

# DEFENSE BUSINESS PRACTICE IMPLEMENTATION BOARD

## Minutes of Quarterly Board Meeting July 30, 2003

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The Quarterly Meeting of the Defense Business Implementation Board (DBB) opened at 0806 in Room 1E801-7, the Pentagon. Mr. Gus Pagonis, Chairman of the Board, commenced the session and informed the Board that the four Task Group leaders would brief Secretary Rumsfeld on each of their topics for about five minutes each later in the morning. Mr. Tom Modly, the Executive Director of the Board, highlighted the day's agenda and the status of the action items from the previous Board meeting.

At 0839, the Public Session opened with Mr. Herb Shear's discussion of Performance-Based Logistics. At 0849, Mr. Arnold Punaro briefed the Board on the progress made on the Department's Core Competency Review. Mr. Bill Phillips then led a discussion of the status of the Defense Working Capital Fund Task Group. At 0923, Mr. Fred Cook discussed the topic of outsourced outplacement services in support of Base Realignment and Closure (BRAC). Mr. Neil Albert then concluded the Public Session with the Board's review of the Department's Balanced Scorecard effort.

A luncheon was held for the Board in the Gold Room of the Pentagon where former Defense Corporate Follows led the discussion of their experiences in the program.

The afternoon session began with a briefing from Ms. Mary Margaret Evans on the Department of Defense's (DoD) Reorganization effort, followed by a discussion of the Business Management Modernization Program (BMMP) lead by Ms. JoAnn Boutelle, Deputy Chief Financial Officer. Ms. Ginger Groeber then discussed the progress and challenges of implementing the Masters of Business Administration (MBA) recruiting program.

The Board then met as individual Task Groups to continue work on their topic areas. The Supply Chain and Fuel Hedging groups met with their respective Task Group Leaders and their designated DoD champions. Representatives of the HR Task Group held informal discussions with the Services on the subject of Reserve Officer Training Corps (ROTC).

The Board meeting was adjourned by Gus Pagonis at 1530. The next scheduled meeting for the Board is November 20, 2003. Detailed meeting minutes are included below. These minutes are not for attribution as direct quotes from the participants, but rather as paraphrases of general comments delivered during the proceedings.

❖ **0806—Meeting Opens→Mr. Gus Pagonis**

- The Chairman of the Board, Mr. Gus Pagonis began the proceedings. Mr. Pagonis informed the Board that the four task leaders were scheduled to brief Secretary Rumsfeld for five minutes each. Additional topics were then discussed briefly:
- The Board is considering a Task Group to study enhancing diversity in the senior military and civilian ranks.
- The Board should follow through on recommendations it has made to date to understand the extent of implementation.
- The Defense Business Board must be officially renewed by January, 2004. The Chairman asked all of the current members to continue with the Board, but added that if a member wanted to leave this would be an appropriate time to do so.
- Implementation of the Defense Business Fellows Program for recruiting MBAs has been slowed somewhat due to the DoD staff's current workload.
  - Mr. Fred Cook→ There have been some delays, but it still moving forward.

❖ **0810 Review of Agenda and Previous Action Items → Mr. Tom Modly**

- 0830-1030 → discuss 4 main deliverables
- The Board is scheduled to meet with the Secretary for 45 minutes. The focus of the discussion needs to be on where we need his help, let's drill down on key issues.
- Mr. Gus Pagonis → the Secretary is now seeing the short reports that the Board generates. His staff is making sure he gets them.
- Note: BMMP → Business Management Modernization Program
- Status of follow up actions from last meeting:
  - Memo to Secretary of Defense on Human Resource Task 1 → we are still waiting on the outcome of the transformation legislation
  - We have tried to spell out all the acronyms in our output documents
  - We have developed a strawman on how to work better with the Senior Executive Council (SEC). But the SEC is currently operating on a limited basis. Under Secretaries are meeting but not the top-level executives, even though there are people operating in those positions on an "acting" basis. We need to discuss this with Secretary Rumsfeld.
  - Mr. Fred Cook will discuss the Reserve Officer Training Corps (ROTC) program → This is an informal effort. Dr. David Chu is highly supportive but the Services are reluctant. Mr. Fred Cook will gauge the level of support of the Assistant Secretaries of the Services. He wrote a business case that helps make the argument to return a program to elite northeastern campuses.
    - Mr. Dennis Bovin → Mr. Larry Summers indicated that the mood on campuses has changed. Now might be a good time to get on campus.
    - Mr. Michael Bayer → Board may want to visit with 3 stars who oversee the ROTC programs. Uniform guys see this as a straight cost benefit question. They see it as an output process.
    - Mr. Arnold Punaro → The Service Academies are expanding. But this is the most expensive option on a per graduate basis. ROTC is a lower cost

- alternative and produces equally qualified officers who stay in just as long, historically.
- Mr. James Kimsey → As demonstrated in recent selection of Army Chief of Staff, the Services don't appear to have much bench strength. ROTC programs should compliment the Service Academies with the Academies setting the standards.
  - Mr. David Walker → This is part of portfolio management. The General Accounting Office (GAO) has just issued a report on the Service Academies. The Air Force Academy is the most expensive per student, about \$330,000 per graduate
  - Mr. James Kimsey → Leadership is the most important ingredient.
  - Mr. Gus Pagonis → Mr. Fred Cook and Mr. James Kimsey will help progress this effort.
- The Board has been working with the Department legislative liaisons and should continue to work with them. However, the Board will not be sending letters to Congress but will continue the dialogue with internal personnel responsible for the legislative agenda.
  - The real property issue has been rolled into the core competency project
    - Mr. David Walker → Excess real property is an issue. What are we doing in terms of maintenance and what the probability that a location is at risk. Especially, given the next round of BRAC.
  - There was a Senior Level review of the possible Transportation Command (TRANSCOM) / Defense Logistics Agency (DLA) merger on 17 June 2003
    - It was a 10 – 15 minute discussion. The decision was made not to integrate the two. Mr. Michael Wynne, the acting Under Secretary of Defense for Acquisition, Technology and Logistics will be the Global Supply Chain Integrator. He will have control of both the DLA and TRANSCOM budgets. First they wanted to put a military person but this is a good compromise.
    - Mr. Brad Berkson → Mr. Wynne would like to create a support system for the Defense Logistics Board. (He also wanted to create a Defense Acquisition Board (DAB)-like support system for Supply Chain Integration issues, and perhaps call it the Defense Logistics Board.)
    - Mr. Brad Berkson → Mr. Wynne suggested TRANSCOM should own the distribution network for deployment. They will be responsible for bringing materiel all the way to the fox hole. They will be the focal point for the field.
    - Mr. Brad Berkson → This recommendation has been well-received by most stakeholders--currently in the process of fleshing out the specifics to make this work.
    - Mr. David Walker → Maybe the Department should hire an executive search firm to fill the position of Global Supply Chain Integrator.
    - Mr. Gus Pagonis → The Department wanted someone right now and this is a good compromise because it was completed within 60 days, which is great!

❖ **Fuel Hedging Task → Mr. Denis Bovin**

- The Fuel Hedging Task Group is looking for Board members interested in participating on this task. Mr. Michael Bayer and Mr. Bob Hale volunteered to participate.
- The Defense Logistics Agency (DLA) lost a \$1 billion buying fuel last year. The opportunity for putting a hedge in place seems natural. The private sector has done fuel hedging very successfully.
- Dr. Dov Zakheim → There are other parts of the government interested in doing this also.
- Mr. Dennis Bovin → There is a lot of information out there on hedging.
- Mr. Gus Pagonis → It was not cost effective to do this at Sears. Rail America has been doing this successfully for years.
- Mr. Dennis Bovin → This can easily be done in components.
- Mr. Bob Hale → Might this may lend itself to a trust fund? It may be tough to sell especially at DLA.
- Mr. David Walker → There has to be a way to do this. You clearly have something that already exists and we are the biggest purchaser of fuel in the world. DoD is using other commercial practices to achieve a better economic situation.
- Dr. Dov Zakheim → Who is going to be managing this?
- Mr. Gus Pagonis → I assume that DLA would manage this.
- Mr. Dennis Bovin → FedEx has some third party manage their hedge fund.
- Mr. Gus Pagonis → Could a third party manage a hedge fund for DLA?
- Mr. Brad Berkson → I would be very careful with this.
- Mr. Dennis Bovin → We plan to complete this work this fall. Mr. Brad Berkson volunteered to be part of the team.

➤ **0839 Public Deliberation → Supply Chain Discussion → Mr. Herb Shear**

- Mr. Bob Hale → This briefing has been seen by the Services Boards. This is a classic issue, funding flexibility and longer term contracts.
- Mr. Gus Pagonis → The funding flexibility measures have been taken out of the DoD's transformation bill that is currently on the Hill.
- Mr. David Walker → There are a lot of sweeping requests in the Transformation bill that are the DoD's wants and not necessarily their needs. The Department should target their requests to Department needs with a strong business case. This will greatly increase the probability that the Department will get what they need.
- Mr. Bob Hale → DoD needs to develop some case studies based on specific examples. Mr. Lou Kratz of AT&L has volunteered to help to make the case. Ms. Diane Morales also asked us to do this.
- Mr. Lou Kratz → Ms. Morales has seen the briefing and was happy with the progress that we have made.
- Mr. David Walker → You need to have a business case, even if it's with a pilot program. DoD must re-think its legislative strategy.
- Mr. Gus Pagonis → What's the next step?

- Mr. Herb Shear → The next step is to find out where and who the expertise is to implement performance based logistics (PBL) for the Department.
- Ms. Diane Morales wanted to know do we have the right skills to do this in DLA.
- Mr. David Walker → DoD needs to see if they have a core competency, and even if outsourced, DoD still has to have the proper expertise to stay on top of this.

❖ **0849 Core Competencies → Mr. Arnold Punaro**

- Task Group has been working this issue with Mr. Ken Krieg and Mr. Mike Dominguez of the Air Force.
- This Task Group has met 10 times this year.
- This initiative needs an executive leader from within the Department to move this forward.
  - Mr. Arnold Punaro → I ask the Board, who do we think should be the leader? Maybe the Secretary of the Army or someone in OSD?
  - Mr. Gus Pagonis → The leader should come from the Senior Executive Council
  - Dr. Dov Zakheim → We should ask Mr. Roche to do it, he is a senior member of the Council and either way he'll be a Service Secretary.
  - Mr. Arnold Punaro → Core competency results need to be tied to major transformation efforts so it will have more relevancy and impact.
  - Dr. Dov Zakheim → Arnold couldn't be more right.
  - Mr. Tom Modly → This went out before but without a Senior Leader from within the Department.
  - DFAS is doing a lot of outsourcing in order to focus on their core competencies, but on the other hand, DoD runs the largest childcare facility.
  - Mr. Arnold Punaro → Secretary needs to get military personnel in positions that can't be filled by civilians or contractors.
  - Mr. Bob Hale → Core for both civilian and military?
  - Mr. Bob Hale → A word of caution → There needs to be some DFAS experience on the battlefield. Not a lot but some. Small number of non-core
  - Mr. Arnold Punaro → Why do I need military people with financial expertise?
  - Mr. David Walker → What's inherently governmental? What's inherently uniform? We need some clarity here.
  - Mr. Michael Bayer → It's been a matter of will. E.g. Fort Leavenworth, there are 400+ uniforms doing the exact job that civilians do. And we need military troops to guard military things.
  - Mr. Gus Pagonis → The guy with the rifle and in the airplane can't be replaced. Other support folks can be.
  - Mr. Arnold Punaro → Ken Krieg has stabbed hard on this in the past few years. The DoD does not need to run a school system, commissary or childcare on the battlefield. This stuff could be done by non-military personnel in support of the troops in the field.
  - Mr. Dennis Bovin → You can actually provide a lower cost and better quality service by having non-military folks perform these functions.
  - Mr. Arnold Punaro → We need to drive it from the top down.

- Mr. David Walker → The government needs to develop institutional criteria, so people won't interpret the criteria themselves. Don't underestimate the emotion of this issue. You need a practical approach.
- Mr. Michael Bayer → If the Department adds 60,000 more troops to the rolls, this has a major financial impact.
- Mr. Arnold Punaro → If they increase the active duty rolls, we don't have to do the project. The pressure will be off.
- Mr. Bill Phillips → DFAS and others have plans to outsource pieces.
- Mr. Arnold Punaro → DFAS might be a good model to follow. But there is no silver bullet. Military departments need to justify why military are filling jobs that could be filled by civilians.
- Mr. Arnold Punaro → Active duty is the most expensive piece of the DoD budget.
- Mr. Ken Krieg → The Department should at least look for competition where it makes sense.
- Mr. David Walker → Take 300,000+ people to see how many can be freed up for warfighting. Civilian side is worried about job security and this can be a source of jobs for them.
- Mr. David Walker → Congress is now debating if reservists can buy into TRICARE. 90% of people with private healthcare will move to TRICARE and that will spike up costs dramatically for the DoD.
- Mr. Ken Krieg → We are out of the market for healthcare costs.
- Ms. Gail McGinn → Point of clarification, DoD schools, commissary have nearly zero military personnel.
  - Dr. David Chu has a Defense Human Resource Board that talks exactly to this issue. All the senior internal folks are on the Board.

#### ❖ **0911 Working Capital Fund → Mr. Bill Phillips**

- Mr. Bill Phillips → Although the Working Capital Fund has been operated in the Department for a long time it's still not well understood. There should be senior civilian to manage the Working Capital Fund.
- Mr. Gus Pagonis → Where would this person be located in the organization?
- Mr. Bill Phillips → Each service should have a single point of contact lower down in the organization with decision-making authority to run these funds.
- Mr. Gus Pagonis → Did you think about a balanced scorecard approach? It could be beneficial if you used that approach here.
- Mr. David Walker → How do you define a loss for the DoD?
- Mr. Bill Phillips → Money spent but asset not completely depreciated, this is rolled into the rate for the next year.
- Mr. Bill Phillips → The MID 903 is looking at a number of rate improvements. They are doing the right thing.
- Mr. Bill Phillips → 20% of the DoD budget is run through these funds.
- Mr. Bob Hale → Do you want to make a recommendation to keep the Working Capital Fund?

- Mr. Bill Phillips → We weren't chartered with deciding whether to keep the Working Capital Fund or not but I would recommend keeping it.

❖ **0923 Mr. Fred Cook → Outsourcing Outplacement in Support of Base Realignment and Closure**

- Mr. Fred Cook → The Task Group really developed an implementation guide. It's not mandatory reading for the Board.
  - This subject is about civil servants leaving the Department. This is an exit strategy and how to help folks transition.
  - Over the next couple of years, about 100K people could be displaced. The scope of our analysis is CONUS only.
  - This is a big business in the private sector.
  - Outplacement is only one part of a career transition assistance strategy.
  - The Base Commander has had to provide these services from his/her own budget. This would look for supplemental funding so not to burden the Base Commander.
- Mr. David Walker → GAO has used outplacement services very successfully in the past.
- Mr. David Walker → DoD needs to think about the possibility of people to buy into a Federal Employee Health Plans (FEHPP)?
- Mr. Fred Cook → Folks can buy into COBRA for 18 months after employment but it's very expensive. Some companies convert their recruiting staffs to perform outplacement, but this model doesn't fit for DoD.
- Mr. Gus Pagonis → People trust outsiders more than an insider for outplacement.
- Mr. Fred Cook → The DoD can put contracts in place and not use them now but activate them when the need arises. It's about \$3,000/person. Less than 10% of 400,000 are projected to be subject to involuntary separation from the Department.
- Mr. David Walker → Private companies generally hire folks from the government to work the jobs that they are taking over from the government.
- Mr. Gus Pagonis → Private companies set up a reserve account at the corporate level, not to charge the local folks.
- Mr. Ken Krieg → We need to include Ray Dubois's Steering Group that includes the Senior Executive Council and the Chiefs. It's broader than just the Senior Executive Council.
- \*\*Mr. Gus Pagonis → Why don't we get that set up?
- Mr. David Walker → You might want to target early buy out and consider it a tool in any outplacement activity.
- Dr. Dov Zakheim → Base Realignment and Closure is a driver but we could use outplacement services in many other circumstances.
- Mr. Gus Pagonis → At Sears, even when people are fired we may grant outplacement services.
- Mr. Fred Cook → There may be some legislative impediment to some of these ideas. In the private sector, you don't get severance pay if you leave early. But in the civil service regulations, folks can leave before their release day and still get

their severance benefits. In the private sector, you sign a release of liability that you will not sue the company. This may not be done here.

- Mr. David Walker → You can't sue the government, unless they allow you to do so.
- Mr. Arnold Punaro → This may help make Base Realignment and Closure more palatable on the Hill, if we help with the transition.
- Mr. Gus Pagonis → It works well unless people really don't want to move out of their geographic area. (e.g. kids in school, etc.)

❖ **0953 Balanced Scorecard → Neil Albert**

- Mr. Ken Krieg asked us to take a look at the report that they have developed.
- Bringing in a Balanced Scorecard to the DoD is not a simple task.
- \*\* Mr. Gus Pagonis → We need to make BMMP a category on the Balanced Scorecard.
- Mr. Ken Krieg → Civilians are considered in the development of the strategic plan but we haven't found a way to visually capture it.
- Mr. David Walker → There are 3 types of forces: military, civilian and contractor. That needs to get on the screen too. That needs to be on the dash board.
- Mr. Ken Krieg → The focus was on healthcare because that's what we have the most data on. But there are about a dozen things in there including a commitment to the military family. We are evolving the measure and it's not in the report because we're trying to make it readable. There will be an upfront Secretary letter that will tie those pieces together.
- Mr. David Walker → GAO does an annual survey and we pick a few to develop some qualitative people measures for both civilian and military.
- Mr. Neil Albert → We didn't get a sense that senior leaders are using the measures.
- Mr. Ken Krieg → Measures are most used on the force management side.
- Mr. Neil Albert → I know there was a meeting in June to see what the Services are developing on their Balanced Scorecard but there needs to be better integration of all the Scorecards.
- Mr. Ken Krieg → We've started a Community of Practice around the Balanced Scorecard to share information. We had a kickoff meeting where some of the Services presented information. The challenge is when you get to a more customer centric organization, the better a balanced scorecard approach makes sense. That community is evolving.
- Mr. Gus Pagonis → What measures are managers actually using themselves? That's what should be included.
- Mr. Ken Krieg → We need to migrate lower level scorecards into a holistic approach. But we don't want to halt the good work that is being done. The Quadrennial Defense Review (QDR) has a balanced risk matrix but highly focused on the mission strategy standpoint. But we have to think how to balance these items.
- Mr. David Walker → Stop light charts are very effective but you need to establish universal definitions.

- Mr. Ken Krieg → I don't have management buy-in as to what the thresholds should be.
- Mr. Gus Pagonis → Senior Management needs to manage the thresholds.
- Mr. Tom Modly → What's your intention with the stop lights?
- Mr. Ken Krieg → We are not going to characterize them for the first year.
- Mr. Ken Krieg → We are trying to align GPRA, President's Management Agenda and the National Security Strategy.
- Mr. Neil Albert → We want to make sure we have something new, and we also believe that the financial measures need to be integrated into the scorecard.
- Mr. Ken Krieg → We have about 1/3 of the measures we want. We'll try to balance them. We don't have a lot of good measures on the operational side right now.
- Mr. Ken Krieg → As we pull data together on the FY 05 budget, particularly in the force management side, we'll try to tie this together to the budget development.

❖ **1017 Mr. Gus Pagonis → Summary session.**

- Gus Pagonis → I want to thank you all. What are the key points you would like to discuss with the Secretary?
- Mr. Arnold Punaro → Identify the timeliness of topic. We think you should appoint a Senior Executive Council member to champion the core competency initiative.
- Mr. Bill Phillips → The key points are: create a general manager position and convert military management to civilian, where possible and implement Working Capital Fund training to personnel.
- Mr. Fred Cook → Base Realignment and Closure needs the support of outplacement services, plan ahead and put contracts in place so when you need them they are there.
- MBA Program → Do we want to prioritize to start with the class of '04 or focus on the class of '05 as the first class into the program?
  - Mr. Ken Krieg → Use the Navy as a pilot program. Just get it going now.
- Mr. Herb Shear → Pursue Performance-Based Logistics aggressively and move to single manager. Seek funding flexibility and multi-year contracts with focused case studies.
- Mr. Dennis Bovin → Do we want to mention fuel hedging?
- Mr. Gus Pagonis → Yes.

❖ **1300 Mr. Gus Pagonis → Defense Business Practice Implementation Board Action Items**

- \*\* Need to pre-brief the Deputy Secretary of Defense's Staff on the progress of the Board's initiatives.
- \*\* The Executive Director of the Board needs to set up a meeting with the Deputy Secretary's executive assistant.
- \*\* Task Summaries need to be large, bold bullet format so the Secretary can easily read them.

- \*\* Need to convert recommendations to Management Initiative Decision (MID) documents which is the first step to turning our recommendations into DoD policy
- \*\* The Board needs to solidify a timetable to get on the Senior Executive Council's calendar and arrange pre-briefings of current DBB Task Group recommendations to each Service Secretary's staff.
- \*\* Need to include key statistical analysis in our task overviews (i.e. core competency).
- \*\* Executive Director needs to document the MID status of existing DBB tasks.
- \*\* Executive Director needs to coordinate a meeting with the Comptroller General GAO and the Deputy Secretary of Defense.