

DEFENSE BUSINESS PRACTICE IMPLEMENTATION BOARD

Minutes of Quarterly Meeting Board Meeting May 14, 2003

The Quarterly Meeting of the Defense Business Implementation Board opened at 0800 in Room 1E801-7, the Pentagon. Mr. Gus Pagonis, Chairman of the Board, commenced the session with a welcome to all the attendees and an introduction of the Board's newly nominated member, Ms. Madelyn Jennings. Mr. Tom Modly, the Executive Director of the Board, highlighted the day's agenda and the current status of last year's Tasks.

At 0900 Mr. Herb Shear started the Department of Defense Supply Chain Support Public Deliberation. Mr. Lou Kratz of Acquisition Technology & Logistics gave a quick background on Performance-Based Logistics. At 0930 Mr. Travis Engen conducted the Public Deliberation on Taking Action on DoD Core Competencies followed by Mr. Gus Pagonis guiding the Public Deliberation on the DLA-TRANSCOM Review recommendations.

A luncheon was held for the Board in the Blue Room of the Pentagon where Mr. Vic Bernson, DoD Legislative Counsel, led the discussion of the Secretary of Defense Transformation Guidance contained in the Defense Transformation for the 21st Century Act.

During the first afternoon session, the Board (with the exception of the Supply Chain Task Group) met with Ms. Mary Scala (PA&E) to discuss progress on the Balanced Scorecard work initiated in 2002. The Supply Chain Task Group held discussions with Mr. Lou Kratz and Mr. Alex Smirnow (both of OUSD (AT&L)) and the Comanche Program Manager/staff about their implementation of Performance Based Logistics concepts.

The Board met with Secretary Rumsfeld at approximately 1500 to give a quick review of the status of the 2003 Tasks currently underway.

The Board concluded its proceedings at 1535. The next scheduled meeting for the Board is July 30, 2003. Detailed meeting minutes are included below:

❖ **Gus Pagonis began the meeting at 0800:**

- We have a full schedule today. Hopefully we will meet with the Secretary at 1500. I would like to have the heads of the teams talk to the Secretary for 5 minutes each. This Group has accomplished a lot.

- The secret to our success is the short reports. We want to continue with this approach. I don't want to take on more than we can chew. Now people are going to give us more to look at that we can handle. Looking at less and doing a better job is the way to go.
- The Secretary wants to get more involved.
- Have to make sure we don't try to do too much.
- Because we are a Federal Advisory committee the public has to have the chance to hear the Deliberations.
- We have a new nominee to the board, Ms. Madelyn Jennings. Former head of Human Resources for Gannett and a principal in a consulting advisory group.

❖ **08:15 Tom Modly reviewed the agenda and the current status of last year's Tasks:**

- Board members need to fill out the required paperwork to continue on the Board next year.
- The Board's website is going live within a week or so.
- **HR Task 1: Human Capital Transformation**
 - The implementation memo was not signed by Mr. Wolfowitz.
 - Dana Mead → Many companies conduct Human Capital Transformation even when things are going on. There are always things going on.
 - Bob Hale → It may make sense to not push on this issue while the Department is revamping the GS 5-15 ranks.
 - David Walker → I agree that the SES issues need to be addressed but I think it is a question is timing right now.
 - Gus Pagonis → When it is the right time we will go forward with this to the Secretary
 - Tom Modly → The Secretary wants workforce flexibility.
 - Gus Pagonis → If the legislation goes through, this issue could move to the top of the Secretary's priorities
 - **Gus Pagonis → The Board should write a memorandum to the Secretary stating their support for HR Task 1, Recommendation #1, SES Position and Talent Inventories and implementation when timing is most appropriate.**
 - David Walker → What type of pay system is the Department going to migrate to? That is a hot issue right now. DoD does not have a credible performance appraisal program to effectively implement merit pay. You don't need a change in law to link performance to organization mission and goals.
 - Gus Pagonis → How long will it take to begin acting on this legislation?
 - David Walker → If Mr. Rumsfeld will compromise, he could have a good deal of this legislation get passed this year.
 - Fred Cook → There is no centralized HR function in the DoD. Dr. Chu's shop is a policy shop. We would like to set up a centralized HR function with

dotted line authority over the services with respect to their civilian workforces.

- David Walker → This law will reinforce the need for a COO significantly.
- Gus Pagonis → Transformation czar may become a COO, that is a possibility

➤ **HR Task 2 → Human Resources IT Integration**

- Dana Mead → We should spell out acronyms. This is Pentagon speak.
- **** Gus Pagonis → Put every acronym at the bottom right and spell that out**

➤ **HR Task 3 → Enhanced Enlisted Recruiting & Retention**

- No Comments

➤ **HR Task 4 → Public School Improvement around Military Bases**

- Fred Cook → We are looking at partnering with private companies

➤ **Financial Indicators Report Update**

- Neil Albert → When we did the Balanced Scorecard, financial had become the 5th leg. Currently, this is considered separately from the Scorecard. If you don't include it, you are missing a cost of doing business
- Gus Pagonis → Add DBB recommendation to add top 5 financial indicators to BSC to SecDef memo
- David Walker → What you need for reporting is not in financial systems

➤ **Balanced Scorecard Report Update**

- Gus Pagonis → The BSC is used at every department in Sears. The key is to change the indicators. The purpose of forming this board was for Balanced Scorecard.
- Neil Albert → The financial indicators are being implemented. They want to have the Secretary say something about BMMP, they need to hear from him what he really wants. The other thing is change management. Each of the Services has a way of doing business, and they are concerned they understand how to manage this change brought on by BMMP.
- There is a Defense Science Board recommendation that all e-commerce report to one entity that reports to the SEC.

- David Walker → You have to have someone provide leadership and take control of the operational (non-warfighting) funds and policy decisions; i.e. systems. Until you have this, you will not have a coordinated approach.
- Neil Albert → Everything we have done is based on OSD's view and we haven't tapped in to the Services enough.
- Dana Mead → The Service Secretaries are changing.
- Neil Albert → The Services want BMMP to work and be successful. They want OSD to provide the architecture and nomenclature and they will fit into that structure.
- Army was legislated to make accounting system; they did it and then were told to stop when they were almost done.
- Gus Pagonis will brief the new Secretaries to let them know what is going on.
- Dana Mead → you take the 4 or 5 major issues and let the Board discuss it
- Denis Bovin → if Mr. Roche got some advance notice of the topics he could have the proper background to discuss them with the Board
- **** Gus Pagonis → (Tom) come up with a straw man on how we can work better with the SEC**
- David Walker → You have to keep reports to one page so that the Secretaries will read them
- Dana Mead → Giving them a one pager with 5 issue points, that is a good way to get their attention

❖ **0820 Mr. Fred Cook lead a discussion on MBA recruiting for the DoD**

- Fred Cook
 - We have a pilot with Harvard's Class of 04
 - We should also be on campus this year
 - GS 12, Step 8 → 70K with loan forgiveness
 - This is going to be a great program
 - We still need an Executive Order to start this program
 - Most of the MBA's have a few years of experience
 - This is a wonderful success story
- David Walker → we focus on internships, because if they work for 9 weeks, you can hire them non-competitively on the spot. We assign a mentor to the intern.
- Fred Cook → ROTC → FYI we would like to have a DBB study on an effort to bring ROTC back to elite Northeast campuses that kicked them off campus during Vietnam. We want to set up meetings with the Assistant Secretaries of the Services to see if we could move forward.
- Dana Mead → There is an alumni contingent at Harvard, that would like to see this back. MIT commissioned one person from Harvard last year.
- **** Gus Pagonis → Fred Cook should put a straw man together on how ROTC should be brought back to the Top Schools.**
- **** Gus Pagonis → Please add contact phone numbers to the yellow sheets**

❖ **0902 Supply Chain → Herb Shear and Lou Kratz**

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** Denotes an action item

- Gus Pagonis → What is long term? Herb → 5 years to the lifecycle of the weapon system
- Gus Pagonis → What about compliance charges? You need to tie them into incentives on both the plus and minus side.
- What is 3rd party logistics? → It is a provider of a particular log function. (I.e. depot manager, managing transportation, managing maintenance)
- Gus Pagonis → this will fit well with our DLA-TRANSCOM recommendations
- Gus Pagonis → is the single color of money in the legislation? The answer is yes
- Gus Pagonis → You did a great job of putting all this in one document. We now have to bounce this off of the Services, DLA, and the civilian side. It is important to have them all review this.
- Bob Hale → The board should endorse these two pieces of legislation
- **** Gus Pagonis → Tom please write a one pager on endorsing the legislation for funding flexibility and multi-year contracts and how they reflect best practices.**
- Gus Pagonis → Phase II of this project should be on put on hold for now. You really need to get the input on Phase I first.

❖ **0932 Travis Engen → Core Competency Review**

- These are things you do well and are difficult for others to do. It usually creates a competitive edge but you need a burning platform.
- David Walker → GAO is an example. Charles Rossotti at IRS, the FBI, NASA are some examples of a burning platform and change management.
- Travis Engen → Platform may not be burning but it will burn if you don't do anything.
- There are two threats → mission and budget. DoD budget went from \$300B to \$400B.
- Learn from what has already been done
- David Walker → many agencies haven't defined their mission and why they exist. Therefore, they cannot map what they have vs. what they need.
- Tom Modly → the outcome from the agencies was what we are good at. They didn't really look at what they were required to be good at.
- Dana Mead → at some point the country will say we can only spend so much
- Gus Pagonis → Corporations have to draw a budget line too. They can't do everything.
- David Walker → You need a good risk assessment to figure out where and how much resources to allocate
- Gus Pagonis → They have a program on bases that where savings can be used somewhere else on the base
- William Schneider → DoD's management of real property is not a core competency, therefore you should outsource it
- Dana Mead → If you don't have a competitive advantage, either have someone else do it or don't do it

- Gus Pagonis → There are a lot of competitors for the functions that the DoD does. Therefore, DoD should consider the functions it performs not organizations.
- David Walker → The federal real property issue is something we are trying to bring to the forefront on the hill and to the executive branch. BRAC is being teed up too
 - You should look at enablers/disablers for your core competencies. The BSC forces this exercise
- **** Gus Pagonis → Write this up and let's bring it to the SEC in how the Core Competency work ties into the Balanced Scorecard**
 - **** We need a clear definition of Core Competencies and identify 3 or 4 areas where DoD operates and they should not particularly where you get a great bang for the buck. (look at old studies)**
 - Navy is the 3rd or 4th largest producer of eye glasses in the country. They should look to divest that. The commissary may be another area to consider.

❖ 1010 Gus Pagonis → TRANSCOM DLA Review

- Gus Pagonis
 - SecDef got a powerful group together to look at combining TRANSCOM and DLA
 - The problem is the integration of those two organizations. That is the key.
 - Recommendation is to create a new Under Secretary with budget and monetary control of TRANSCOM and DLA
 - Backup is to move the organization into AT&L
 - This person would have a SMALL staff and work closely with TRANSCOM and DLA
 - 90% of the job is peacetime, 10% war time
 - There would be ops centers in the theater and one in CONUS for peacetime ops
 - Organizing this in CONUS during peacetime is the real issue.
- David Walker → how would this position relate to a COO?
- Gus Pagonis → This person would report to the COO. The Secretary will either do it or not. To create the position, requires legislation.

❖ 1045 Management of the Working Capital Fund → Bill Phillips

- Arnold Punaro → Commissaries are not efficient and they are not looking to improve
- Arnold Punaro → The Service Secretaries don't think it is their problem. They think it's the agencies. There is no cost accounting.
- Michael Bayer → it is customer centric and the military personnel don't usually go there in CONUS
- Gus Pagonis → Sears would not allow a Post Exchange to be run this way.

- Gus Pagonis → Is there a DoD class on the working capital fund?
- There are programs in the services and it is included as a part of a bigger program. The working capital fund is run by flag officers with the help of the civilian workforce. There is no formal training or requirements for that.
- Arnold Punaro → They don't think of DoD agencies as a business. The Defense Working Capital Fund is a BIG business.
- JoAnn Boutelle → There is a lot of outsourcing within the commissary community. Fresh meat, fish and other parts are outsourced.
- 60% of the commissary sales are to retirees. Younger personnel do not use the commissary
- Gus Pagonis → When was the working capital fund set up?
- It goes back to the 1940s to circumvent bureaucracy
- The fund is financed through its customers based on demand.
- Do rebates go to the service? They usually keep the surplus and the result is a lower rate in the future.
- Arnold Punaro → There is no incentive for lower rates. The customer is not permitted to get it cheaper outside the government.
- Is there anyway to get a rebate to cut the time down from a two year turnaround
- Jeff Steinhoff → There is not a lot of information on why you are running a profit. The funds have gone broke before. You need to have good information on why you have a profit or loss.
- Bob Hale → have you considered having a private company run this? We haven't considered the details of how it should work
- Services carry way too much inventory which also bloats costs
- Gus Pagonis → Can they dispose of inventory freely? Yes, DLA does this but changing the programmatic requirement is more difficult
- Travis Engen → is there specific performance goals for the Fund Managers? They have combine the job description with that
- Bill Phillips → DLA described how they link performance objectives with what they are doing.
- Travis Engen → Need to tell people what their job is and how you will be evaluated.
- Michael Bayer → DLA demanded these metrics and the leader had 15 pages of metrics
- Gus Pagonis → Logistics lends itself well to quantifiable metrics.
- Dana Mead → A division in a business has objectives that come out of a plan. You can do the same thing in the military. Set objectives for profitability.
- Gus Pagonis → you guys should look at where the training should be focused.
- Bob Hale → Raise management awareness
- Arnold Punaro → You must identify all of the hidden costs and break out the mobilization cost. The costs are buried so people don't complain.
- JoAnn Boutelle → We use composite rates and we are trying to create incentives to charge back for heavy usage.

❖ **1120 Outplacement Services in Support of BRAC and Competitive Sourcing → Fred Cook**

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** Denotes an action item

- DoD does not have a centralized outplacement service
- Base commanders may have some funding for this as part of BRAC
- An independent firm is a better solution for employee and employer because it is performed at a separate location. For example, Corning Glass expanded with the telecommunications industry and then the bubble burst. They had a large recruiting function, when revenue dropped 80% they took recruiters and turned them into outplacement function. They hire individuals for each plant that closes.
- DoD may want a hybrid approach. You would have a core staff in P&R with some of the outsourcing functions contracted out.
- You want people to move on. A 3rd party firm is a cleaner break and easier to go.
- The people felt good when the firm helped them to find another job. Sears used APG.
- Gus Pagonis → I lean toward a 3rd party. You have a team that works with the 3rd party.
- Dana Mead → We used soft restructuring. We closed plants in company town and we built an economic developing organization in those communities. It's closer to DoD European closings. We did even more of a hybrid approach there.
- Gus Pagonis → You should look at the European model for some insights.
- Dana Mead → This is hotly charged politically and we learned how to deal with it.
- Gus Pagonis → The hybrid thing we need to define how we would break it out.
- Travis Engen → Local knowledge is key to placement.
- Fred Cook → We could have standby contracts with all 4 major outplacement firms, U.S. focused
- Gus Pagonis → If you have a desire to help out on a subcommittee all you need to do is ask.