

DEFENSE BUSINESS PRACTICE IMPLEMENTATION BOARD (DBB)

Minutes of Information Gathering

**Held on
July 18, 2002**

Mr. Gus Pagonis, Chairman of the Board, opened the meeting at 8:30 a.m., in Room 1E801#7, the Pentagon. The list of attendees and the agenda for the session are attached.

The morning session of the Board focused on minor administrative items and the presentation of the Human Resources (HR) Work Group. The afternoon sessions included briefings from DoD's Enterprise Architecture project team and from Michael Wynne, Principal Deputy Under Secretary of Defense (Acquisition, Technology & Logistics). Fred Cook's HR group also conducted interviews with selected SES executives as a part of the group's continuing work on recommendations for SES transformation. The Board session concluded in the afternoon with a briefing for the Secretary of Defense and the Senior Executive Council.

Highlights of key official comments and major presentations follow:

- **Initial discussions on board direction and progress (Gus Pagonis)**
 - Sensitivity over HR Work Group recommendations
 - HR group stirred the pot a bit with Dr. Chu's organization – Office of the Under Secretary of Defense (Personnel & Readiness)
 - Want to ensure we work with them in close coordination before going forward
 - Gus to meet with Dr. Chu prior to SecDef meeting later in day
 - Importance of work document labeling (Internal Document-Working Draft)
 - Introductions
 - JoAnn Boutelle – new Deputy Chief Financial Officer
 - Tom Modly – Executive Director of DBB
 - Gus mentioned that he probably won't surface Supply Chain and Vendor Management recommendations for the time being
 - Special Board meeting being planned for October 29, 2002 -- open to all but mostly for Management Information Work Group and the three work group chairmen
- **HR Work Group Presentation and Discussion (Fred Cook)**
 - Importance of setting high level HR vision emphasized and agreed to by Board
 - General agreement to focus on SES level for Fred's recommendations rather than both SES and GS-15s
 - Need to understand what Dr. Chu's organization is currently working on; how Board can help in those specific areas, but also want to promote a bold approach
 - Each of the four tasks presented and discussed
 1. SES/GS15 Realignment:
 2. HR systems consolidation
 3. Enlisted recruitment
 4. Military/public school partnership

- **Board comments of HR Group presentation**
 - Gail McGinn, Principal Deputy Assistant Secretary (Force Management Policy), stated that much of what Fred was recommending was already being pursued to some degree or another within OUSD(P&R)
 - Ken Krieg and Gus Pagonis commented on the importance of dedicated cross-organizational teams with specific deadlines in order to implement HR reform -- this is a private sector best practice that is resisted in the Pentagon
 - Political reality is something we should be aware of, but not let it inhibit recommendations
 - Best approach would be to settle on SES reform rather than also looking at GS-15 level
 - Debate over forced ranking with proponents on both sides of the issue -- in any case basic question about how to avoid grade inflation in review process
 - Most agreed that there must be some sort of enforced “up or out” policy to provide more vibrancy to SES ranks and allow for talent to rise
 - With respect to pay adjustments -- sticky issues related to how SES paygrades relate to congressional salaries; no real conclusions here other than that most agree that some adjustments are needed to make positions competitive with private sector jobs.
 - Discussion over bonuses for SES also generated debate; some felt that the bonuses were modest to the point of being meaningless, others believed that given the low salary base, bonuses were viewed to be fairly significant
 - Regarding enlisted retention, some debate over whether recruitment costs were already too high and whether adding pre-screening evaluation would simply add to that
 - Regarding the DoD school support, the Board is in unanimous support of Admiral Johnson’s work on Task 4 and recommended continued work with OUSD(P&R) to further advance ideas

- **Board’s recommendations for focus of follow-on work/recommendations on HR**
 - Human capital transformation team: Board generally agrees that a focused team be tasked with defined targets addressing human capital transformation as it relates to SES (Gus Pagonis to discuss with Dr. Chu)

 - Consensus recommendation focus areas:
 - a) SES one-time assessment
 - b) Documentation of SES position criticality
 - c) Control retirement bubble issue
 - d) Standardization of performance management (SES and GS15)
 - e) Assessment/modification of terms of employment
 - f) Pay adjustment for SES (look to IRS, State Dept. model)
 - g) Pay banding (continue to support Dr. Chu’s efforts)
 - h) Adjust merit pay program
 - i) Standardized training/orientation for political appointments
 - j) Standardized HR IT system—web-based platform

- k) Recruiting/retention
 - l) Local schools (continue coordination with Dr. Chu's organization)
 - m) Evaluation of GS15 for advancement potential/readiness
- **Next steps on HR**
 - Gus Pagonis and Tom Modly to meet with Dr. Chu and Gail McGinn to resolve any issues
 - Sort what requires authority beyond SECDEF -- define what is "Doable" and drive to focused recommendations on those areas
- **Financial Management Modernization Program - Enterprise Architecture Project**
 - Catherine Santana (Program Manager) briefed on project status and approach
 - Board gave several points of guidance:
 - Concern about the magnitude of the task given private sector comparables (IBM's 400 systems v. DoD's 1700 systems)
 - Look to develop options on implementation/phasing to cover political risk
 - Need to develop incentives to drive compliance in implementation
 - Maintain vigilance against scope creep
 - Would like to review risk mitigation plan -- if one exists
 - Need to ensure continuity from architecture to implementation teams
 - DBB's Management Information and Change Management Work Groups will provide guidance:
 - 1) Examine/provide input into tools developed to monitor contract performance and delivery (develop key metrics for Dr. Zakheim to focus on)
 - 2) Examine and provide best practice advice on process and determination of actual requirements for the architecture (identify biggest potential for pitfalls/setbacks)
 - 3) Tom Modly also will sit in on monthly in-process review meetings and keep work groups informed of progress
- **Afternoon Sessions**
 - Working group breakouts
 - SES interviews by HR work group
 - Briefing to Change Management and Management Information groups by Michael Wynne on overview of acquisition excellence initiatives
 - Gus Pagonis and Tom Modly meeting with Dr. Chu

Meeting with Secretary Rumsfeld

- The Board met with the Secretary of Defense and the Senior Executive Council at 5:00 p.m.
- In addition to the DBB, the following people were in attendance:
 - Secretary Rumsfeld
 - Dov Zakheim
 - David Chu
 - David Walker
 - Tina Jonas
 - JoAnn Boutelle
- SEC:
 - Gordon England (Secretary of the Navy)
 - Tom White (Secretary of the Army)
 - Ken Krieg
- Gus led the meeting with a general overview of the Board's mission and a description of the three work groups, their focus and progress to date
- SecDef opening comments on Board's work
 - Discussed the importance of measurement and how critical that was for him, "what you measure improves"
 - Clearly stated that what the Board was doing was central to the goal of transforming the Pentagon
 - Asked preliminary questions about what metrics the Board is looking at -- Gus Pagonis' response is that everything is on the table at this point
 - Stated that they were beginning a process to identify the top te10 priorities for the Department over the next 18 months and that the Board should get tapped into that
- SecDef on business practices in DoD
 - DoD interaction with private sector has been mostly with large defense contractors who end up looking like DoD
 - Very fast and innovative things happening at lower levels; smaller companies; he wants input from Board on those types of things
 - Understands that private sector incentives do not apply -- how do we incentivize people to save money? Has seen it happen in nonappropriated DoD businesses; some innovation there
 - Process for everything in the building (Pentagon) is long, cast in stone, and staggered in a way to make it almost impossible to do things quickly
 - Believes that in business you can do things smart and incrementally, or do things dumb to create a mandate for change
 - It may be time to do things dumb
 - Take an arbitrary change objective like cutting process time by 50% and force the organization to react and adjust
 - Discussion about tendency for risk aversion causing a "10% tuck" that progresses down the chain of command and creates inflated demand for material -- how to address/fix? General Punaro added comments on the five echelon system and the inefficiencies it creates.
 - SecDef questions for the board

- SecDef asked a specific question about change management and what was meant by it -- felt it was a cliché. Gus Pagonis responded that the Board's Change Management Group was looking at developing specific processes for instituting changes recommended by the Board
- Asked about coordination with GAO and the Service secretaries. Answered yes by both Gus Pagonis and Dov Zakheim.
- SecDef concluding thoughts
 - Appreciates the Board's efforts
 - The need to transform the DoD has been made more urgent due to the global war on terrorism
 - There is an enormous sense of urgency and the challenge of a huge culture change
 - Will share product of top ten priorities with the Board for reaction and input
- Open discussion
 - Steve Friedman mentioned the case of Incutel at CIA as an example of a private sector model working within a large agency

Outcome

The Board agreed to meet in a select session on October 29, 2002. The next full board meeting will be on November 21, 2002. (Dinner on the evening of the November 20th)

Fred Cook will coordinate follow on work related to the HR recommendations with Tom Modly and Dr. Chu's organization.

Neil Albert will continue to coordinate his work group's recommendations with Ken Krieg and also will begin a review of the Enterprise Architecture project.

The meeting adjourned at approximately 6:00 p.m.

**DOD BUSINESS PRACTICE IMPLEMENTATION BOARD
 INFORMATION GATHERING
 JULY 17-18, 2002
 (PENTAGON ROOM 1E801 #7)
 AGENDA**

July 17

5:15 pm Gus Pagonis to meet with the Secretary of Defense
 6:30 pm Dinner at Ruth's Chris Steak House (2231 Crystal Drive, Arlington, VA)

July 18

7:15 am - 7:45 am	Arrive Pentagon South Parking Entrance (Corridor 2)	
7:45 am - 8:30 am	Coffee/Refreshments	1E801 #7
8:30 am - 9:00 am	Discussion ➤ Introductions JoAnn Boutelle – DCFO (Tina Jonas will introduce) Tom Modly – Executive Director of Board ➤ Guidance for Work Group Draft Recommendations ➤ Steve Friedman's June Session with Congress ➤ Ken Krieg's Visit to Sears & Roebuck ➤ Next Board Meeting – November 20-21	Gus Pagonis
9:00 am - 11:30 am	Human Resources Work Group Presentation	Fred Cook
11:30 am - 12:30 pm	Working Lunch (on your own) ➤ Management Information Group (with Ken Krieg) ➤ Human Resources (Interviews – DoD) ➤ Change Management	
12:30 pm - 4:00 pm	Work Group Sessions ➤ Management Information ➤ Human Resources (Interviews – DoD) ➤ Change Management	1E801 #7 3A882 4B916
3:15 pm - 4:00 pm	Fred Cook to meet with ASAF (FM&C) on workforce diversity	4E984
4:15 pm - 4:45 pm	Members reconvene	1E801 #7
5:00 pm - 5:45 pm	Members to meet with the SecDef and Senior Executive Council ➤ Deputy Secretary of Defense -- Paul Wolfowitz ➤ Under Secretary of Defense for Acquisition, Technology & Logistics -- Pete Aldridge ➤ Secretary of the Army -- Tom White ➤ Secretary of the Navy -- Gordon England ➤ Secretary of the Air Force -- Jim Roche	3E928

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Attendance

Key Government Officials

Dov S. Zakheim, Under Secretary of Defense (Comptroller) (USD(C))
Michael Wynne, Principal Deputy Under Secretary of Defense (Acquisition, Technology & Logistics)
David Walker, Comptroller General of the United States
Mark Everson, Controller, Office of Management & Budget
Ken Krieg, Executive Secretary of the Senior Executive Council
Tina Jonas, Deputy Under Secretary of Defense (Financial Management), OUSD(C)
JoAnn Boutelle, Deputy Chief Financial Officer
Gail McGinn, Principal Deputy Assistant Secretary (Force Management Policy), OUSD(P&R)

Board Members

Tom Modly, Executive Director
Gus Pagonis, Senior Vice President, Sears Supply Chain, Sears, Roebuck & Company and President, Service Logistics Services, Inc. (Chair)
Michael Bayer, Private Consultant (Vice Chair)
Neil Albert, Senior Vice President and Director of MCR Federal, Inc.
Frederic Cook, Frederic Cook & Company
Steve Friedman, Chairman, Board of Columbia University
Bob Hale, Senior Fellow, Logistics Management Institute
Norman Johnson, Vice President, Dean of Students, Boston University
Phil Merrill, Chairman, Board of Capital-Gazette Communications
William Phillips, PricewaterhouseCoopers, Washington
Arnold Punaro, Senior Vice President and Director, Federal Business Development, SAIC
William Schneider, Chair, Defense Science Board
Andrew Siegel, Deutsche Bank

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Ken Krieg, Executive Secretary of the Senior Executive Council
Tina Jonas, Deputy Under Secretary of Defense (Financial Management), OUSD(C)
JoAnn Boutelle, Deputy Chief Financial Officer
Cindy Bogner, Assistant Deputy Chief Financial Officer, OUSD(C)

Board Members

Gus Pagonis, Senior Vice President, Sears Supply Chain, Sears, Roebuck & Company
and President, Service Logistics Services, Inc. (Chair)
Michael Bayer, Private Consultant (Vice Chair)
Neil Albert, Senior Vice President and Director of MCR Federal, Inc.
Denis Bovin, Vice Chair, Bear Stearns & Company
Frederic Cook, Frederic Cook & Company
Steve Friedman, Chairman, Board of Columbia University
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