

**Quarterly Meeting Board Meeting
28 July 2005**

Defense Business Board

SUMMARY OF MEETING

July 28, 2005

The Defense Business Board (DBB) held its quarterly meeting on July 28, 2005, Room 3E869, the Pentagon, Washington, D.C.

In accordance with the provisions of Public Law 92-463, the public session was conducted from 8:15 A.M. to 11:45 A.M. Additionally, DBB members received background briefings and conducted an administrative session.

DBB members present:

Gus Pagonis, Chairman
Michael Bayer, Vice Chairman
Barbara Barrett
Fred Cook
Henry Dreifus
Bob Hale
Jim Haveman
Madelyn Jennings
Clay Johnson
Jim Kimsey
Ed McVaney
Bill Phillips
Arnold Punaro
Herb Shear
Kiron Skinner*
Dov Zakheim

DBB Staff and guests also in attendance:

Kelly Van Niman, Executive Director
Stephan Smith
Jason Reis **
Anne Schmidt
Kirk Marshall
Lynne Schneider

* Ex Officio Member

** Ad Hoc Consultant

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Others present for all or portions of the meeting were:

Gordon England
Bob Earl
Ken Krieg
David Walker
Jeff Steinhoff
Tom Modly
Michael Basla
Michael Dominguez
Ray DuBois
Tina Jonas
Charles Abell
Peet Proctor
Michael Brigham
Geoff Fein
John Vonglis
Phillip Bell
Dave Tornberg
John Kokulis
Thom Kurlmel
Krysten Jones
Vee Penrod
Bill Carr
Sam Rutherford
Donna Johnson
Mark DeDominic
David Ernst
Jeff Burger
Ken Friedman
Sharon Stewart
James Wachter
Melanie Willis

EXECUTIVE REPORT

Mr. Gus Pagonis reported that the Board's charter has been updated and renewed for another two years. The Board will report directly to the Secretary of Defense through the Deputy Secretary of Defense. He emphasized that the Board's success is attributable to the fact that they focus on three or four key areas allowing the DBB to have the greatest impact. The Board will also continue to use the bi-fold format to brief its recommendations to the Deputy Secretary and Secretary of Defense.

ANNOUNCEMENTS AND ITEMS OF INTEREST

The Defense Business Board will be moving their office in August to room 3C-288 in the Pentagon. The Board's next meeting will be December 1, 2005.

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PUBLIC SESSION

Key Prior DBB Recommendations and Proposed Metrics to Coincide with Business Transformation Priorities

Civilian Personnel Management

Two key goals were presented focusing on transforming the civilian force to match the agility, flexibility and leanness of the transformed military and to match the desired DoD corporate culture that respects and rewards an enterprise approach. DBB members discussed the various metrics to measure DoD's senior civilian leadership, recommending to change the "education and intelligence" metric to "achievement of positive results." The Board agreed with the other metrics and the metric to manage SES and feeder groups (GS 13-15) as DoD assets, moving them throughout the Department to gain insight and experience.

Business Management Modernization Program (BMMP)

The key goal as presented for BMMP was to provide DoD decision makers with accurate, reliable and timely information, and to provide end-to-end support to the warfighter. Fundamental to achieving success is the implementation of a properly defined Standard Financial Information Structure across the Department. The Board did not disagree either with this recommendation, or metrics to reduce decision-making time for IT investments and to increase end-to-end automated visibility of DoD's business processes.

Separately, the DBB Task Group on BMMP is awaiting guidance from Mr. Tom Modly to determine where the Board can be most helpful on this project going forward. DBB Chairman Gus Pagonis asked all members to offer any suggestions, as well.

Implementation of Base Closure Process

The importance of the right metrics, necessary to control costs, was emphasized since BRAC's impact will not be realized for several years. The Board discussed five key metrics to achieve joint warfighting capabilities and improve the Department's "tail-to-tooth" ratio. These metrics focused on the BRAC implementation schedule (on-time, on-budget completions), ultimate cost savings and total force "tail" to "tooth" realignment, as well as, ultimately, more joint warfighting capability. The Board members noted that "total force" must include contractors. They also suggested adding a personnel metric supporting the goal to ultimately reduce federal government headcount. As recommended by the DBB in July 2003, outplacement assistance helps displaced employees transition to new careers/jobs outside government. To measure the effectiveness of using private outplacement assistance, the Department could measure the total civilian personnel receiving outplacement assistance, and of those personnel track how many transitioned to non-DoD jobs (or even non-government jobs).

Integration of Supply Chain Management

The key goal of achieving a seamless end-to-end distribution process that delivers material efficiently, effectively and timely was presented. In addition to the metrics to improve readiness, improve customer satisfaction and reduce costs by 30%, the Board recommended adding a

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metrics to continue to drive performance-based logistics and to implement the identification and sharing of best practices and lessons learned throughout the Department.

Separately, the DBB Task Group will meet with AT&L to identify the 2 or 3 specific areas they would like the DBB to address going forward.

Acquisition Process Reform

The key goal in acquisition process reform presented was to improve and quicken product development and reduce overall product life-cycle costs. Metrics were classified into three key areas: input, execution and modification. The Board recommended that with respect to all metrics presented they needed to drive standardization across the Services with respect to process and deliverables – as defined by AT&L.

Financial Management and Auditability

Metrics for short-term and long-term goals were presented and discussed, focusing on automating and improving the timeliness and accuracy of statements and report. It was noted that the Comptroller tracks about 30 metrics for the Department but none are automated yet. The Board recommended moving the goal/metric for a common line of accounting to the BMMP area, since it is fundamental to that effort. Also, the goal presented that focused only on healthcare spending was broadened to measure efficient spending in key areas, such as healthcare and O&M. The Board recommended moving the goal of a clean audit opinion for the USMC from long-term to short-term, and to move the metric measuring “rebaselining” costs to the acquisition area.

Chairman Conclusions/Next Steps: The Board members working on each area should schedule a meeting with the appropriate Under Secretary to discuss their priorities before finalizing their recommended metrics. DBB Executive Director will arrange.

Healthcare Task Group

Findings and recommendations from the DBB’s Task Group on Healthcare for Military Retirees were presented. After examining the current situation, the Task Group concluded that with Defense healthcare spending skyrocketing the current framework was unsustainable. A key finding to guide transformation efforts is that paying more for healthcare doesn’t always lead to better health value (Dartmouth College study). Industry best practices place emphasis on wellness, early disease detection and prevention, consumer and age-driven healthcare design, and the use of information technology to improve knowledge and service. The Task Group raised a concern over who was going to implement the forthcoming Joint Medical Command Study, and how DoD will deal with the many Congressional mandates adding to defense healthcare costs.

The Board agreed with the Task Group’s recommendations: to establish TRICARE parity with industry for retirees; to pursue and mandate early disease detection and management; to aggressively implement and promote wellness initiatives; and to invest in health information technology and case management strategies, i.e., electronic medical records and age-driven healthcare services.

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Chairman Conclusions/Next Steps: Given no disagreement with this first set of recommendations, the Chairman asked that Part I of the report be forwarded to the Secretary of Defense through the Deputy Secretary of Defense. In Part II of its study, the Task Group will focus on change management, to include communications and education strategies. The Task Group was requested to submit (by Oct 15) private sector data to the Deputy Secretary on the pay-offs associated with some of the Board's specific recommendations.

Performance-based Management Task Group

Recommendations from the HR Task Group on Performance-Based Management were presented to the full Board. The Task Group stressed that lasting cultural change would only be achieved when individuals believe their performance contributes to the enterprise's success. Two key findings were the lack of enterprise-level (as defined by the Secretary of Defense) goals and objectives, and a concern that discarding the GS grade/rank structure (and replacing it with a limited number (3-5) of pay bands) would eliminate the foundation of the civilian hierarchy that must operate parallel DoD's military hierarchy. Ultimately, the Board agreed to present the Secretary and Deputy with both options. Regardless of which option the Department selected, the Board added a recommendation to conduct a market study to adjust salaries to reflect market trends per career field. Additionally, the Board recommended adding a recommendation to adjust the NSPS implementation plan to ensure a solid performance appraisal system linked to the Department's enterprise goals was in place, prior to launch.

Recommendations for the implementation of a performance-based management system in DoD focused on the need for the Secretary of Defense first to define enterprise objectives for the Department, which are then cascaded into unit and individual objectives that tie back to enterprise goals. As of July 2005, the Board could see no evidence that these enterprise objectives exist, unless they were the objectives in the President's Management Agenda. A key departure from current practice, as recommended by the DBB, would be to hold individuals accountable for unit objectives by making a portion of their total performance measurement be based on the achievement of unit objectives. Such a practice would encourage teamwork.

And finally, the DBB agreed with the recommendations that the Department design an enterprise-level performance tracking system (tied to the DoD-wide balanced scorecard), and that progress be communicated throughout the organization, so that employees know that unit goals are monitored by senior leadership.

Chairman Conclusions/Next Steps: The Task Group was asked to make the above-noted changes to its draft report and to include in the final report to the Secretary the previously-approved recommendations for manageable next steps for the implementation of the National Security Personnel System, covering fire walls, communications and training.

Military Postal Service Task Group

The Military Postal Service Task Group presented its initial findings and recommendations to the full Board. Key observations on the current process were that Defense officials did not consider

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mail to be a part of the DoD supply chain (not a part of BMMP), that mail delivery was not a core military function, and that mail sorting/delivery was not “purple”. The Board recommended removing the observation on “no logical career path” since the Navy and Marine Corps do have an MOS for mail service. The recommendations presented were two-fold—ways to improve the current system and recommendations that get the Department to the CY2030 solution. The Task Group recommended outsourcing all or part of the military postal service and the discussion focused on OCONUS. The Board recommended adding a consideration for the different demands of packages and letters on the supply chain, and utilizing the Movement Control Group in theater during contingency operations, because there is some point that companies won’t go into a “foxhole” to deliver mail. The Commanding Officer will have to control final delivery and distribution to the individual.

Chairman Conclusions/Next Steps: The Task Group was asked to make the above-noted changes to its draft report and prepare it for distribution as Part I of its full report. The Task Group will focus on models to privatize the military postal service in Part II of its report. They will take a *tabula rasa* approach focusing on cutting edge trends in mail handling, processing and distribution.

DBB WITH DoD LEADERSHIP

The Board met with DoD leadership including Mr. Gordon England, Acting Deputy Secretary, and Mr. Dominguez (USAF), Mr. DuBois (US Army), Mrs. Jonas (USD(C)), Mr. Abell (OUSD(P&R)) and Mr. Krieg (USD(AT&L)) to discuss the results of the public session.

ADJOURNMENT

The meeting adjourned at 2:30 P.M.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

William “Gus” Pagonis
Chairman
Defense Business Board