ANTICIPATE AND  
RESPOND TO  
KEY NATIONAL  
SECURITY AND  
MANAGEMENT  
CHALLENGES**

2. Missile Gap – Perceived discrepancy between the number and power of weapons in the ballistic missile arsenals of the Soviet Union and the United States

**Table 3-1. DBB Assessment of Issues and Challenges**

| <b>Management Issues</b>        |                   |                   |                                |
|---------------------------------|-------------------|-------------------|--------------------------------|
|                                 | <b>Importance</b> | <b>Likelihood</b> | <b>Organizational Capacity</b> |
| Deep Budget Cuts                | CRT               | High              | Med                            |
| Deep Force Cuts                 | High              | High              | Low                            |
| Weapon Costs/Schedules          | CRT               | High              | Low                            |
| People Cost Increases           | High              | High              | Med                            |
| Capability Requirements         | High              | High              | Med                            |
| Zero Base Force Structure/Roles | Med               | Med               | Med                            |
| Network Centric/ Cyber Threats  | CRT               | CRT               | Low                            |
| Basic Management Systems        | Med               | High              | Low                            |
| Efficient Responsive Mgmt       | Med               | Med               | Low                            |
| Intense Interagency Process     | Low               | Med               | Med                            |

| <b>National Security Challenges</b> |                   |                   |                                |
|-------------------------------------|-------------------|-------------------|--------------------------------|
|                                     | <b>Importance</b> | <b>Likelihood</b> | <b>Organizational Capacity</b> |
| Increased WMD Threats               | High              | High              | Med                            |
| Sharp Increase in Terrorism         | Med               | High              | Med                            |
| Missile Defense                     | High              | High              | Med                            |
| Expanded Chinese Mil Capacity       | High              | Med               | Low                            |
| Increased Regional Threats          | High              | High              | High                           |
| Aggressive Russia                   | Med               | Med               | Low                            |
| Expanded Homeland Security Role     | Med               | Med               | Low                            |
| Broader Post Conflict Role          | Med               | Low               | Med                            |

Critical=CRT High Medium=Med Low

complicated by the declining capability of the career workforce due to poor recruiting, increasing numbers of retirements, and personnel reductions.

In summary, greater focus is needed on the critical management issues and national security challenges the Department faces in shaping the organization and ensuring there is clear authority and accountability for delivering results. More emphasis is needed to strengthen key management processes and systems (many are weak and ineffective) to provide early and accurate tracking of the organization's performance. Finally, greater energy must be applied to addressing the Department's diminished human resources, especially in the areas of technology, contracting, and financial management. Failure to improve the capacity of the Department's people will seriously undermine the Secretary's ability to successfully execute key programs.

## Recommendations

The Board offers the Secretary of Defense the following recommendations:

1. Adopt a management model that:
  - a. Focuses on the management issues and national security challenges facing the Department.
  - b. Clearly reflects the Department's top objectives.
  - c. Provides clear authority and accountability to key subordinates.
  - d. Fits the personal management style of the Secretary.
2. Analyze critical management processes and strengthen as necessary:
  - a. Determine which management systems support the Secretary's management model.
  - b. Provide meaningful metrics, and reporting systems to measure and track them.

**GREATER FOCUS  
IS NEEDED ON...  
ENSURING  
THERE IS CLEAR  
AUTHORITY AND  
ACCOUNTABILITY  
FOR DELIVERING  
RESULTS**



- c. Focus on areas of known weaknesses such as finance, personnel, and logistics.
- 3. Give priority to strengthening the Department's Human Resources. Specifically:
  - a. Attract, retain, and motivate quality people for both the career and political positions.
  - b. Strengthen career personnel numbers and talent in such functions as acquisition, systems engineering, and research and development.

## **FOCUSING THE SECRETARY'S TIME ON THE MOST STRATEGIC OBJECTIVES**

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Corporate chief executive officers spend the majority of their time strategically planning for the future success of their companies. The Secretary of Defense stands to gain valuable insight by analyzing corporate leadership priorities. Past Secretaries have had difficulty maintaining focus on the right objectives. There has been good focus on processes, but not necessarily on the best priorities or on following a management agenda that articulates priorities and holds lower organizations and management accountable. Although there are existing systems and processes that provide senior officials with an unusual degree of knowledge, oversight, and control of the Department's activities, often they are not utilized or do not provide the necessary data to make informed decisions. The challenge for the Secretary of Defense is to oversee and provide timely decisions for the many simultaneous processes, each ultimately reporting to him. To do this, the Secretary must focus his effort on a few key objectives, engage stakeholders, and be willing to make trade-offs and reject decisions.

### **FOCUS ON A FEW KEY OBJECTIVES**

The Secretary will need a management agenda which is focused on addressing a few key strategic priorities as time and resources to "do everything" will not be available. Early alignment with key internal and external stakeholders on key priorities requires a clear understanding of trade space.

Current financial challenges will require faster and more targeted decision making. The Secretary must rely on a high-performing, well-run management team synchronized to his objectives in order for him to be proactive instead of reactive on strategically important objectives.

**PAST SECRETARIES  
HAVE COMMENTED  
THAT THERE IS  
INSUFFICIENT TIME  
TO BE PROACTIVE  
OR FOCUS ON  
LONG-TERM  
STRATEGIC ISSUES**

**BETTER ALIGN KEY OBJECTIVES AND PROVIDE A FORCE  
MULTIPLIER**

Considering how past Secretaries of Defense have allocated their time, there are options that the Secretariat-level leadership should consider to better focus their efforts on the most strategically important objectives. But, the leadership must be committed to creating and sustaining a focused management agenda.

Past Secretaries have commented that there is insufficient time to be proactive or focus on long-term strategic issues. The majority of their days are consumed by interagency or internal meetings reacting to events that have already occurred, as compared to a chief executive officer who spends the majority of his/her time being proactive on future strategic issues. Those Secretaries that were successful focused on a few major objectives and were able to get stakeholders' buy-in.

Past Secretaries of Defense found that one of their most difficult tasks was to marshal the ideas and interests of the various components of the defense community to build a consensus on policy. Those that were successful found that they could use incentives to get what they wanted and force trade-offs, without infringing on autonomy of execution.

**ALIGN MANAGEMENT ATTENTION AND MAJOR BUDGET  
ITEMS**

At least one former Secretary of Defense viewed his task as exercising civilian control for the Commander in Chief by reserving the right to get into anything and issuing orders. Many others viewed their role through the prism of their experience, whether in industry or government, which would ultimately influence how they would advance their management agenda. However, what is consistent is agreement that cohesive alignment of budgets with priorities, and an ability to stay focused on a few

critical objectives while building stakeholder consensus are the keys to effectiveness.

The Secretary must have a clear management agenda and a well-defined strategy to implement that agenda. Additionally, the Secretary must leverage the Department's core capabilities and functions towards realizing the agenda. He must also build a high-performing, well-run management team synchronized to his objectives, so he can be proactive on strategically important objectives.

## Recommendations

The Board offers the Secretary of Defense the following recommendations:

1. Focus on a few key objectives and harmonize those priorities with stakeholders. Provide management attention early and consistently.
  - a. Identify trade space within the major budget categories ( i.e., personnel/operations, maintenance/research and development/procurement) and use that to obtain and leverage mutual cooperation with key internal and external stakeholders
  - b. Clearly communicate expectations to the senior civilian appointees, link objectives to outcomes and allocate time to monitor performance.
2. Engage the military and civilian leaders, including the Chairman of the Joint Chiefs of Staff and Combatant Commanders on strategic and operational matters to better align key objectives and provide a force multiplier to the Secretary.
  - a. Leverage the expertise and forums available to these entities to advance key management objectives.

**THE SECRETARY  
MUST HAVE  
A CLEAR  
MANAGEMENT  
AGENDA AND A  
WELL-DEFINED  
STRATEGY TO  
IMPLEMENT THAT  
AGENDA**

3. Support strategic priorities by aligning management attention and major budget items.
  - a. Issue strategic planning guidance that supports key management objectives and drive implementation decisions down to Tier II and lower management levels.
  - b. Identify core management systems and processes and use them to provide important budget and management data.

## USING SELECTION CRITERIA AND POSITION PAIRINGS

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The complexity of today's global environment demands superior leadership with the skills to effectively tackle the Department's toughest strategic challenges. Reviews of past Department senior leadership pairings (i.e., Secretary/Chairman Joint Chiefs of Staff, Secretary/Deputy, Deputy/Vice Chairman, Secretary/Service Secretaries, and Service Secretaries/Service Chiefs) have shown that there are unique skills and expertise that make such pairs successful. Often, when selecting candidates for filling key Department of Defense Presidential Appointment/Senate Confirmation positions, the value of creating leadership pairs that complement each other in terms of experience is not taken into consideration. Also, more effort needs to be placed on identifying potential sources to recruit civilian talent that meets the Department's leadership needs (see Figure 3-1).

### LEVERAGE INDIVIDUAL EXPERIENCE AND QUALIFICATIONS TO PROMOTE COMPLEMENTARY PAIRINGS

The roles and responsibilities of senior leaders will be impacted by the reality of functional pairings that drive the Department's daily operations; therefore special attention must be given to the necessary and desired competencies for each pairing. The first step to building a successful management team is to establish a framework to determine the skill profile and critical experiences necessary to form the basis for judgments of prospective Defense candidates. This is especially true at the most senior level pairings: Secretary/Chairman Joint Chiefs of Staff, Secretary/Deputy, Deputy/Vice Chairman, Secretary/Service Secretaries, and Service Secretaries/Service Chiefs.

**OFTEN...THE  
VALUE OF  
CREATING  
LEADERSHIP  
PAIRS THAT  
COMPLEMENT  
EACH OTHER  
IN TERMS OF  
EXPERIENCE IS  
NOT TAKEN INTO  
CONSIDERATION**

### Potential Sources to Recruit Civilian Talent

- Enlist the services of the top executive search firms with successful experience in recruiting for high-level government positions.
- Other Sources of Candidates and Advice
  - CEOs, COOs, CFOs, Senior Operating Executives and Board members of Fortune 500 companies, leading financial institutions, and auditing firms
  - Cabinet-level appointees in previous administrations
  - Current and previous members of the DoD Federal Advisory Committees (Defense Business Board, Defense Science Board, and Defense Policy Board), Chief Naval Operations Executive Panel, Service Secretaries Boards and Defense Department Advisory Committee on Women in the Services
  - Alumni of the White House Fellows Program, Congressional Fellows Program, etc.
  - Minority alumni associations from leading business schools, law schools and schools of government; minority professional organizations, e.g. Executive Leadership Council (senior-most African Americans in corporate America) and Latinoleaders.com (national magazine of successful Latino Americans)

**Figure 3-1.** Where to Look and How to Find “A-Level” Talent

### ALIGN AUTHORITY, RESPONSIBILITY, AND ACCOUNTABILITY

Individual experience and qualifications should be leveraged to promote complementary pairings that enhance effectiveness and ensure the team stays focused on the most strategically important objectives. Selecting the “right people” with the “right skills” at the “right time” can achieve and sustain the focus.

Leadership “pairings” are akin to that of a conductor with an orchestra—their personal and professional skills complement one another and enable the relationship to excel. At any given time, their “roles” may embrace: decision maker, coach, nurturer, encourager, visionary, moral leader, empathizer, disciplinarian, etc. Senior leaders of the Department of Defense team will likely be drawn from diverse backgrounds; embody wide-ranging personal styles, skills, temperaments, and experiences; and

will bring differing managerial styles (coercive, authoritative, affiliative, democratic, pacesetter and coaching, etc.). Emphasis must be placed on getting the right folks. As it has been stated, “managers do things right; leaders do the right thing.”

Additionally, each member of the Department’s senior leadership team must be committed to leading and managing with a sense of urgency. This is essential in today’s tenuous domestic and global environment. They must establish credibility by: (1) quickly learning the organizational landscape; (2) building relationships up, down, and across the defense community; and (3) working effectively with Congress, the media, and other constituencies.

**Table 3-2.** Suggested Traits, Experience, and Duties of Key Leadership Personnel

|                             | Personal Traits   | Experience  | Duties  |
|-----------------------------|---|---|---|
| Deputy Secretary of Defense | <ul style="list-style-type: none"><li>• Ability to work effectively with and complementary to the Secretary of Defense</li><li>• Ability to work effectively with the top leadership of the Joint Chiefs of Staff, especially the Deputy/Vice Chair “pairing”</li><li>• Personal integrity</li><li>• Seasoned leader</li><li>• Tough-skinned; able to make tough trade-offs and strategic choices</li><li>• Comfortable with uncertainty and ambiguity</li><li>• Strong communicator who can deliver the “bad news” as well as the good</li><li>• Operate with a sense of urgency (wartime setting)</li></ul> | <ul style="list-style-type: none"><li>• Leading a senior executive team as a former Chief Executive Officer, Chief Operating Officer, or senior operating division President of a complex, global organization</li><li>• Crisis management (acquisitions, divestitures, restructuring of large, complex, global organizations)</li><li>• Direct or indirect knowledge of the Defense complex as a former war-fighter or policy-maker</li><li>• Worked with Congress, other governmental organizations, and the business community</li><li>• Understands the military procurement, weapons and technology development, and budgeting processes</li><li>• Communicating effectively with a wide range of competing constituencies</li></ul> | <ul style="list-style-type: none"><li>• “Chief Operating Officer” of the Department of Defense</li><li>• Acts on behalf of the Secretary in his absence</li><li>• Oversees functional staffs within the Department (e.g. budgets, policy, tasking, position papers, outcomes, decision-making process, inter-governmental collaboration, and cooperation)</li><li>• Recommends strategic choices to the Secretary based on rigorous analysis and vetting</li><li>• Keeps things moving... makes things happen</li></ul> |



**Table 3-2.** Suggested Traits, Experience, and Duties of Key Leadership Personnel (continued)

|  | Personal Traits  | Experience   | Duties   |
|--|--|--|--|
| <b>Service Secretaries (Army, Navy, Air Force)</b> | <ul style="list-style-type: none"> <li>• Operate effectively with the Secretary, Deputy Secretary, and Service Chief counterpart ("Pairing")</li> <li>• Personal integrity</li> <li>• Tough-minded; make tough trade-offs and strategic choices</li> <li>• Strong leader</li> <li>• Strong communicator</li> <li>• Thrives in complexity and ambiguity</li> </ul>  | <ul style="list-style-type: none"> <li>• Led a complex, global business as Chief Executive Officer, Chief Operating Officer, or President of a large operating division</li> <li>• Understands the military government interface (former war-fighter or policy-maker)</li> <li>• Understands the unique needs of the Service, and the collaboration required within the Defense Team and with external constituencies (former war-fighter or policy-maker)</li> <li>• Worked effectively with Congress and other governmental organizations and agencies</li> <li>• Understands the development, procurement, and force deployment issues relating to the Service</li> </ul> | <ul style="list-style-type: none"> <li>• Effectively represents Service's views within the Department, to Congress, and to other governmental agencies as required</li> <li>• Establishes and maintains an effective operating relationship with Service Chief</li> <li>• Recommends policy on behalf of the Service to the Secretary, Deputy, JCS, Congress and other governmental agencies</li> <li>• Implements directives emanating from the executive, legislative, and judicial branches of the government, and evaluates performance</li> <li>• Oversees the day-to-day activities of the Service staff (e.g. budgeting, acquisitions, technology development, force development and deployment, human capital issues, etc.)...Makes things happen</li> </ul> |
| <b>Comptroller / Chief Financial Officer</b>       | <ul style="list-style-type: none"> <li>• Ability to work effectively with the Secretary, Deputy Secretary, Service Secretaries and the Financial Officers in the offices of the Service Secretaries, yet maintain independence</li> <li>• Personal integrity</li> <li>• Strong, proven financial acumen</li> <li>• Independent thinker</li> <li>• Tough-minded; thick-skinned; persistent; thorough</li> </ul> | <ul style="list-style-type: none"> <li>• CFO of a large, complex, global organization</li> <li>• Managing Director or Principal of a major accounting firm</li> <li>• Prior government work: GAO, Congressional Budget Office; senior finance roles in other government agencies</li> <li>• Budgeting for a large, complex, global organization</li> </ul>   | <ul style="list-style-type: none"> <li>• Chief financial strategist</li> <li>• Chief financial spokesperson</li> <li>• Develops and implements financial policies</li> <li>• Ensures the integrity of the financial management, financial reporting, and performance measurement systems within the Department of Defense</li> <li>• Oversees preparation and on-going reporting on the Defense budget</li> <li>• Liaises with other governmental agencies and the Congress on financial matters affecting the Department of Defense</li> <li>• Strong (dotted-line) oversight of the financial activities of the financial executives in the office of the Service Secretaries</li> </ul>   |

**Table 3-2.** Suggested Traits, Experience, and Duties of Key Leadership Personnel (continued)

|                                       | Personal Traits  | Experience  | Duties  |
|---------------------------------------|--|---|---|
| Acquisition, Technology and Logistics | <ul style="list-style-type: none"><li>• Knows and trusts either the SecDef or DepSec and vice versa; don't have to be pals, but have to trust each other.</li><li>• Value ability to make hard strategic choices (especially saying no) over technical competence</li><li>• Builds teams, especially with VCJCS and Resources Leaders</li><li>• Fluently bi-lingual (business and defense)</li><li>• Thrives in complexity and ambiguity</li><li>• Thick skinned and persistent</li><li>• Communicates</li></ul> | <ul style="list-style-type: none"><li>• Run complex organization(s)</li><li>• Understands economics/ motivations of the private sector</li><li>• Understands Capital intensive and technological endeavors</li><li>• Good to have served in DoD at some point.</li><li>• Worked with Hill</li></ul> | <ul style="list-style-type: none"><li>• Acquisition Executive— milestone decisions; all policy; performance oversight</li><li>• Supply Chain and RDT&amp;E— policy and performance oversight</li><li>• National Armaments Director—International duties, tech transfer</li><li>• Oversees workforce policy and performance; training and education</li><li>• Industrial Base leadership</li><li>• Chairs Nuclear Weapons Council</li><li>• Oversees DLA, MDA, DTRA, DAU, DCMA</li><li>• Point on reform issues</li><li>• Visible leader for inside, connection to industry, Capitol Hill, press</li></ul> |

**EXPLOIT THE  
PAIRING OF THE  
MOST SENIOR  
POSITIONS TO  
ENSURE THE  
SKILLS AND  
EXPERIENCE  
NEEDED ARE  
FILLED BY ONE OF  
THOSE PARINGS**

## Recommendations

The Board offers the Secretary of Defense the following recommendations:

1. Leverage individual experience and qualifications to promote complementary pairings that enhance collective individual effectiveness and ensure the team stay focused on the most strategically important objectives.
2. Align authority, responsibility, and accountability of these pairings.
3. Identify and agree on the most senior level pairings: Chairman Joint Chiefs of Staff, Secretary/Deputy, Deputy/Vice Chairman, Secretary/Service Secretaries, and Service Secretaries/Service Chiefs.
4. Identify the most pressing issues and challenges that will impact organizational climate and use them to guide the selection of core competencies necessary to meet those challenges.
5. Exploit the pairing of the most senior positions to ensure the skills and experience needed are filled by one of those pairings. Key considerations should be given to making sure there is a balance in the pair of those skills and experience.
6. Require the Deputy Secretary of Defense and Service Under Secretaries within the Department to have prior government management experience.

## RESTORING THE “CRUCIBLE OF IDEAS” BY LEVERAGING CRITICAL FRICTION POINTS

A culture of consensus pervades the Department of Defense, which can hinder innovation and stifle creativity rather than facilitating a “crucible of ideas.” The Secretary of Defense will be required to make tough strategic decisions, particularly with the likelihood of flat or even declining defense budgets in the near term. Fostering a culture of creative tension would advance the Department towards increased innovative risk-taking and the creation of out-of-the-box ideas.

*“President Eisenhower understood the value of being challenged by his advisers on even his most basic assumptions ... he understood the benefits of disagreement and sought to institutionalize such a debate in an inclusive and integrative fashion.”*

Project Solarium report

### SEEK ALTERNATIVE VIEWS

Today’s senior leaders rarely use these inherent “friction points” (see Figure 3-2) or at best use them inconsistently. Within the Pentagon, it is extremely difficult for the Secretary of Defense to make a different, albeit better decision, without alternative facts, analysis, and understanding. Using the inherent checks and balances within the Department creates some basic inefficiency; however, it also offers leadership a broader view to enable better decisions. While conflict is endemic, and perhaps inevitable to any organization, it need not always be negative.

Those working together must understand how to use conflict to facilitate becoming a more reasoned team that increases its capacity to take effective action through a diffusion of knowledge and skills.

**TODAY’S SENIOR  
LEADERS RARELY  
USE INHERENT  
“FRICTION  
POINTS” OR AT  
BEST USE THEM  
INCONSISTENTLY**

## QUESTION SOLUTIONS WHERE “EVERYONE GETS THEIR SHARE”

The normal tendency across the Department, Military Services, and Joint Staff is to “work things out” (i.e., consensus building), typically through horse-trading and ultimately watering down solutions so that everyone “gets their fair share” before presenting solutions to senior leadership. Often the “loser” finds alternative ways to get what they want, (e.g. turning directly to congressional stakeholders or working outside the organizational structure).

1. Weapon System Portfolio Management: Within and between Services (e.g. Navy Air vs Navy Surface vs Navy Subsurface)
  - a. Each side views their orientation as the most critical for the future
  - b. Each side seeks to minimize capabilities of the others
2. Mission Planning: Combatant Commanders vs Services
  - a. Combatant Commanders define mission by articulating the capabilities and resources required
  - b. Services may have different view of their mission role or capabilities being requested
3. Financial Controls: Department of Defense Comptroller vs Title 10 Entities
  - a. Department of Defense Comptroller – Wanting to transform the business operations of the Department. Building common business practices Department-wide, gain control of systems and associated costs
  - b. Title 10 Entities (Services) – Wanting to maintain control of programs and budget seen as built to their “unique” requirements
4. Other Friction Points include:
  - a. Capability development: Army vs Navy vs Air Force
  - b. Major Weapon Program Decisions: DoD vs Services
  - c. Spending Plans: Personnel/Health Care obligations vs Weapons Systems obligations

**Figure 3-2.** Representative Friction Points

## Recommendations

The Board offers the Secretary of Defense the following recommendations:

1. Seek alternative views on key decisions. When presented with “black & white” answers, assume that things probably aren’t that clear.
  - a. Diversity in the broadest sense opens the aperture around ideas.
  - b. Alternative views help drive innovative thinking.
2. Question solutions where “everyone gets their share.”
  - a. The future does not offer this option. There will be “haves” and “have-nots.”
  - b. Must represent the entire Department, not just part of the Department.
3. Use an inclusive senior leader forum (with ongoing support of the Secretary of Defense) to set strategic direction, and develop a culture that rewards appropriate risk-taking.
  - a. Create an environment that utilizes friction points.
  - b. Establish a forum for challenging ideas, as well as driving implementation once the decisions are made.
  - c. Use the forum to test alternative ideas.
  - d. Set the performance expectations for the Department.
  - e. Challenge approaches and hold people accountable for decision implementation.

## DOD LEADERSHIP TO ALIGN THE SERVICES TO THE SECRETARY'S AGENDA

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**URGENT  
MATTERS...COULD  
POTENTIALLY  
CAUSE THE  
SECRETARY TO BE  
DISCONNECTED  
FROM THE SENIOR  
LEADERSHIP TEAM**

The start of a new administration offers an opportunity for the Secretary of Defense to institute a streamlined management approach to ensure cohesiveness, effectiveness, and accountability of senior service leadership. Creating and sustaining a true team relationship with senior subordinate leaders (both civilian and military) will ensure they stay focused and aligned with Secretary's mission, priorities (or objectives), and remain accountable. These critical steps will help prevent subordinate leaders from "going native" within their own organizations.

Building and keeping a senior leadership team united and focused is a constant challenge for the Secretary of Defense. Within the opening days of a new administration, the Secretary could find himself embroiled in crisis-management, driven by an unimaginable number of meetings – all focused on the urgency of the immediate. These urgent matters leave little or no time for strategic thought or forward vision, and could potentially cause the Secretary to be disconnected from the newly formed senior leadership team. Additionally, poor utilization of effective management tools to manage the Presidentially Appointed – Senate Confirmed Personnel may result in these subordinate senior leaders becoming out-of-coordination with the Secretary's goals and objectives, i.e. "going native."

Hard decisions, particularly when there is overall budgetary pressure, tend to diminish alignment, and increase friction between the Service Secretaries and the Secretary of Defense. The true senior leadership teaming that exists at the onset of a new administration too often erodes, enabling subordinate leaders to become overly focused on their military Service's perspectives at the expense of alignment with the Secretary's agenda.

Unlike the corporate world, the Secretary of Defense does not customarily get to pick his entire leadership team. There are forty-nine Presi-

dentially Appointed-Senate Confirmed positions on the Department of Defense Executive Schedule. Most of those are direct appointments from the White House with various levels of involvement by the Secretary of Defense. Whereas in the corporate world, the new chief executive officer often has the latitude to assemble his leadership team to meet his own goals and objectives.

### **INVEST THE TIME WITH SERVICE SECRETARIES TO MAINTAIN FOCUS ON PRIORITIES AND GOALS**

Regardless of how they are formed, involving and actively cultivating alignment of the Secretary's management team leads to greater organizational effectiveness. To be most effective, the Secretary's "direct reports" must be aligned with the Secretary's agenda and have fully established mutual trust, yet be appropriately decisive within their roles.

The Service Secretaries must remember that they support the President and the Secretary of Defense first, and then their Services second – managing their Services accordingly.

### **DELEGATE DOWNWARD**

One internal structural risk is that "Title 10" authorities, (to organize, train, and equip) can frustrate the Secretary's efforts to build a unified team. Military Service objectives can potentially run in opposition to the Secretary's policies and goals. Congressional pressure can widen these "seams" even further.

Chief Executive Officers of best-performing corporations measure performance, provide feedback (even when negative), and rapidly and decisively remove poor performers that hurt the team. Not doing so can break team confidence, introduce compromise, and create a fractured and splintered team that loses focus on the mission priorities – and risks "going native."



**MAINTAIN  
ACTIVE OPEN  
LINES OF  
COMMUNICATION  
...WITH SERVICE  
SECRETARIES...  
TO FOCUS ON  
PRIORITIES AND  
GOALS**

To be most effective it is best to remember the old verities: be decisive; state and reinforce priorities early; delegate authority, responsibility and accountability early; establish, communicate, and enforce standards of expected behavior; and make early accountability decisions.

## **Recommendations**

The Board offers the Secretary of Defense the following recommendations:

1. Maintain active open lines of communication and invest the time with Service Secretaries and other senior leaders to focus on priorities and goals.
  - a. Aggressively utilize existing governance structures.
  - b. Consider creating a higher-level executive committee where the members represent the Department and not their Services – and allow Service Secretaries to rely on each other.
  - c. Conduct one-on-one performance sessions with key senior subordinate leaders, utilize cascading scorecards, and publicize outcomes.
2. Delegate downward - Title 10 provides significant latitude to prevent the staffs from sending lesser actions upward.

## LEADING IN A FISCALLY CONSTRAINED ENVIRONMENT

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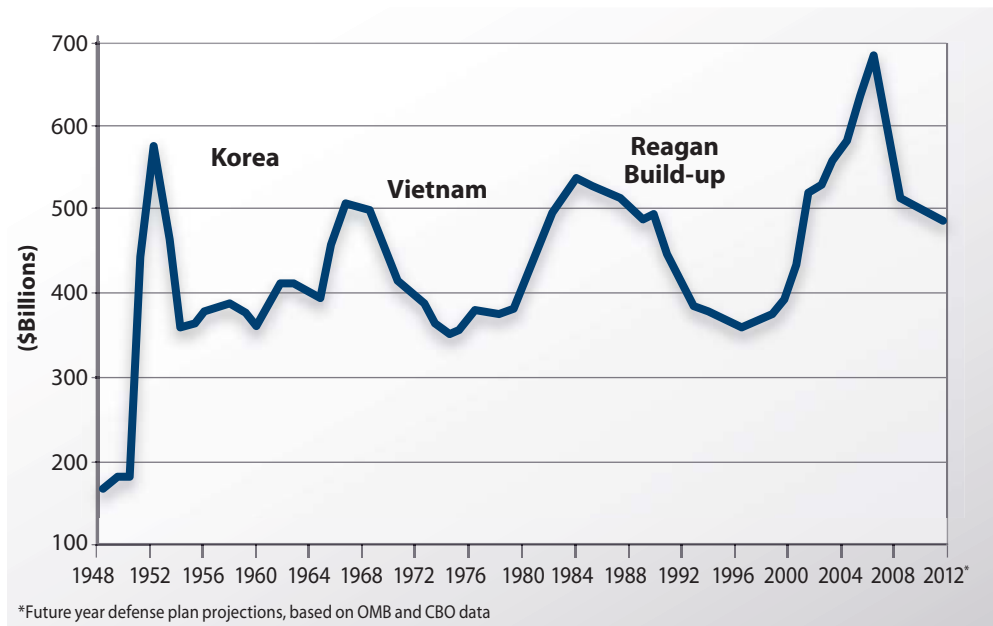
All indications suggest the Department is poised to enter a prolonged period of fiscal constraint with increasing deficits and competitive spending pressures. Actions related to the Wall Street crisis will exacerbate the pressure. Business as usual is no longer an option. The current and future fiscal environments facing the Department demand bold action. The Department's current long-term program is not sustainable without significantly more funds than projected. The growing gaps and mismatches between future budget levels and acquisition programs/plans must be resolved; Department of Defense personnel costs, health care costs, and fringe benefits must be addressed.

### IDENTIFY THE TRADE-SPACE

The current global economic situation appears to be unlike any the nation has faced before. However, historical analysis indicates that it is not without precedent.

Since 1947, there have been four periods of significant increase in budget authority. To date, each period has been followed by a period of significant decrease (see Figure 3-3). Current Departmental processes are structured for programmatic growth with the even distribution of increases and decreases across its time span. Opportunities exist for redirecting funds, but culture, decision authority, and management's leadership challenges remain significant. The challenges are further exacerbated by the increasing costs of what could be called "Department of Defense Entitlements" – personnel, fringe benefits, and overhead. Defense is presented with an opportunity to re-think the recapitalization strategy under the auspices of preparing and equipping for future threats versus a simple replacement of combat-worn resources.

**THE GROWING  
GAPS AND  
MISMATCHES  
BETWEEN FUTURE  
BUDGET LEVELS  
AND ACQUISITION  
PROGRAMS/PLANS  
MUST BE RESOLVED**



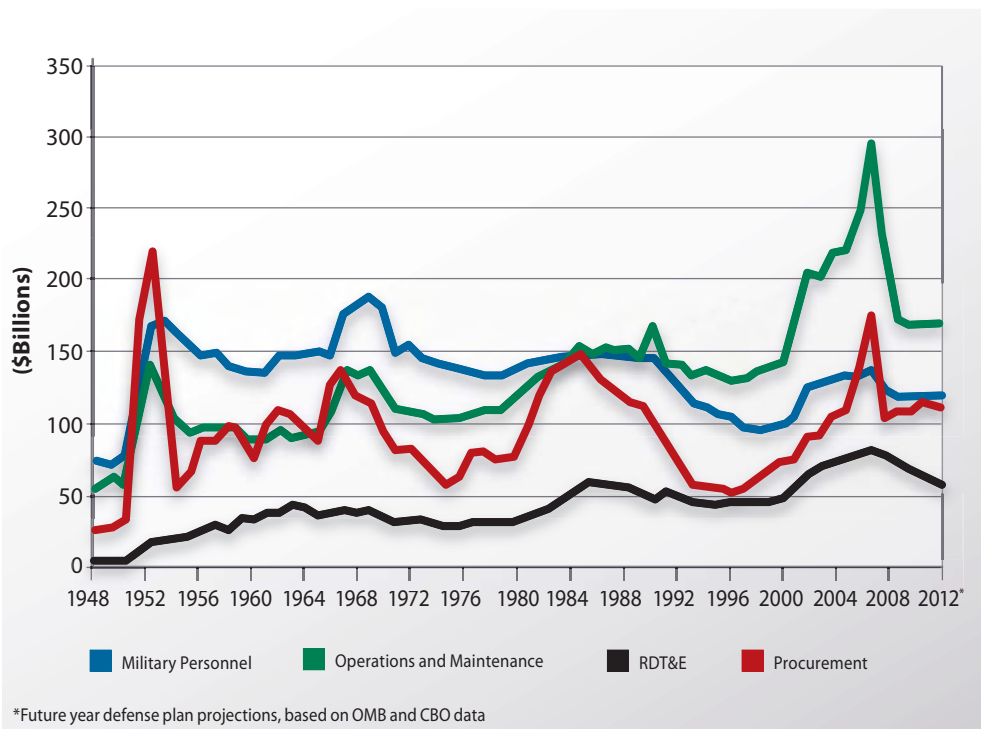
**Figure 3-3.** U.S. DoD Budget (Including Supplementals) Constant FY09 (\$Billions)

There are five primary cost drivers that need to be considered when planning for budget reallocation (see Figure 3-4). These cost drivers are:

1. **Manpower & Entitlements:** Fully loaded people costs are over half of the baseline budget. The current military manpower cost is over \$120,000/person/year and growing. Fully loaded health care costs are approaching \$60 billion/year for current health care and future retirees. These costs are increasing as a percentage of available funding, and will increase at a faster rate in a constrained budget.
2. **Operations and Maintenance costs:** Growing at 2.5 percent real cost over time; opportunities exist to improve the \$100 billion/year supply chain; capital decisions over coming years will have long-term effect on Operations and Maintenance costs.
3. **Excessive Overhead:** (running at least 42 percent) severely limits the Department's ability to maneuver. Over the past decade Department

of Defense overhead has remained at approximately 42 percent. In the global economy similar functions such as installations, management functions, personnel support, and central training have dramatically reduced their burden on global enterprises; overhead is taxing combat capability.

4. **Force Structure Levels/End-Strength:** Historical structure priorities need to be adjusted to strategic intent for the next generation for which there is no consensus. Current consensus is on raising force levels, reserve/active balance, U.S. alliances, and partnerships.
5. **Research & Development/Procurement:** Cannot reset current force, modernize, and transform in all portfolios at the same time; choices must be made across capabilities and within systems to deliver capabilities at known prices within specific periods of time.



**Figure 3-4. DoD Budget by Title, Constant 2008 (\$Billions)**

## Recommendations

The Board offers the Secretary of Defense the following recommendations:

1. Identify the trade-space early.
  - a. Items previously viewed as “non-discretionary,” e.g., pay, entitlements, and infrastructure costs, can no longer be sacrosanct. The uniformed military must tackle this also.
  - b. Cuts should apply in an “all or nothing” tactic in conjunction with strategy and priorities.
    - “Taking cuts at the margin” won’t work this time; nor will “pushing things off to the later years.”
    - Across-the-board reductions can have high unintended consequences; it risks cutting the “wrong stuff” and leads to even more attrition of already critically scarce capabilities, resources, and skill-sets.
    - Invest savings into unfunded priorities, offer back to Congress as goodwill, or combination of both.
    - Focus on increased war fighting capability with lower cost.
2. Move beyond just being fiscally prudent to creating incentives for the Defense community to become more outcome focused.
  - a. Assign responsibility to the Chief Management Officer, with the support of the Business Transformation Office for implementing necessary cost reductions in the first year.
  - b. Ensure the Chief Management Officer is an experienced executive with prior government management experience.
  - c. Eliminate programs and activities not vital to the mission.
  - d. Utilize a bi-partisan commission (similar to the National Bi-partisan Commission on Healthcare) to address the Department’s rapidly increasing healthcare expenditures.

3. Recruit a management team with the right leadership experience and “turnaround” skills.
  - a. Select leaders, civilian and military who understand and have specific experience (and a reputation / track record) in right-sizing, redesigning, and realigning an organization for forward sustainable success.
  - b. Develop the bench of future leaders and prepare succession plans early for sustained continuity.
4. Set new expectations by setting benchmarks, and establish a new culture by setting performance standards right up front that all must achieve.

**THE SECRETARY  
OF DEFENSE  
SHOULD RE-  
EMPHASIZE  
AND PROMOTE  
THE ROLE AND  
RESPONSIBILITY  
OF THE CHIEF  
FINANCIAL  
OFFICER IN THE  
DEPARTMENT**

## **REDEFINING THE DEFENSE COMPTROLLER AS CHIEF FINANCIAL OFFICER**

As the Department of Defense budget has grown, so too have the seemingly endless succession of supplementals. While the size, composition, and complexity of future budgets remains uncertain, the number of critically important allies and coalition partners joining us in the global war on terror continues to rise.

### **GLOBALIZE THE COMPTROLLER/CHIEF FINANCIAL OFFICER RESPONSIBILITIES**

The Department of Defense is at the center of financing both increased international programs (Section 1206 of the National Defense Authorization Act: Train and Equip Foreign Military Forces), which involve complex financial negotiations, and increased overseas base expansion agreements.

The Department is also at the center of fundraising from, and with, coalition partners to support our ongoing and expanding efforts in Afghanistan. Because of the significant importance of these financial transactions, the Office of the Secretary of Defense Comptroller should have a mandated and leading role in all fiscal matters affecting the Department. Therefore, the position should be renamed: “Under Secretary of Defense (Chief Financial Officer and Comptroller).”

### **SELECT THE COMPTROLLER FROM THE FINANCIAL INDUSTRY**

In the business world, the chief financial officer is far more important than the comptroller. The chief financial officer is often the third most important person in a firm after the chief executive officer and the chief operat-

ing officer. The chief financial officer manages cash and manages changes of dollar allocations to different accounts depending on “burn rates.”

Traditionally, in the Department, the role of the comptroller was more important than that of the chief financial officer role, with the sole objective of getting a budget through Congress. The comptroller laid out a budget, but that was in effect only a target. As it stands today, any changes in spending patterns that the Department may need to make (i.e., reprogramming) requires prior approval, and is capped at \$4 billion—less than three-quarters of one-percent of the entire budget.

In the corporate world, the authority and responsibilities of the chief financial officer vary. Many have discretion to reallocate a small percentage (about 10 percent) of funds, and at some firms, the chief financial officer carries additional responsibilities such as dealing with Human Resources issues as well.

THE SECRETARY  
OF DEFENSE  
SHOULD DRAW  
A COMPTROLLER  
FROM THE  
FINANCIAL  
INDUSTRY

**Table 3-3.** Comparing Fiscal Leadership Responsibilities

| Corporate Chief Financial Officer  | Office of the Secretary of Defense Comptroller                            |
|--|---|
| Third most important in firm (after chief executive officer and chief operating officer) | Comptroller is more important than the chief financial officer            |
| Manages cash and changes of dollar allocations   | Lays out budget – objective of getting it through Congress                |
| Has discretion to move 10 percent of funds around  | Changes in spending patterns (i.e. reprogramming) requires prior approval |
| Considers projections in reviews   | Projections not adequately considered                                     |

In the past, the Department worried less about transparency and accuracy of financial statements. Congress and the Government Accountability Office have pressed for greater transparency both for good governance



and financial management reasons. By way of oversight, normally there has been only one execution review a year (in the spring).

Because of the importance of Congressional approvals, past comptrollers have been people with Hill experience, usually with experience on the Appropriations Committee. As a result, comptrollers often have little understanding of, or interest in, financial management. This includes the production of meaningful financial statements and clean audits, as well as the management and rationalization of financial systems.

## Recommendations

The Board offers the Secretary of Defense the following recommendations:

1. Rename the position: “Under Secretary of Defense (Chief Financial Officer/Comptroller) – USD(CFO/C).
2. The USD(CFO/C) should be drawn from the Financial Industry.
  - a. The key skill-set required is global financial management experience.
  - b. Financial management is critical for the efficient and credible management of expenditures.
  - c. Some background on the Hill would be useful, but not critical.
  - d. A strong Principal Deputy, well-versed in Congressional matters can be the essential complement for any lack of Hill experience.
3. The USD(CFO/C) should conduct two (February and June) annual execution reviews vice one – include projections in reviews.
4. Globalize the USD(CFO/C) responsibilities to include all Department of Defense-related international financial negotiations.
  - a. Restore the International Branch to the Office of the USD(CFO/C).



## 4

## Necessities for a Successful Legacy

**A CRISP VISION  
STATEMENT FOR  
THE DEPARTMENT  
WOULD ALIGN  
DISPARATE  
INTERESTS OF  
THE SENIOR  
LEADERSHIP TEAM  
AND HELP DRIVE  
...PERFORMANCE**

### A VISION FOR THE FUTURE OF DOD

Effective leaders drive successful organizations by articulating an aspirational vision that motivates constituent parts to work together for the larger good, and then communicating and reinforcing it continuously. Structural, cultural, and behavioral changes are needed to strategically align with, and operationally support, the Nation's military forces in a full range of activities.

A crisp vision statement for the Department of Defense would align disparate interests of the senior leadership team and help drive and reinforce strategy, policy, sourcing, accountability, and performance during the Secretary's tenure.

Internally, a vision statement will help instill management discipline, align functions, and better integrate business operations with strategic priorities. Military capability to plan and conduct military operations increases while overhead decreases. Future forces should be more lethal and better equipped to deal with an uncertain future. Innovation, agility, adaptability, collaboration, and partnership should guide the formulation of strategic processes and organizational structures that support the strategic direction articulated in a vision statement. Also, horizontal integration should be vastly improved if all the stakeholders are working toward a common end state.

Externally, a vision statement helps constituents understand organizational culture and build support for the organization. Additionally, it

can help to provide some direction for the industrial base and academia investments to help sustain America's scientific and technological advantages over any potential competitor and contributes to the Nation's ability to dissuade potential military competition.

## VISION ELEMENTS

To drive change the Department will have to:

- Create a vision for making the Department of Defense more effective in: protecting and projecting American interests in defense of freedom and democracy; maintaining peace and security for the American people; and deterring, fighting, and winning wars when necessary.
- Tie performance objectives to the vision
- Align the Service Secretaries' visions with the Department's
- Take immediate actions to implement the vision:

## Recommendation

The Board recommends the Secretary of Defense create a vision statement for the future of the Department and establish measurable goals and metric to accomplish that goal.

Each leader articulates his vision in his own way. The following is a sample vision statement for the future state of the Department of Defense.

#### **SAMPLE VISION FOR DOD**

*Our mission is to protect and defend the constitution of the United States with a full range of combat, peace keeping, humanitarian, and support forces needed to protect the security of our Nation and its people.*

*Our vision is to increase our effectiveness in protecting and projecting American interests in defense of freedom and democracy, in maintaining peace and security for the American people, and in deterring, fighting, and winning wars when necessary.*

#### **TO MEET THE CHALLENGE OF THIS VISION, THE DEPARTMENT OF DEFENSE WILL:**

- Adapt best global business practices from the private sector to the defense enterprise;
- Adopt a management structure of centralized business operations in support of decentralized military operations;
- Adopt and implement the Strategic Management Plan for improving the overall efficiency and effectiveness of the Department's business operations;
- Establish leadership selection criteria and joint service to ensure seasoned judgment in senior positions;
- Instill management discipline that continuously seeks to benchmark performance against other world-class enterprises, measure outcomes, increase accountability, and reward superior performance;

- Attract, develop, and retain the brightest and best men and women who seek to excel in service to their country;
- Encourage innovation, prudent risk-taking, individual and team achievement, and commitment to continuous improvement at all levels of the defense enterprise; and
- Cooperate with and support our partners in the other branches of government in serving the interests of the American people.

## TRACKING PERFORMANCE TO IMPROVE ACCOUNTABILITY

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### ...PERFORMANCE MANAGEMENT THROUGH GOAL SETTING AND MEASUREMENT NEEDS THE ACTIVE SUPPORT AND REINFORCEMENT OF BOTH THE SECRETARY OF DEFENSE AND DEPUTY SECRETARY OF DEFENSE

The Secretary of Defense and Deputy Secretary of Defense are urged to adopt a form of “Management by Objectives” as an integral part of managing the Defense Department. There are special factors that need to be taken into account in implementing a performance management system at the Department of Defense: priorities change in response to external events (the war comes first); vulnerabilities are created by disclosure of shortcomings; it is hard to keep a close hold on benchmarks and performance ratings; “holding people accountable” has negative connotations of scapegoatism; and there is a high degree of turnover of senior people, which is disruptive to the continuity of priorities and projects.

Assuming the Secretary of Defense and Deputy Secretary of Defense agree the Deputy will be “Mr. Inside”, the Deputy Secretary of Defense should run the program through the Chief Management Officer. However, to work effectively, performance management through goal setting and measurement needs to have the active support and reinforcement of both the Secretary of Defense and Deputy Secretary of Defense. It is not a “program” that can be delegated to lower levels and forgotten. It is, rather, a way of managing that best works as part of the leadership style of the Secretary of Defense and Deputy Secretary of Defense.

Successful implementation also requires communication with and buy-in by the whole senior leadership. The Secretary of Defense and Deputy Secretary of Defense likely will have a council of their chief subordinates, which will meet periodically to discuss issues and obtain input and buy-in for major decisions. This council should be used to launch and reinforce the performance management process.<sup>1</sup>

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1. Cross reference to DBB Transition Task, “Leveraging Critical Friction Points,” recommendation 3.

The performance management system should be applied in two ways: (1) to each of the Defense Department's 25 presidential appointees subject to Senate confirmation other than the Secretary of Defense and Deputy Secretary of Defense<sup>2</sup>, and (2) to each of the major Department of Defense offices, military branches, combatant commands, defense components, and defense agencies.

For the individuals in a Presidential Appointee - Senate Confirmed position, senior management should create a listing of critical objectives and goals for these positions. These performance objectives and goals should reflect (1) the overall goals that the Secretary of Defense and Deputy Secretary of Defense have for the Department, (2) the individual's role in helping to achieve those goals, (3) why the position exists, and (4) what the individual aspires to achieve during his/her tenure with the Department over and above Title 10 responsibilities. The process should start at the top and cascade down, first to the Secretary of Defense's direct reports and then to the next echelon.

We suggest the goals be set for each individual in a Presidential Appointee-Senate Confirmed position within 90 days of confirmation, and reviewed in quarterly meetings between with his/her boss.

The second application is to all organizational entities that report to leaders in the Presidential Appointee-Senate Confirmed positions. There may be differences between the objectives and goals the Secretary of Defense and Deputy Secretary of Defense set for organizational units and those set for a Presidential Appointee-Senate Confirmed position that warrant a separate process. Or the processes could be combined, with each Presidential Appointee-Senate Confirmed position having both individual and unit goals to be achieved. The Joint Chiefs of Staff should be involved in goal setting and measurement tracking for major combatant commands.

2. Souce DoD Executive Schedule Positions (Civilian Presidential Appointment/Senate Confirmation Positions), as of 28 January 2008.

**THE PROCESS  
SHOULD START  
AT THE TOP AND  
CASCADE DOWN,  
FIRST TO THE  
SECRETARY OF  
DEFENSE'S DIRECT  
REPORTS AND  
THEN TO THE NEXT  
ECHELON**



**IT IS IMPORTANT  
TO ESTABLISH  
JOINTLY SET  
PERFORMANCE  
GOALS AND  
CONDUCT  
MANAGEMENT  
REVIEWS**

The Service Secretaries goals and objectives should be aligned with the Secretary of Defense and support those of the combatant commands.

Performance management is a closed-loop process. After goals are set and agreed to, there needs to be measures of performance, periodic assessment, and feedback. Individuals and units being measured should provide periodic self-assessment of progress and achievement or lack thereof. The standard green, yellow, red scoring system can be useful in monitoring performance.

A performance management process is nothing more than a way of communicating performance goals and expectations in a disciplined manner that invites buy-in and accountability. Effectiveness requires the personal support and commitment of the Secretary of Defense and Deputy Secretary of Defense and consistency of application throughout tenure. Ideally, the goals are limited to the “critical few” and are measurable, including timetables for progress and achievement. Judgment plays a role because everything important cannot be measured finitely.

To that end, a performance management system is an integral part of managing the Defense Department to harness the energies of senior appointees to the objectives that are set and to the changes to the institution that are desired.

Therefore, it is important to establish jointly set performance goals and conduct management reviews of all 25 Presidential Appointee-Senate Confirmed (Executive Levels II, III, and IV) positions as individuals, all Office of the Under Secretary of Defense offices, Joint Chiefs of Staff, combatant commands, military branches, and defense agencies and components to measure progress, develop indicators of success, and ensure the Department is aligned horizontally and vertically.

It is also important to leverage existing organizational capabilities rather than adding staff and enlisting the support of the Deputy Secretary

of Defense and chief management officer in the process. The task group recommends that the Director of the Program Analysis and Evaluation assume collateral duties as Special Assistant to Secretary of Defense for Strategic Planning regardless of where the Director of the Program Analysis and Evaluation reports and use a senior leadership forum (currently Deputy's Advisory Working Group) to communicate and gain commitment.

## **Recommendations**

The Board offers the Secretary of Defense the following recommendations:

1. Adopt a performance management system as an integral part of managing the Defense Department.
2. Establish performance goals.
3. Leverage existing organizational capabilities.

## Appendix A. Summary of Recommendations

| Items Requiring Immediate Attention       |  |
|---|--|
| <b>Focusing the Effort</b>                | <ol style="list-style-type: none"> <li>1. Set aside time in the transition to identify the planning, gravitas and interagency process necessary to respond to a likely first 270 day crisis.</li> <li>2. Establish cabinet level performance expectations upfront and review transition team's plans for governance.</li> </ol>  |
| <b>DoD's Unique Management Challenges</b> | <ol style="list-style-type: none"> <li>1. The new Administration should assign a team of experts upon the announcement of the new nominee for Secretary of Defense to review, validate and/or alter DoD management systems/processes in order to get underway on January 20th, 2009.</li> <li>2. Build a senior leadership team with the skills and experience that complements the Secretary's strengths and compensate for any gaps.</li> <li>3. Senior leadership must lay out clear and measurable management objectives, establish organizational and individual expectations and demand ongoing alignment essential to achieve goals.</li> <li>4. Develop leading indicator metrics to measure progress and improve accountability.</li> <li>5. Synchronize the capability to identify and exploit deep strategic initiatives that are as important as pressing near term action.</li> </ol> |

\* As approved during the October 23, 2008 public session.

| Items Requiring Immediate Attention (continued)                |  |
|--|--|
| <b>Building the Strongest Team</b>                             | <ol style="list-style-type: none"> <li>1. Develop a slate of “hold-over” candidates for key positions to limit the number of empty chairs on day one               <ol style="list-style-type: none"> <li>a. Apolitical presidential appointees</li> <li>b. Strong, experienced civil servants</li> <li>c. Senior military officers may be appropriate in some cases</li> <li>d. Goal—no dropped balls or leadership vacuums</li> </ol> </li> <li>2. Start the personnel process early               <ol style="list-style-type: none"> <li>a. Develop an organization plan that spells out the primary responsibilities of the key positions to guide the selection of the right person for each job</li> <li>b. Identify multiple candidates for key jobs before the election. Ensure you have a strong alternative in case problems arise</li> <li>c. Start the clearance process for 30 to 40 people from each party right after the conventions (both transition team members and possible appointees)</li> <li>d. Start the formal vetting process day after election – not necessary to know exactly which jobs they will fill</li> </ol> </li> <li>3. Reach out for candidates, don’t just settle for those eager for appointments</li> <li>4. Focus initially on the key positions               <ol style="list-style-type: none"> <li>a. Select preferred candidates</li> <li>b. Ensure FBI gives them priority</li> <li>c. Target getting names to Hill in 30 days (60 days is the norm)</li> <li>d. Drive to get them in place by January 31 (February 15 at latest)</li> </ol> </li> <li>5. Work closely with the FBI and key Hill Committees to get their full cooperation</li> <li>6. Careful selection of military assistants is very important. Don’t just accept those that are nominated. The right ones can be invaluable.</li> </ol> |
| <b>Building the Strongest Team: On-boarding New Appointees</b> | <ol style="list-style-type: none"> <li>1. Carefully structure the on-boarding process and start as early as possible.               <ol style="list-style-type: none"> <li>a. Provide a strategy to guide key changes in policy/programs</li> <li>b. Focus particular attention to early challenges/immediate issues</li> <li>c. Identify potential “land-mines”</li> </ol> </li> <li>2. Utilize focused, short briefing papers (no thick books).               <ol style="list-style-type: none"> <li>a. 1-pagers on key issues requiring early attention/decisions</li> <li>b. Provide background, options, timelines (no recommendations)</li> <li>c. More in-depth education will take place during the confirmation process</li> </ol> </li> <li>3. Outline key responsibilities of the positions.               <ol style="list-style-type: none"> <li>a. Brief Summary of functions and key roles/relationships</li> <li>b. Short Bios of senior career officials</li> </ol> </li> <li>4. Carefully select briefers for prospective appointees.               <ol style="list-style-type: none"> <li>a. Independent, creative thinkers—military and civilian</li> <li>b. Don’t be defensive, locked in on prior Administration policies/programs</li> <li>c. Expect suspicion/skepticism from the new appointee</li> </ol> </li> </ol>  |

### Near-Term Obstacles that could Hamper Long-Term Success

|  |  |
|--|--|
| <b>Lowering the Cost of Overhead</b>                     | <ol style="list-style-type: none"> <li>1. Secretary should conduct a review of all indirect and direct costs to determine if 42% is an appropriate amount of overhead and to identify opportunities to constantly reduce overhead <ul style="list-style-type: none"> <li>• Set a goal to reduce “overhead”</li> </ul> </li> <li>2. The Secretary should mandate the use of management tools are based on an enterprise vision to drive down overhead spending <ul style="list-style-type: none"> <li>• Metrics should focus on outcomes (not outputs) to provide strong measures of implementation and achievement of goals</li> </ul> </li> </ol>   |
| <b>Slowing the Ballooning Cost of Defense Healthcare</b> | <ol style="list-style-type: none"> <li>1. Lead the Effort—Only the Secretary can lead the Department to address this perilous threat</li> <li>2. Build a Team—The Secretary must convene his senior military and civilian leadership to reduce Defense healthcare spending <ul style="list-style-type: none"> <li>• This is an issue that can only be solved with the active support and engagement of the Chairman, Joint Chiefs of Staff and Service Chiefs</li> </ul> </li> <li>3. Identify High Pay-Off Items—The Secretary’s team must focus on areas of highest potential savings <ul style="list-style-type: none"> <li>• Especially in the areas of retiree spending and pharmacy</li> </ul> </li> <li>4. Work with Congress—Any changes to the trajectory of expenses will require the support of the Congress, as many of the fastest rising programs are mandated <ul style="list-style-type: none"> <li>• Utilize a bi-partisan commission (similar to the National Bi-Partisan Commission on Healthcare) to address DoD’s rapidly increasing healthcare expenditures</li> </ul> </li> </ol>   |
| <b>Addressing Root Causes of Acquisition Cost Growth</b> | <ol style="list-style-type: none"> <li>1. The Secretary must work with AT&amp;L and the Service Secretaries to drive a targeted reversal of this trend which addresses the previously listed key drivers of program baseline changes and program cost growth <ol style="list-style-type: none"> <li>a. Maintain metrics for each re-baselining decision to track/monitor drivers of growth</li> <li>b. Focus on fundamental drivers not on “fixing” symptoms, including the human capital issue</li> <li>c. Set and then propagate the cultural change necessary to reverse the behavior</li> <li>d. Establish non-negotiable objectives and supporting metrics; hold the leadership accountable for achieving them</li> </ol> </li> <li>2. Hold industry executives accountable to the same objectives and supporting metrics as DoD <ul style="list-style-type: none"> <li>• Initiate dialogue with industry independent of the requirements process to minimize future program baseline and estimate changes</li> </ul> </li> <li>3. Develop joint management tools to fix and manage the authority, responsibility, incentives and accountability across the relevant parts of DoD and industry</li> </ol> <p><i>Reference DBB Report FY08-3 “Strategic Relationship Model Between DoD and Industrial Base” for greater detail</i></p> |

| Organizing the Department for Real Change                      |   |
|--|---|
| Identify an Optimal Management Model to Drive Change           | <ol style="list-style-type: none"> <li>1. Adopt a management model that: <ol style="list-style-type: none"> <li>a. Focuses on the management issues and national security challenges facing DoD</li> <li>b. Clearly reflects the Department's top objectives</li> <li>c. Provides clear authority and accountability to key subordinates</li> <li>d. Fits the personal management style of the new Secretary</li> </ol> </li> <li>2. Analyze critical management processes and strengthen as necessary <ol style="list-style-type: none"> <li>a. Determine which management systems support the Secretary's management model</li> <li>b. Provide meaningful metrics, and reporting systems to measure and track them</li> <li>c. Focus on areas of known weaknesses such as finance, personnel, and logistics</li> </ol> </li> <li>3. Secretary/Deputy must give priority to strengthening the Department's Human Resources. No organization or set of management processes will be effective without capable, motivated and empowered people: <ol style="list-style-type: none"> <li>a. Must attract, retain and motivate quality people for both the career and political positions</li> <li>b. Strengthen career personnel numbers and talent in such functions as acquisition, systems engineering, and R&amp;D</li> </ol> </li> </ol>  |
| Focusing the Secretary's Time on the Most Strategic Objectives | <ol style="list-style-type: none"> <li>1. Focus on a few key objectives and harmonize those priorities with stakeholders. Provide management attention early and consistently. <ol style="list-style-type: none"> <li>a. Identify trade space within the major budget categories ( i.e., personnel/ operations and maintenance/research and development/and procurement) and use that to obtain and leverage mutual cooperation with key internal and external stakeholders</li> <li>b. Clearly communicate expectations to the senior civilian appointees, link objectives to outcomes and allocate time to monitor performance.</li> </ol> </li> <li>2. Engage the military and civilian leaders, including CJCS and COCOM Commanders on strategic operational matters to better align key objectives and provide a force multiplier to the Secretary. <ul style="list-style-type: none"> <li>• Leverage the expertise and forums available to these entities to advance key management objectives.</li> </ul> </li> <li>3. Support strategic priorities by aligning management attention and major budget items. <ol style="list-style-type: none"> <li>a. Issue strategic planning guidance that supports key management objectives and drive implementation decisions down to Tier II and lower.</li> <li>b. Identify core management systems and processes and use them to provide important budget and management data.</li> </ol> </li> </ol> |

**Organizing the Department for Real Change** (continued)**Using Selection  
Criteria and  
Position Pairings**

1. The Secretary must leverage individual experience and qualifications to promote complementary pairings that enhance collective individual effectiveness and ensure the team stays focused on the most strategically important objectives.
2. Align authority, responsibility and accountability of these pairings
3. Recommend the Secretary:
  - a. Identify and agree on the most senior level pairings: Chairman JCS, Secretary/Deputy, Deputy/Vice Chairman, Secretary/Service Secretaries, and Service Secretaries/Service Chiefs
  - b. Identify the most pressing issues and challenges that will impact organizational climate and use them to guide the selection of core competencies necessary to meet those challenges
  - c. Exploit the pairing of the most senior positions to ensure the skills and experience needed are filled by one of those pairings. Key considerations should be given to making sure that there is a balance in the pair of those skills and experience
4. Require all Deputies within the Department to have prior government management experience

| Organizing the Department for Real Change (continued)                    |   |
|--|---|
| Restoring the “Crucible of Ideas” by Leveraging Critical Friction Points | <ol style="list-style-type: none"> <li>1. Seek alternative views on key decisions. When presented with “black &amp; white” answers, assume that things probably aren’t that clear.               <ol style="list-style-type: none"> <li>a. Diversity in the broadest sense opens the aperture around ideas</li> <li>b. Alternative views help drive innovative thinking</li> </ol> </li> <li>2. Question solutions where “everyone gets their share.”               <ol style="list-style-type: none"> <li>a. The future doesn’t offer this option. There will be “haves” and “have-nots”</li> <li>b. Must represent all the Department, not just part of the Department</li> </ol> </li> <li>3. Use an inclusive Secretary’s senior leader forum (with ongoing support of the Secretary of Defense) to set strategic direction, and develop a culture that rewards appropriate risk-taking.               <ol style="list-style-type: none"> <li>a. Create the environment for the use of friction points</li> <li>b. Must be a forum for challenging ideas as well as driving implementation once the decisions are made</li> <li>c. Use it to test alternative ideas</li> <li>d. Set the performance expectations for the Department</li> <li>e. Challenge approaches and hold people accountable for decision implementation</li> </ol> </li> </ol> |
| DoD Leadership to Align the Services to the Secretary’s Agenda           | <ol style="list-style-type: none"> <li>1. Maintain open lines of communication and invest the time with Service Secretaries and other senior leaders to focus on priorities and goals.               <ol style="list-style-type: none"> <li>a. Aggressively utilize existing governance structures</li> <li>b. Consider creating a higher-level executive committee where the members represent the Department and not their Services – and allow Service Secretaries to rely on each other</li> <li>c. Conduct one-on-one performance sessions with key senior subordinate leaders – utilize cascading scorecards – publicize outcomes</li> </ol> </li> <li>2. Delegate downward, Title 10 provides significant latitude to prevent the staffs sending lesser actions upward.</li> <li>3. Apply the old verities:               <ol style="list-style-type: none"> <li>a. Be decisive</li> <li>b. State and reinforce priorities early</li> <li>c. Delegate authority, responsibility and accountability early</li> <li>d. Establish, communicate, and enforce standards of expected behavior</li> <li>e. Make early accountability decisions</li> </ol> </li> </ol>   |



**Organizing the Department for Real Change (continued)****Leading in  
a Fiscally-  
Constrained  
Environment**

1. Identify the trade-space early
  - a. Items previously viewed as “non-discretionary,” e.g., pay, entitlements, and infrastructure costs, can no longer be sacrosanct. The uniformed military must tackle this also.
  - b. Cuts should apply in an “all or nothing” tactic in conjunction with strategy and priorities.
    - “Taking cuts at the margin” won’t work this time; nor will “pushing things off to the later years.”
    - Across-the-board reductions can have high unintended consequences; it risks cutting the “wrong stuff” and leads to even more attrition of already critically scarce capabilities, resources, and skill-sets.
    - Invest savings into unfunded priorities, offer back to Congress as good-will, or combination of both.
    - Focus on increased war fighting capability with lower cost.
2. Must move beyond just being fiscally prudent to creating a structure and responsibility for the Defense community to reduce costs and become more outcome focused
  - a. Assign responsibility to the Chief Management Officer (CMO), with the support of the Business Transformation Office for implementing necessary cost reductions in the first year.
  - b. Ensure the CMO is an experienced executive with prior government management experience.
  - c. Eliminate programs and activities not vital to the mission.
  - d. Utilize a bi-partisan commission (similar to the National Bi-partisan Commission on Healthcare) to address the Department’s rapidly increasing healthcare expenditures.
3. Recruit a management team with the right leadership experience and “turnaround” skills.
  - a. Select leaders, civilian and military who understand and have specific experience (and a reputation / track record) in right-sizing, redesigning, and realigning an organization for forward sustainable success.
  - b. Develop the bench of future leaders and prepare succession plans early for sustained continuity.
4. Set new expectations by setting benchmarks, and establish a new culture by setting performance standards right up front that all must achieve.

| Organizing the Department for Real Change (continued)         |  |
|---|--|
| Redefining the Defense Comptroller as Chief Financial Officer | <div><div>1. Rename the position: “Under Secretary of Defense (Chief Financial Officer and Comptroller)—USD(CFO&amp;C)”</div><div>2. The USD(CFO&amp;C) should be drawn from the Financial world.<div><div>a. The key skill-set required is global financial management experience</div><div>b. Financial management is critical for the efficient and credible management of expenditures</div><div>c. Some background on the Hill would be useful, but not critical</div><div>d. A strong Principal Deputy, well-versed in Congressional matters can be the essential compliment for any lack of Hill experience</div></div></div><div>3. The USD(CFO&amp;C) should conduct two (February and June) annual execution reviews vice one—include projections in reviews</div><div>4. Globalize the USD(CFO&amp;C) responsibilities to include all DoD-related international financial negotiations<ul style="list-style-type: none"><li>Restore the International Branch to the Office of the Comptroller</li></ul></div></div> |

| Necessities for a Successful Legacy   |   |
|---------------------------------------|---|
| <b>A Vision for the Future of DoD</b> | <ol style="list-style-type: none"> <li>1. Adopt a vision of making DOD more effective in:               <ol style="list-style-type: none"> <li>a. Protecting and projecting American interests in defense of freedom and democracy</li> <li>b. Maintaining peace and security for the American people, and</li> <li>c. Deterring, fighting and winning wars when necessary</li> </ol> </li> <li>2. Tie performance objectives to the vision</li> <li>3. Align the Service Secretaries' visions with the Department's vision</li> <li>4. Advocate the following actions to implement the vision:               <ol style="list-style-type: none"> <li>a. Adapt best global business practices from the private sector to the defense enterprise</li> <li>b. Adopt a management structure of centralized business operations in support of decentralized military operations</li> <li>c. Adopt and implement the Strategic Management Plan for improving the overall efficiency and effectiveness of the Department's business operations</li> <li>d. Establish leadership selection criteria and joint service to ensure seasoned judgment in senior positions</li> <li>e. Instill management discipline that continuously seeks to benchmark performance against targets from other world-class enterprises, measure outcomes, increase accountability, and reward superior performance</li> <li>f. Attract, develop and retain the brightest and best men and women who seek to excel in service to their country</li> <li>g. Encourage innovation, prudent risk-taking, individual and team achievement, and commitment to continuous improvement at all levels</li> <li>h. Cooperate with, and support our partners in the other branches of government in serving the interests of the American people</li> </ol> </li> </ol> |
| <b>Sample Vision</b>                  | <p>Our vision is to increase our effectiveness in protecting and projecting American interests in defense of freedom and democracy, in maintaining peace and security for the American people, and in deterring, fighting and winning wars when necessary.</p>  |

| Necessities for a Successful Legacy (continued) |  |
|---|--|
| Tracking Performance to Improve Accountability  | <div><div>1. In the first three months of tenure, adopt a performance management system as an integral part of managing the Defense Department to harness the energies of his senior appointees to the objectives he sets and the changes he wishes to institute.</div><div>2. Establish performance goals and conduct management reviews<div><div>a. Provide strategic management guidance to all 25 PAS (Exec. Levels II,III and IV) as individuals, and to all OUSD offices, JCS, Combatant Commands, Military Branches and Defense Agencies and Components.</div><div>b. Jointly set performance goals, develop indicators that measure progress, and conduct periodic management reviews.</div><div>c. Ensure that goals and objectives are aligned horizontally and vertically</div></div></div><div>3. Leverage existing organizational capabilities rather than adding staff<div><div>a. Enlist support of DepSecDef and CMO (if activated) in process</div><div>b. Have Director, Program Analysis and Evaluation (PA&amp;E) assume collateral duties as Special Assistant to Secretary of Defense for Strategic Planning— regardless of where PA&amp;E reports</div><div>c. Use a senior leadership forum (currently Deputy’s Advisory Working Group) to communicate and gain commitment</div></div></div></div> |

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## Appendix C. Defense Business Board Member Biographies

### MICHAEL J. BAYER, CHAIRMAN

Michael J. Bayer is the President and CEO of Dumbarton Strategies, Washington, D.C., a provider of strategic planning and merger and acquisition counsel. Mr. Bayer also serves as the Chairman of the Defense Business Board, and is a member of the Sandia National Laboratory's National Security Advisory Panel, the Defense Science Board and the Chief of Naval Operations Executive Panel.

His previous U.S. Government service included appointments as Vice Chairman of the Defense Business Board, a Member of the Board of Visitors of the United States Military Academy, Chairman of the Army Science Board, a Member of the U.S. Naval War College Board of Visitors, Chairman of the Secretary of Air Force's Advisory Group and, Member of the U.S. European Command Senior Advisory Group. Earlier in his career he was Counsel to a senior Member of the U.S House of Representatives, Deputy Assistant Secretary at the U.S. Department of Energy, Malcolm Baldrige's Associate Deputy Secretary of Commerce, Counselor to the United States Synthetic Fuels Corporation, Counselor to the Commission on Aviation Security and Terrorism and, the Federal Inspector for the Alaska Natural Gas Transportation System.

He has been a Trustee of Washington's Source Theater and its Chairman of the Board, a Member of the Board of the Potomac Community Theater, and a Member of the Board of Directors of The American Heart Association (Nation's Capitol Affiliate).

**FREDERIC W. COOK, VICE CHAIRMAN**

Frederic W. Cook is Founding Director of Frederic W. Cook & Co., a management-compensation consulting firm, which was formed in 1973 and which currently has offices in New York, Chicago, Los Angeles, and San Francisco. The firm has served over 1,500 clients since its inception. Mr. Cook attended Dartmouth College on an NROTC scholarship, and graduated in 1962. He served for four years as an infantry officer in the U.S. Marine Corps and then spent six years with Tower Perrin consulting firm before founding his firm. Mr. Cook has been elected an honorary lifetime member of the American Compensation Association and recipient of its Keystone award. In addition, he is a fellow of the National Academy of Human Resources and speaks frequently on management compensation and related human resources and corporate governance issues.

**DENIS A. BOVIN**

Denis A. Bovin is Co-Chairman and Co-CEO of Stone Key Partners LLC, a strategic and financial advisory investment bank. Prior to forming Stone Key Partners, Mr. Bovin was Vice Chairman – Investment Banking, Senior Managing Director and Chairman of the Global Technology, Media and Telecom Group at Bear Stearns & Co. He was a member of the team that directed Bear Stearns' Investment Banking activities and had direct responsibility for a wide variety of the Firm's key domestic and international investment banking clients.

In 1998 Defense Daily named Mr. Bovin as one of the world's 40 most influential people in global defense, aerospace, and national security.

He has more than 30 years of experience with the strategic and financial concerns of domestic and international companies and government agencies and has initiated or been involved with financings and business combinations aggregating in excess of \$250 billion. Mr. Bovin had previ-



ously spent more than two decades at Salomon Brothers Inc. and headed that firm's Investment Banking Corporate Coverage and Capital Markets Divisions. He also led the firm's Communications and Technology Group which covered computer, defense, telecommunications, electronics, and media companies. In 1985, Mr. Bovin was selected by *Institutional Investor* magazine as one of the country's twelve most outstanding investment bankers under age 40.

Mr. Bovin received his B.S. degree from the Massachusetts Institute of Technology and an M.B.A. degree from the Harvard Business School. In addition to serving on the M.I.T. Executive Committee, he is an elected Life Member of the M.I.T. Corporation; a member of the Council on Foreign Relations; and was previously Chairman of the Overlook Hospital Foundation in Summit, New Jersey. He is Vice Chairman of Business Executives for National Security, Inc. ("BENS"), and a Vice Chairman of the Intrepid Foundation. Mr. Bovin is listed in Who's Who in Finance and Industry.

In 2006, Mr. Bovin was sworn in as a member of the President's Intelligence Advisory Board. He is also a consultant to the Defense Science Board ("DSB"), which advises the Secretary of Defense and the Chairman of the Joint Chiefs of Staff and was a member of the DSB from 1998 until 2004. Mr. Bovin has been awarded the Department of Defense Medal for Distinguished Public Service, the highest honor that can be conferred on a civilian, for his "dedication and commitment to the men and women of the U.S. Armed Forces" and for his "vital and lasting contributions to the Department of Defense."

#### **HOWARD E. COX, JR.**

Howard E. Cox is a Partner of Greylock, a national venture capital firm with offices in the Boston and Bay Area with which he has been associated for 37 years. Greylock, with committed capital of over \$2 billion under

management, is an active investor in software, data communications, consumer internet, and healthcare. Over 150 Greylock companies have gone on to become publicly held, while more than 200 have successfully merged with other leading companies. Mr. Cox has been a director of more than 30 companies including three listed on the New York Stock Exchange. He is also a trustee of various Fidelity Mutual Funds.

Mr. Cox's non-profit activities include Executive Committee In-Q-Tel; director Business Executives for National Security; member Council on Foreign Relations; Investment Committees of Partners Healthcare, Dana-Farber Cancer Institute, Museum of Fine Arts; Board of Fellows Harvard Medical School; Harvard Business School Visiting Committee; Dean's Council Kennedy School, and past Chairman National Venture Capital Association.

Mr. Cox received his AB from the Woodrow Wilson School at Princeton in 1964 and his JD from Columbia Law where he was an International Fellow. He earned his MBA from Harvard Business School and was a 2003 recipient of the Alumni Achievement Award which is the highest honor the School can give to an alumnus. Prior to joining Greylock, he served in the Office of the Secretary of Defense. Upon graduation from Princeton Mr. Cox was commissioned a 2nd Lieutenant Artillery where he was a Distinguished Military Graduate of the Army R.O.T.C. program. Various members of his family have been active in the US military including General Richard Delafield for whom Delafield Pond at West Point is named and General Morgan Lewis, one of Washington's Generals.

## **HENRY N. DREIFUS**

Henry N. Dreifus is Founder & CEO of Dreifus Associates Limited, Inc. With over 25 years experience in Secure Identification & Smart Card technologies, he was a Founding Director and Executive Committee member of the Smart Card Industry Association, and has held a number of board

positions in the financial and technology industries including serving on the boards of Viewzi, Inc., a visual search engine company, TelaDoc Medical Services, Inc., a national medical cross-coverage service provider, and Micromem Technologies a nano-technology sensor and magnetic memory (MRAM) developer. Mr. Dreifus has been called upon to present expert testimony to Congress, is a published author, an accomplished speaker, and a patent holder in smart card technology. A graduate of the University of Pennsylvania, Mr. Dreifus received a Master's degree in Business Administration from Washington University, St. Louis.

#### **CARLY S. FIORINA**

Carly S. Fiorina has successfully blazed new trails, taken risks and defied the odds. As the former chairman and chief executive officer of global technology solutions provider Hewlett-Packard, she brought all of her skills to bear to write a new chapter in the life of an historic company.

After joining HP in July 1999, Ms. Fiorina led the reinvention of the company many associate with the birth of Silicon Valley, returning HP to its roots of innovation and inventiveness. Ms. Fiorina successfully led HP's controversial merger with Compaq Computer Corp., now recognized as the most successful high-tech merger in history.

Ms. Fiorina took an unconventional route to becoming CEO of a leading technology company, earning a bachelor's degree in Medieval History and Philosophy from Stanford University. Ms. Fiorina holds a Master's degree in Business Administration from the Robert H. Smith School of Business at the University of Maryland at College Park, Md., and a Master of Science degree from MIT's Sloan School.

Prior to joining HP, Ms. Fiorina spent nearly 20 years at AT&T and Lucent Technologies, where she held a number of senior leadership positions

and directed Lucent's initial public offering and subsequent spin-off from AT&T.

Ms. Fiorina was named an Honorary Fellow of the London Business School in July 2001. She has been honored with the 2002 Appeal of Conscience Award and the 2003 Concern Worldwide "Seeds of Hope" Award in recognition of her worldwide efforts to make global citizenship a priority for business. The Private Sector Council honored her with its 2004 Leadership Award for her contributions to improving the business of government. The White House appointed her to the U.S. Space Commission to advise it on the nation's space science agenda and contribute a broad range of high-tech expertise. Ms. Fiorina also sat on the New York Stock Exchange's executive board. She has previously served on the boards of Cisco Systems, Kellogg Company and Merck & Company. She currently serves on the boards of CyberTrust (specializing in cybersecurity), Revolution Healthcare Group, MIT Corporation Board of Trustees, Taiwan Semiconductor Manufacturing (TSCM) and is the Chairman of the External Advisory Board at the Central Intelligence Agency (CIA). Ms. Fiorina is currently the Chairman of The Fiorina Foundation.

#### **JAMES K. HAVEMAN, JR.**

James K. Haveman, Jr. has a long history of human services management and volunteer work. Mr. Haveman is currently the President of the Haveman Group, a consulting and public affairs company. He has served as the Senior Advisor to the Ministry of Health in Iraq.

Mr. Haveman served as the Director of the Department of Community Health in Michigan as a member of the Cabinet of Governor John Engler. Mr. Haveman also served as the Executive Director of Bethany Christian Services, the largest child welfare/adoption Agency in the United States, the Executive Director of the Kent County Community Mental Health Board, and the Executive Director of Project Rehab, a substance abuse

program in Grand Rapids. Mr. Haveman serves on a variety of Boards including Ferris State University, International Aid, and the Defense Business Board of the Department of Defense. He was the recipient of the Department of Defense Medal for Distinguished Public Service.

Mr. Haveman graduated from Calvin College and has a Masters Degree from Michigan State University.

### **DENNIS F. HIGHTOWER**

Dennis F. Hightower is the former CEO of Europe Online Networks, S.A., a broadband interactive entertainment provider. He was Professor of Management at the Harvard Business School from July 1997 to June 2000 and a Senior Lecturer from July 1996 to July 1997.

He was previously employed by The Walt Disney Company, serving as President of Walt Disney Television & Telecommunications, President of Disney Consumer Products Division (Europe, Middle East and Africa) and related service in executive positions in Europe.

Earlier in his career, Mr. Hightower was managing director and Los Angeles office manager with Russell Reynolds Associates, Inc.; vice president of corporate planning and a corporate officer of Mattel, Inc.; vice president and general manager with General Electric Co. in Mexico; senior associate and engagement manager at McKinsey & Co., Inc; and a manager at Xerox Corporation.

Prior to entering the private sector, Mr. Hightower served in the U.S. Army for eight years, where he rose to the rank of major and was awarded decorations for meritorious achievement and valor.

Mr. Hightower holds an M.B.A. degree from the Harvard Business School and a B.S. degree from Howard University. He received the Alumni Achievement Award in Business from Howard University in 1986, the

Alumni Achievement Award from Harvard Business School in 1992, and the U.S. Department of Commerce Pioneer Award in 1996.

He serves on the Boards of Directors of Domino's Pizza Inc., and Accenture, Ltd. Formerly, Mr. Hightower served on the Boards of PanAmSat Corporation, Northwest Airlines, Inc., The TJX Companies, The Gillette Company, and Domino's Inc. He is also a member of the board of trustees of Casey Family Programs.

### **MEL M. IMMERGUT**

Mel M. Immergut is Chairman of Milbank, Tweed, Hadley & McCloy LLP. He has been a partner in the Firm's Corporate Department since 1980 and Chairman of the Firm since 1995.

Mr. Immergut has extensive experience in a wide variety of corporate governance, board advisory, and transactional work, including M&A transactions, financing transactions, and leveraged leasing. He is responsible for, among other clients, the Firm's representation of JP Morgan Partners, Anheuser-Busch, Astoria Financial, Cushman and Wakefield, Mastercard, NASCAR, Sovereign Bancorp, Tyson Foods, and William E. Simon and Sons.

Mr. Immergut received his B.A. from the University of Pennsylvania and his J.D. and M.B.A. from Columbia University. He serves as a Trustee and Past-President of the American College of Investment Counsel, a Trustee of The Eye-Bank for Sight Restoration, Inc. and past President of The Billfish Foundation. He is a member of the Council on Foreign Relations.

Mr. Immergut is a member of the New York State Bar Association and the Association of the Bar of the City of New York. He serves as Vice Chair of the Legal Aid Society and on the Columbia Law School Board of Visitors. He additionally is a member of the Lower Manhattan Development Cor-

poration Advisory Council, a Member of the Partnership for New York City and a Member of the United States Southern Command Advisory Board.

Mr. Immergut is a Fellow of the New York Bar Foundation and a recipient of The Jewish Theological Seminary Simon H. Rifkind Award.

### **MADELYN P. JENNINGS**

Madelyn Pulver Jennings is a principal in the Cabot Advisory Group, a management consulting firm. She is retired Sr. Vice President of the Gannett Co. Earlier, she was a Vice President of Standard Brands and also held a number of executive positions at General Electric. She is President of the McGregor Links Foundation, Chair of the Executive Committee of The Freedom Forum, and serves on the boards of the NEWSEUM, The Women's Center, The Columbia Lighthouse for the Blind, and Yaddo, a writers' colony. A graduate of Texas Woman's University, she has served on the boards of the Monterey Institute of International Studies, Hanes Corporation, Harte-Hanks Communications, U.S. Committee for UNICEF, Sage Colleges, and the American Press Institute.

### **JAMES V. KIMSEY**

James V. Kimsey attended the United States Military Academy at West Point, and studied at Georgetown University on an honors scholarship. He served three combat tours as an airborne ranger, two in Vietnam, earning various awards for service and valor. In July 2005, Mr. Kimsey was inducted into the Ranger Hall of Fame, which recognizes our nation's most extraordinary Rangers.

Mr. Kimsey is best known for creating the largest company ever started in the Washington, DC area – America Online, Inc. He currently serves as Chairman Emeritus. Mr. Kimsey left AOL to focus his energies on philan-

thropy, and in 1996, he launched the Kimsey Foundation which provides grants that benefit the Washington, DC community in areas from arts to education.

Over the years, Mr. Kimsey has received numerous entrepreneurship awards. He received Presidential appointments to the Kennedy Center Board of Trustees and the West Point Board of Visitors. In 2001, Secretary of State Colin Powell named Mr. Kimsey as Chairman of the International Commission on Missing Persons (ICMP), an organization dedicated to identifying hundreds of thousands of missing from conflicts and natural disasters around the world, through DNA research. Mr. Kimsey also serves as Chairman Emeritus of Refugees International, an independent advocacy group which works to protect refugees and end the cause of displacement. He also serves as a member of the board of the International Crisis Group (ICG), an independent, non-profit, multinational organization committed to preventing and resolving deadly conflict.

Mr. Kimsey is a member of the board of several companies including the JER Investors Trust, and Thayer Capital. He is on the board of directors of the American Film Institute, Vietnam Veterans Memorial Fund, Business Executives for National Security, and the Department of Defense Business Board. He serves on the Executive Committees of the Washington National Opera, and on the National Symphony Orchestra.

### **BRUCE E. MOSLER**

Bruce E. Mosler is President and Chief Executive Officer of Cushman & Wakefield. Prior to being named CEO on January 1, 2005, he was President of Cushman & Wakefield U.S. Operations, successfully establishing the firm as a leader in the industrial, multifamily, and retail brokerage practices.



Mr. Mosler has led the firm's rapid organic and acquisitive expansion, including the acquisition of the leading real estate services firms in Canada and Russia; oversaw the expansion of the firm's Global Capital Markets group; and secured IFIL Investments, S.p.A. as the firm's new majority shareholder.

Mr. Mosler has twice received the prestigious Real Estate Board of New York "Deal of the Year" award, winning in 1998 for the Reuters Building and in 1999 for bringing the European retailer Hennes & Mauritz (H&M) to its United States flagship location on Fifth Avenue. He has been chosen in a poll of his peers as the Commercial Property News "Brokerage Executive of the Year," and named CPN's national "Property Services Executive of the Year."

In 2003, REBNY presented Mr. Mosler with its annual Kenneth R. Gerety Humanitarian Award for his service to the community. Mr. Mosler serves on the Capital Campaign Committee of the American Cancer Society Hope Lodge and the Executive Committee of the Real Estate Board of New York.

He is Vice Chairman of The Intrepid Sea, Air and Space Museum, and is a member of the boards of the New-York Historical Society, the Partnership for the City of New York, and Duke University's Fuqua School of Business, among other civic and charitable organizations.

#### **PHILIP A. ODEEN**

Philip A. Odeen is the non-executive Chairman of Convergys, a leading outsourcing company and AES, an international energy company. He is former chairman of Avaya Inc., as well as Reynolds & Reynolds, and served as interim CEO of Reynolds & Reynolds from 2004-2005. From the fall of 2005 until mid 2006, Mr. Odeen served as CEO of QinetiQ North American Operations, supporting the expansion of QinetiQ Inc. – a lead-

ing U.K. defense technology company. He continues to serve on their U.S. Board.

Earlier, Mr. Odeen was chairman and CEO of TRW, a major industrial corporation providing advanced-technology products and services primarily in the automotive, defense, and aerospace sectors, which was acquired by Northrop Grumman in 2002. Prior to becoming Chairman, he was a member of TRW's Management Committee and responsible for TRW's \$3 billion Systems and Information Technology business, providing solutions using information technology, and systems engineering and analysis. He also served as executive Vice President of Washington, DC operations, where he was responsible for government relations, business development, and selected international activities of TRW's Aerospace and Information Systems sector.

Mr. Odeen was President and Chief Executive officer of BDM, which TRW acquired in 1997, and directed its growth and evolution as a multi-national information technology (IT) firm. Under his leadership, BDM grew from under \$300 million in revenue to over \$1 billion in five years.

Before joining BDM as President in 1992, Mr. Odeen was Vice Chairman Management Consulting Services, at Coopers & Lybrand, where he directed a practice of 2,500 consultants in 30 cities across the United States. Earlier, he served as Managing Partner of the firm's public sector practice for 13 years. From 1973 to 1978, he was Vice President of the Wilson Sporting Goods Company.

Mr. Odeen has served in senior positions with the Office of the Secretary of Defense and the National Security Council staff. He was Principal Deputy Assistant Secretary of Defense (Systems Analysis) and later led the Defense and Arms Control staff for then-National Security Advisor Henry Kissinger.

**WILLIAM R. PHILLIPS**

William R. Phillips is a Vice President with IBM Global Consulting Services. He has been the Global Defense Industry Leader, responsible for IBM's business services to defense, security and intelligence organizations globally since 2004. His primary business focus is on growing the IBM defense business outside the US by leveraging best defense industry business practices between countries around the world and implementing the concepts of net-centric operations. Prior to his current assignment he led the IBM US DoD Industry team.

Mr. Phillips has provided consulting services to various DoD agencies and organizations since 1978, focusing on financial management operations improvements, CFO Act compliancy, financial systems implementation, and general business operations. His clients have included the US Army, US Navy, US Air Force, DFAS, DoD, DLA, and the Army/Air Force Exchange Service. He also provided support to Secretary Rumsfeld's Financial Transformation Task Force in 2001. Mr. Philips led PricewaterhouseCoopers Consulting Defense Practice prior to its acquisition by IBM in 2002.

Mr. Phillips earned a Master's degree in Business Administration from the College of William and Mary and received his undergraduate degree from Dickinson College. Mr. Phillips is the co-author of two books: *Public Dollars, Common Sense: New Roles for Financial Managers* (Coopers & Lybrand, 1996) and *Public Dollars Transformation* (IBM, 2002). He is a Certified Government Financial Manager, and a member of the American Society of Military Comptrollers and the Association of Government Accountants.

**ARNOLD L. PUNARO**

Arnold L. Punaro is Executive Vice President, Government Affairs, Communications, and Support Operations, and General Manager of Washington Operations for Science Applications International Corporation (SAIC). He is the senior corporate official responsible for SAIC's government affairs, communications and Washington operations. He also supervises SAIC's corporate Small and Disadvantaged Business office. He joined SAIC in March, 1997.

From 1973 to 1997, Mr. Arnold worked for Senator Sam Nunn in National Security matters. He served as his director of National Security affairs and then as Staff Director of the Senate Armed Services Committee (8 years) and Staff Director for the Minority (5 years). In his work with Senator Nunn and the Senate Armed Services Committee, he was involved in the formulation of all major defense legislation and the oversight and review of all major defense activities for over two decades. This included the Defense Officer Personnel Management Act and its Reserve counterpart, the Goldwater-Nichols Defense Reorganization Act, the Acquisition Streamlining Act, personnel transition provisions, special operations reforms, and all pay and benefit matters. His Committee activities also covered Department of Energy nuclear weapons and cleanup matters, intelligence issues, arms control treaties, and civilian and military nominations.

Mr. Punaro is a graduate of Mount de Sales Academy in Macon, Georgia and holds a Bachelor of Science degree from Spring Hill College in Mobile, Alabama; a Masters of Arts degree from the University of Georgia and a Masters of Arts degree from Georgetown University, the latter in national security studies. He was on the Adjunct Faculty of the Walsh School of Foreign Service at Georgetown University for ten years where he taught an annual graduate level course entitled "National Security Decisionmaking."

Mr. Punaro is a retired U.S. Marine Corps Major General. He served as the Director of the Marine Corps Reserve from May 2001 to October 2003, as Deputy Commanding General, Marine Corps Combat Development Command (Mobilization) from August 2000 to May 2001. From 1997 to 2000 he served as the Commanding General of the 4th Marine Division headquartered in New Orleans, Louisiana. He served on active duty as an Infantry Platoon Commander in Vietnam where he was awarded the Bronze Star for valor and Purple Heart. As a reserve officer, he has served in numerous organizations. In December 1990, he served in Operation Desert Shield in Saudi Arabia. In December 1993, he completed a tour of extended active duty as Commander of Joint Task Force Provide Promise (Forward) in the former Yugoslavia. He was mobilized for a third time in May 2003 in support of Operation Enduring Freedom and Operation Iraqi Freedom. Mr. Punaro served as both the HQMC Director of Reserve Affairs and as the Special Assistant to the Commander, U.S. European Command. He served in this capacity until his retirement on October 1, 2003.

Mr. Punaro has received numerous recognitions. In August 1993, he received the Marine Corps League's "Iron Mike" Award for "exceptionally outstanding service" and "unwavering commitment" for over 20 years to "insuring a strong national defense." He has received the Air Force Association's "Exceptional Service Award," the National Guard "Minuteman Award" and in 2002 was the co-recipient of SAIC's "Founders Award." He has over 20 military awards and decorations to include the Distinguished Service Medal.

#### **MARK H. RONALD**

Mark H. Ronald retired from BAE Systems in December 2006 where he held the positions of Chief Operating Officer and member of the Board of Directors for BAE Systems plc, a \$25 billion global aerospace and defense

company; and President and Chief Executive Officer of BAE Systems Inc., the Company's wholly-owned U.S. subsidiary. He was responsible for 45,000 employees in the United States, United Kingdom, Sweden, Israel and South Africa and sales in excess of \$10 billion.

Mr. Ronald remains Chairman of BAE Systems Inc and also serves on the Boards of Cobham plc, ATK (Alliant Techsystems Inc.), and DynCorp International. He holds the Honorary Commander of the Most Excellent Order of the British Empire (CBE), awarded in recognition of the valuable services he has rendered to furthering closer transatlantic cooperation in the U.S.-U.K. defense industries. In 2005, he was honored by the Marine Corps Scholarship Foundation with the Semper Fidelis Award for his efforts in support of the men and women of the U.S. Armed Forces and their families.

Prior to joining BAE Systems, Mr. Ronald was President of AEL Industries in Lansdale, PA. He previously spent ten years with Litton Industries, Amecon Division, College Park, Md, rising to the position of Vice President, Program Management.

Mr. Ronald is a graduate of Bucknell University, where he received a Bachelor of Arts and a Bachelor of Science in Electrical Engineering. He received his Master of Science in Electrical Engineering from Polytechnic Institute of New York and currently serves on its Board of Trustees. He has received the Distinguished Engineering Alumni Award from both institutions.

Mr. Ronald is an active member of the community participating in numerous educational, civic and charitable organizations.

**ATUL VASHISTHA**

Atul Vashistha is the CEO of NeoGroup, and Chairman and former CEO of neoIT, a leading management consultancy focused on offshore and global sourcing of services. He is a leading authority on globalization and outsourcing and was recently recognized by Consulting Magazine as one of the “Top 6 IT Power Brokers” as well as “Top 25 Consultants”. Mr. Vashistha has also been recognized by HRO Today magazine as a HRO Superstar (2003, 2006 and 2007) and by FAO Today as a FAO Superstar (2006). Wall Street analysts, Global 2000 executives and top business journalists from CNN, Wall Street Journal, New York Times, Fortune, Forbes and Business Week seek out his thought leadership. He is also the co-author of *The Offshore Nation* (McGraw-Hill, 2006) a book that presents a look into the globalization of services and the role it plays in the economy and its future.

Mr. Vashistha began his career in the healthcare segment of the outsourcing industry, joining a 48-year old healthcare services company, Rural/Metro. There, he played a very pivotal role in helping grow this \$50 million company into a \$500 million company in less than six years.

Mr. Vashistha went on to lead international businesses at Cardinal Health and helped establish the infrastructure needed to successfully run global operations. During his tenure with Cardinal Health as Senior Vice President of International, he led, assisted and managed the international operations of the Fortune 25 Company, expanding profitable operations to Australia, New Zealand, Spain, UK, Singapore, Brazil, Mexico, Japan and other global locations.

The thirst to fundamentally change a business model led Mr. Vashistha to found neoIT in June 1999. Mr. Vashistha is an acknowledged and frequently published authority in the unique requirements of the global services and offshore market. His unique education, business experience and

understanding of the global sourcing practices provide a unique advantage for his clients.

Mr. Vashistha is a strong proponent of globalization and disruptive technologies. He serves on the Board of Advisors at the Center for Services Leadership at Arizona State University. He is also an active Board member of the Software division of the Information Technology Association of America (ITAA). Mr. Vashistha has been recognized as a leading businessperson "40 Under 40" in the East Bay, California and Southern Arizona. He is also a member of the Young President Organization (YPO) Northern California chapter and serves on the Board of Directors of non-profit Rural Sourcing Inc., Arkansas.

## **JOSEPH R. WRIGHT**

Joseph R. Wright has recently joined Scientific Games as Vice Chairman. He has been a member of the board since 2004. He was previously Chairman of Intelsat, the world's leading provider of satellite/fiber services with a global fleet servicing over 200 countries and before that was CEO of PanAmSat, a publicly-listed satellite based services business, which was acquired by Intelsat in 2006. Before PanAmSat, he was Chairman of GRC International Inc., a public company providing advanced IT, internet, and software technologies to government and commercial customers, which was sold to AT&T, and was Co-Chairman of Baker & Taylor Holdings, Inc., an international book/video/software distribution and e-commerce company, owned by The Carlyle Group.

From 1989-1994, Mr. Wright was EVP, Vice Chairman, and Director of W. R. Grace & Company, Chairman of Grace Energy Company, and President of Grace Environmental Company. In the 1980's he served in the U.S. Government under President Reagan as Deputy Director then Director of the Federal Office of Management and Budget in the Executive Office of the President and a member of the Cabinet, and earlier as Deputy Secretary



of Commerce. He was later appointed to the President's Export Council by President H.W. Bush as Chairman of the Export Control Sub-Committee and was appointed by the current President Bush to the President's Commission on the U.S. Postal Service Reform and the National Security Telecommunications Advisory Committee (NSTAC). Prior to the 1980's, Mr. Wright was President of Citicorp Retail Services and Retail Consumer Services, credit card subsidiaries of Citibank, was a partner of Booz, Allen and Hamilton and held several senior economic and management posts in the Federal Department's of Commerce and Agriculture.

Mr. Wright received an MIA from Yale University and a BS from Colorado School of Mines. In addition to the boards mentioned above, Mr. Wright also serves on the Board of Directors/Advisors of Scientific Games and Terremark Worldwide and is a member of The Department of Defense's Business Board, The Department of Defense's Science Board Task Force on interoperability, OMB's Performance Measurement Advisory Council, the FCC's Network Reliability and Interoperability Council, the FCC's Media Security and Reliability Council, the Council on Foreign Relations, the Committee for the Responsible Federal Budget and the New York Economic Club.

#### **DOV S. ZAKHEIM**

Dov S. Zakheim is Vice President of Booz Allen Hamilton, where he is a leader in the firm's global defense practice. From 2001 to April 2004 he served as the Under Secretary of Defense (Comptroller) and Chief Financial Officer for the Department of Defense, developing and managing the world's largest budgets, overseeing all aspects of the Department's accounting and auditing systems, and negotiating five major defense agreements with US allies and partners.

From 2002-2004 Dr. Zakheim was DoD's coordinator of civilian programs in Afghanistan. He also was DoD's international "fund raiser" for Iraqi

reconstruction. In this capacity he was an organizer of both the June 2003 UN conference for potential donors and the October 2003 Madrid Donors' Conference. From 1987 to 2001 Dr. Zakheim was corporate vice president of System Planning Corporation, a technology, research and analysis firm based in Arlington, Va. He also served as Chief Executive Officer of SPC International Corp., a subsidiary specializing in political, military and economic consulting. From 1985 until March 1987, Dr. Zakheim was Deputy Under Secretary of Defense for Planning and Resources in the Office of the Under Secretary of Defense (Policy). In that capacity, he played an active role in the Department's system acquisition and strategic planning processes. Dr.

Zakheim held a variety of other DOD posts from 1981 to 1985. Earlier, he was employed by the National Security and International Affairs Division of the Congressional Budget Office.

A 1970 graduate of Columbia University with a bachelor's in government, Dr. Zakheim also studied at the London School of Economics. He earned his doctorate in economics and politics at St. Antony's College, University of Oxford, where he was a National Science Foundation Graduate Fellow, a Columbia College Kellett Fellow, and a St. Antony's College Research Fellow. Dr. Zakheim has been an adjunct professor at the National War College, Yeshiva University, Columbia University and Trinity College, Hartford, Conn., where he was a Presidential Scholar.

He is the recipient of numerous awards for his government, professional and civic work, including the Defense Department's highest civilian award in 1986, 1987 and 2004.

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