



QUARTERLY MEETING MINUTES Defense Business Board July 16, 2009

The Defense Business Board (DBB) is a federal advisory committee within the Department of Defense (DoD) and operates pursuant to the Federal Advisory Committee Act of 1972, the Government in Sunshine Act of 1976, and other appropriate federal regulations. The Board held its fourth quarter meeting on July 16, 2009 and public session open to the general public, was convened from 10:45 AM to 11:45 AM in the Pentagon Conference Center. The public meeting was announced in the Federal Register, Vol. 74, No. 125, on Wednesday, July 1, 2009.

Attendees:

General Public:

Approximately 60 members of the public attended the meeting.

Board Members:

Mr. Michael Bayer, Chairman
Mr. Mel Immergut
Ms. Madelyn Jennings
Mr. Phil Odeen
Mr. Mark Ronald
Mr. Atul Vashistha
Mr. Joe Wright
Dr. Dov Zakheim

Senior Fellows:

Mr. Neil Albert
Mr. Denis Bovin
Mr. William Phillips

Consultants:

Mr. Rudy deLeon,
Mr. Robert Tobias

Others:

Admiral Edmund Giambastiani, USN (Ret.), former Vice Chairman of the Joint Chiefs of Staff, and member of the Defense Science Board (DSB)

Staff:

Phyllis Ferguson, Executive Director
Kelly Van Niman, Deputy Director
COL Kathleen Sakura, USAF, Military Assistant
CAPT Michael Bohn, USN, Military Assistant
CoL Kevin Doxey, USA, Military Assistant
Debbie Duffy, Staff Assistant

PUBLIC SESSION

At 11:45 AM, Phyllis Ferguson, the Designated Federal Officer, convened the public meeting and announced that it would be conducted in accordance with the Federal Advisory Committee Act and turned the meeting over to the chairman.

Mr. Michael Bayer, Chairman of the Board, thanked the public for attending the meeting and reviewed the agenda. He introduced the two presenting Task Groups: "An Outreach Plan for Improving Communications between the Department of Defense and

the Defense Industrial Base”, co-chaired by Mr. Bovin and ADM Giambastiani and “A Review of National Security Personnel System”, chaired by Mr. deLeon.

An Outreach Plan for Improving Communications between the Department of Defense and the Defense Industrial Base

Mr. Bovin thanked his co-chair, Admiral Giambastiani, for working with him on the Task Group, as well as Mr. Odeen, Mr. Phillips and Mr. Ronald. He summarized their task, as requested by the Under Secretary of Defense for Acquisition, Technology and Logistics (USD(AT&L)), to provide him with a specific plan that he and his staff could use to improve communications between the DoD and the industrial base. The group interviewed senior officials of organizations that interact with the USD(AT&L), and current suppliers that represent the industrial base (small, large, services/products, foreign/domestic, high-technology/innovative). The group also looked at historical studies, to include a DBB report, “A Strategic Relationship Model between the Department of Defense and the Industrial Base”, 2008.

The Task Group found that DoD’s communications with its supplier base were limited and infrequent. Information communicated from DoD was viewed as being often inconsistent and unclear to those suppliers. They also discovered that DoD’s middle management personnel were risk averse and far more interested in process than in outcomes. Admiral Giambastiani added that it was important to confirm that everyone they interviewed and spoke with attempts to follow regulations, laws, rules, and the Federal Acquisition Regulations. However, over time, in the process of complying with the aforementioned, a culture of conservatism has evolved and a level of reluctance to engage with the defense industry has taken affect, more so than required or intended. (Note: Examples of statutorily-based limitations on communicating with industry are: Competition in Contracting Act (10 U.S.C 2304), Conflict of Interest Prohibition (18 U.S.C. 208) and Procurement Integrity Act (41 U.S.C 423).) Mr. Bovin echoed this point and added that the Task Group also found a very strong willingness on behalf of industry and DoD to improve those communications. In sum, the group found that communications with industry are cyclical, and currently the Department is in a period of poor communications. The Task Group was hopeful their recommendations would help promote a period of improved communications.

To that end, Mr. Bovin described the Task Group’s recommendations. First, that the USD(AT&L) develop and implement a strategic communications plan for industry that is clear and made available to the public. The plan should encourage open and inclusive discussions and serve as a vehicle by which DoD can convey its requirements to its supplier base, better aligning program management with expectations, and to better coordinate DoD requirements with industry capabilities.

Specifically, the Task Group recommended twice-a-year formal meetings convened around major events such as budget submissions or the Quadrennial Defense Review. Those meetings, chaired by the USD(AT&L) should include Chief Executive Officers of major suppliers, as well as a group of representatives from sub-prime suppliers. The Task Group stressed the importance of both the Deputy Secretary and Secretary of

Defense attending these meetings, as well as, the importance of having an agenda prepared in advance that covered issues that DoD and industry wanted to discuss. The Task Group also recommended that smaller meetings be held several times a year to discuss program and policy issues, with particular attention to discussions with nontraditional suppliers of new and emerging technologies. Mr. Bovin concluded that the communications plan they were recommending should be consistent with the Secretary's desires and that the Department's General Counsel should provide clear guidance to support the development and implementation of such a plan.

Mr. Bayer thanked the Task Group for their report, and asked if they had any thoughts about communicating the Department's long-term, future requirements. Admiral Giambastiani affirmed that the Task Group did discuss this issue; however their recommendations focused on identifying the requisite people to participate in the discussions with the USD(AT&L). Following up on that point, Mr. Odeen asked if the Task Group was making any specific recommendations regarding opportunities for companies with new technologies to provide input to the requirements process – recognizing that this might not be an issue for the USD(AT&L). Admiral Giambastiani agreed, and noted that the current Chairman of the Joint Staff was including the USD(AT&L) in the Joint Requirements Oversight Council, which he thought would help address this point.

Mr. Joe Wright questioned if there was a “disconnect” in the Task Group's recommendation for topics to be discussed at the proposed meetings. He commented that since most of the executives attending the meeting with the USD(AT&L) would likely have security clearances, he reiterated the importance of having industry hear more about DoD's strategies, without compromising national security, to ensure that industry could make informed investment decisions. Mr. Bovin agreed to relook the wording of the brief to ensure this point was conveyed clearly.

Mr. Immergut inquired if any changes to law or regulations were required to implement the communications plan put forth by the Task Group, and Mr. Bovin responded, no, that the current limited communications are a result of a narrow legal interpretation. Admiral Giambastiani commented that the varying levels of risk aversion in a particular DoD element, agency or Service will result in a corresponding legal interpretation of the proper level of communications allowed with industry.

Dr. Zakheim raised a final point for the Task Group's consideration – specifically to emphasize further the importance of the Under Secretary of Defense, Comptroller, to be included in the distribution of the industrial base financial health report. Mr. Bovin thanked Mr. Zakheim for his comment and agreed to review the Task Group's wording on this recommendation.

The Chairman called for a motion to approve the Task Group's recommendations and the motion passed unanimously.

A copy of the final approved briefing charts and final report may be viewed at the DBB website under Reports for 2009 (<http://dbb.defense.gov/>).

A Review of National Security Personnel System

The Chairman then introduced Mr. deLeon as the chair of the next presenting Task Group. Mr. deLeon thanked his colleagues for their cooperation and support in working through the task. Mr. deLeon acknowledged the passing of Mr. Richard Brown, President of the National Federation of Federal Employees, and expressed the Task Group's appreciation for Mr. Brown's leadership and presentation to the group during the earlier public session. Mr. deLeon also thanked the DBB team for their diligent support of the Task Group.

Mr. deLeon opened his presentation with an overview of their task – to look at the National Security Personnel System (NSPS) to help the Department determine if design principles were correct and being met; whether program objectives were being met; and whether NSPS was operating in a fair, transparent and effective manner.

Mr. deLeon recounted the Task Group's methodology which consisted of soliciting public comments through the Federal Register, interviewing the United Defense Workers Coalition, interviewing the DoD stakeholders responsible for implementing NSPS, and convening two public meetings with experts and members of the public. Data was collected from (1) background data from PEO NSPS and other Federal sources, including the 2008 NSPS Evaluation Report; (2) public comments solicited from June 9th through July 9th; (3) interviews with United Defense Workers Coalition held on June 12th; (4) interviews with DoD stakeholders held on June 19th; and (5) public meetings with experts and members of public held on June 25th and 26th. Mr. deLeon thanked everyone for their contributions to the Task Group.

Mr. deLeon made special mention of comments by a representative of the Merit Systems Protection Board and referenced them as framing the Task Group's discussions. Specifically, the representative stated that an effective "pay for performance" system had many prerequisites for success: (1) a commitment of resources in terms of time, money and effort; (2) a supportive culture that has leadership commitment, open communication, transparency, and employee trust of supervisors and leaders; and (3) that "pay for performance" systems need to evolve. Mr. deLeon elaborated on the last comment in particular, stating that the Task Group observed that "too much, too quickly" may be one of the key findings that drove the Task Group's recommendations.

Mr. deLeon explained that he would present the Task Group's findings and draft recommendations and then invite his colleagues to comment reflecting their views.

He began with the Task Group's findings regarding pay pools and pay bands. Regarding pay pools, they found them to be overly complex and lacking transparency. He commented that formulas for "share value" and salary bonus splits are confusing, and although people were working hard to properly execute the program, pay pools are not easily explainable. Regarding pay bands, the Task Group found that Pay Band 2 was overly broad. The Task Group regularly received comments that cite

reassignments within pay bands fluctuate by organization, and that promotion opportunities could be limited within Pay Band 2.

Mr. deLeon also noted that the Task Group found that in terms of executing the mission, first-level supervisors were critical not only to supervising, but actually doing the day-to-day work, and therefore the time needed to fulfill the duties of a supervisor was often viewed as excessive and burdensome. In terms of mission execution, the Task Group found that supervisors and employees have built up tremendous reserves of trust to accomplish the DoD mission. However, regarding implementation of NSPS, there is not that same level of trust.

Mr. deLeon described the Task Group's first recommendation on NSPS as a "reconstruction" of NSPS. He stressed that the Task Group deliberately chose this word to convey the level of effort and sophistication necessary – not just fixes. Specifically, he mentioned that a significant amount of diagnosis would be necessary before reconstructing NSPS.

Mr. deLeon emphasized the importance of continuing the existing DoD moratorium on transitions of more work units into NSPS while developing the corrective action plan. He added that the Task Group also recommends that the Department continue to exclude federal wage employees and bargaining units of General Schedule (GS) employees from NSPS.

The Task Group also made recommendations related to employees under the GS system. The group recommended that a collaborative process be created that would allow DoD managers and GS employees to design and implement a pay-for-performance system. Additionally, the group recommended the Department explore the replacement of the current GS classification system, re-establish a commitment to collaborate with employees through their unions, and establish a commitment to strategic management and investment in career civil servants. Mr. deLeon expressed his personal sense of value for career civil servants and the essential contribution they bring to our nation's common defense.

Mr. deLeon concluded by saying that this presentation was the unanimous view of the Task Group, and yielded to Mr. Bayer and Mr. Tobias for additional comments. Mr. Tobias reiterated the importance of collecting data to support any changes to the current system. He highlighted that the Task Group found that when NSPS was implemented, data was collected afterwards as opposed to beforehand. He reiterated the importance of starting from scratch when designing a "pay for performance" system for bargaining units.

Mr. deLeon opened the floor for comments from the Board. Mr. Vashistha, reflecting his experiences in the corporate sector with performance management systems, noted two elements necessary for successful change; first trust; and second, training. He agreed with the Task Group's finding that there is a lack of trust with NSPS, and asked if they felt substantial efforts were made to training both supervisors and employees. Mr. deLeon responded that in the early stages of implementation there was much more

emphasis on training. He opined that as the Department goes through the reconstruction process, the training cycle will be critical. He reiterated that as training occurs for whatever pay structure the Department develops, there must be collaboration before the final product is on the table. Mr. deLeon emphasized that people understand how it impacts them personally, because employees are experts on their pay.

Mr. Odeen commented on the very large number of comments that the Task Group received, and asked if the bulk of them were disagreeing with the underlying “pay for performance” philosophy or primarily focused on the process for implementing NSPS. Mr. deLeon explained that the Task Group did indeed receive comments in both of those categories; however, frustration over the lack of transparency in the pay pool process was at the top of the list. Mr. deLeon cited comments from managers who were working with great vigor to try to make the system work and to create that transparency, and expressed his astonishment with the employees’ level of detail – outlining reservations, experiences, and suggested improvements. Overall, the comments reflected employees’ confusion because there were at least ten different pay systems. Mr. deLeon reiterated that lack of transparency in the pay pool process and how that process could impact first-level supervisors’ evaluations – i.e., cause them to tailor their evaluations to fit the dollars available in the pay pool. Mr. Tobias added that he saw a growing acceptance for a performance management system among employees as reflected in the written comments, specifically the linkage of individual goals and objectives with organizational goals and objectives.

Ms. Madelyn Jennings commented that she had reviewed the pay pool process and the performance management format as it was being developed and implemented. She concluded that no amount of training would help if the system is so complex, and encouraged the Department to strive for simplicity in terms of any new system. With respect to pay bands, Ms. Jennings raised the question of possibly re-looking the former system as a more effective and understandable system. Mr. deLeon thanked Ms. Jennings for her comments and agreed with her, adding that the Task Group reviewed the pay pool process multiple times and found it to be exceptionally complicated. Mr. deLeon noted, however, that there were managers who were spending a tremendous amount of time to make it work, but they could not explain the process in simple, two or three sentences.

Mr. deLeon stated that public (civil) servants are often serving for completely different reasons than the corporate model. He recalled one employee’s comment to her supervisor that having someone note her value was more important than any extra compensation she might receive. He noted that we have to be mindful of making this so complex that we start to squeeze out what is a tremendously conscientious workforce every day.

Ms. Jennings noted a concept used abroad when she was younger where performance was not tied to compensation in terms of the timing of implementation. She emphasized how the performance appraisal was a very important part of one’s annual process. Ms. Jennings clarified that she was not suggesting that DoD adopt such an approach,

rather, offering the information that in earlier times, psychologist would tell you that you don't tie the two – you separate them.

Mr. Immergut questioned if the Task Group felt comfortable that they were given sufficient time to review the comments and conduct the necessary analysis. Mr. deLeon responded that he was not sure that having an additional month or two would lead the Task Group to a different conclusion. He cited the multiple public comments, the broad spectrum of people the Task Group interviewed, and the public sessions held to affirm their belief that they had heard from everyone and had sufficient grasp of the issues.

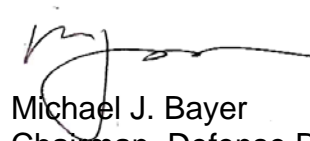
The Chairman, Mr. Bayer, called for a motion to approve the Task Group's recommendations and the motion passed unanimously.

A copy of the final approved briefing charts and final report may be viewed at the DBB website under Reports for 2009 (<http://dbb.defense.gov/>).

ADJOURNMENT

Mr. Bayer adjourned the meeting at 11:45 PM.

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



Michael J. Bayer
Chairman, Defense Business Board