



MINUTES OF THE QUARTERLY BOARD MEETING
DEFENSE BUSINESS BOARD
JANUARY 20, 2011

The Defense Business Board (DBB) is a federal advisory committee within the Department of Defense (DoD) pursuant to the Federal Advisory Committee Act of 1972, the Government in Sunshine Act of 1976 and other appropriate federal regulations. The DBB meets quarterly and held its first public session for the fiscal year 2011 on January 20, 2011 from 8:45 AM to 1040 AM.

DBB Members Present

Amandi, Fernando
Brown, Owsley
Chao, Pierre
Cohen, Bonnie
Goodman, John (Chairman)
Gross, Patrick
Hamid, Wahid
Immergut, Mel
Langstaff, David
Levin, Lon
Odeen, Philip
Punaro, Arnold
Ronald, Mark (Vice Chairman)
Spencer, Richard
Stein, Bobby
Toll, Robert
Wright, Joseph
Vashistha, Atul
Zoeller, Jack

DBB Senior Fellows Present

Albert, Neil
Bovin, Denis
Jennings, Madelyn
Phillips, Bill
Zakheim, Dov

Also observing were John O'Connor (DBB Consultant), Janet St. Laurent (Government Accountability Office [GAO]), Leigh Warner (DBB Consultant).

DBB Staff Present

Van Niman, Kelly, Deputy Director
Bohn, Michael (CAPT, USN), Military Assistant
Kelley, Jeffrey (COL, USA), Military Assistant
Pierce, Michael (Col, USAF), Military Assistant
Whittington, Catherine, Intern



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Public Session Attendees:

Bennett, John, The Hill
Bonaventura, Matthew, Logistics Initiatives Group, HQDA, G-4
Bryson, Bert (Lt Col, USAF), Installations & Sourcing Division, Deputy Assistant Secretary
(Contracting), Assistant Secretary of the AF (Acquisition)
Eherton, Jon, Eherton and Associates
Fletcher, Scott (COL, USA), Logistics Initiatives Group, HQDA, G-4
Foy, David, Defense Efficiencies Task Force
Freeman, Betsy, Defense Efficiencies Task Force
Gabrielson, Don, Defense Efficiencies Task Force
Hazlett, Stuart, Office of the Under Secretary of Defense for Acquisition, Technology and
Logistics (USD, AT&L)
Hessel, Thomas, Office of the Under Secretary of Defense for Personnel and Readiness
Hulun, Rick (Capt, USAF), Installations & Sourcing Division, Deputy Assistant Secretary
(Contracting), Assistant Secretary of the AF (Acquisition)
Leuthy, Cameron, Booz Allen Hamilton
Marrone, Christian, Defense Efficiencies Task Force
Mishory, Jordana, Inside the Pentagon
Mitchem, Mark, Defense Efficiencies Task Force
Pantoja, Emily, Boeing
Rhode, Patrick, Installations & Sourcing Division, Deputy Assistant Secretary (Contracting),
Assistant Secretary of the AF (Acquisition)
Tenaglia, John, Office of the Under Secretary of Defense for Acquisition, Technology and
Logistics

PUBLIC SESSION

Copies of all reports will be available at the DBB website (<http://dbb.defense.gov>).

At 8:45 AM Mrs. Kelly Van Niman, the Designated Federal Officer, officially opened the public session by providing opening remarks and introducing the public guests to this session. Mr. Goodman provided a brief greeting.

0847 – Deliberation of Task Group Recommendations

Strategic Sourcing, Bill Phillips and Leigh Warner

Commercial-sector best practices in strategic sourcing can have applicability to DoD. In the commercial world, strategic sourcing is viewed not just as a cost reduction issue, but an opportunity for business improvement and to create a competitive advantage. Best-in-class companies typically realize 15-25% savings and to achieve these savings, successful companies have centralized control of strategic sourcing initiatives to promote a common approach, metrics, goals, and accountability.



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Similar savings can be created within the Department. DoD needs a new definition of strategic sourcing that addresses performance improvement, metrics-based decision making, continuous improvement and cost savings. Three options for implementation are provided with option one being the current approach that falls under the banner of better contracting. Option two involves taking existing activities and augmenting them beyond Acquisition Category (ACAT) programs and requiring better governance, much like DLA does for commodities in the Department. This option is recommended along with taking simultaneous steps to achieve a commercial model, option three, through tighter governance, accountability, and tighter control of acquisition processes to move closer to industry best practices over time and create a culture of savings.

Option two also includes the proposal for creating the Strategic Sourcing Coordination Office (SSCO). This office would report to USD(AT&L) and be responsible for putting together strategic sourcing goals and creating a strategic sourcing enterprise. Supporting the SSCO would be the Strategic Sourcing Governance Board (SSGB) that operates at a higher level than Strategic Sourcing Directors Board (SSDB). The SSGB would assess the current situation of skill sets and identify initiatives across Military Department's (MILDEP) so there are no redundancies. The SSDB would review individual MILDEP plans and make sure that they do not conflict.

Implementation could use the fiscal year 2012 planning process. The governance model needs to be established now. It would be a challenge to achieve this goal and lay the groundwork for an aligned system without it. This would be a multi-year process and is consistent with Secretary of Defense's (SD) efficiencies initiative.

The session was then opened for questions and comments. Discussion focused first on how this strategic sourcing initiative would help DoD's acquisition and supply chain. Strategic sourcing is not just a cost reduction process but a process to improve innovation. The sharing of best business practices will result in process and product innovation. During the discussion, the suggestion was made to include industry examples in a potential appendix, such as how IBM or FedEx started the strategic sourcing initiative in order to further prove the importance of strategic sourcing. Identifying these companies' results would also be beneficial. The GAO observer, Janet St. Laurent, stated that this presentation is consistent with what GAO has studied and what it has done. Other observations included that contracting among the Services needs to be continuous; metrics and the governance and operational structure are a challenge; continuous support, integration, and the sharing of lessons learned among the Services are important; some Services are further ahead than others; and lessons learned are not shared enough.

Mr. Goodman asked for a motion to vote and received a motion and a second. There were no abstentions and the Board Members approved the recommendations.



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Culture of Savings – Implementing Behavior Change in DoD, Fernando Amandi

Standing in the way of every DoD initiative is culture. DoD's culture must act as an enabler and create an environment that yields desired behaviors.

The study included a diagnostic of DoD, a definition of the future state of what we want DoD to look like in terms of business support missions, and a set of recommendations on how to begin the journey. DoD's previous efforts at transformation and private industry businesses that have changed their culture were examined along with speaking to members of OSD, MILDEPs, Combatant Commands, and others to enlist their feedback. The Secretary of Defense's efficiency initiative is an excellent first step to get the ball rolling, but more action is required to drive a culture of savings.

Change processes should be set up to achieve the right governance. Cultural change models are a continuous process and success in cultural change is based on implementation, leadership, and execution over time. Some tenets must be considered for a long-term effort: DoD cannot change without winning hearts and minds, fears need to be addressed, resistance forces need to be engaged and led, and driving forces must exceed resistance forces.

To support these tenets requires leadership and organization structure, incentives, and metrics. The division of labor between the SD and the Deputy Secretary of Defense (DSD) must be addressed. Does the DSD have the necessary time to act as Chief Management Officer (CMO) to drive and manage the day-to-day business of DoD? Can the CMO drive this daily in its current form? The DSD needs to assume a more intense role or designate a senior leader to monitor and integrate end-to-end processes.

In the past, programs and prototypes were started but they did not last – they faded away without expanding their effort due to lack of governance. Therefore, phase one of the journey includes a definition of where we are and where we want to be, a concept of leadership, launching of processes, planning, and a blueprint for how to do this. The CMO needs to be the cultural change leader and create a Change Management Program Office (CMPO) with subject matter experts (SMEs) brought in to consult. An initiative must be identified to achieve an early win and to drive behavioral change, such as further integrating support areas, redefining end-to-end functional processes, reducing costs, and increasing efficiency and accountability.

The second phase must not overwhelm the system while maintaining the level of readiness to support the warfighter. An incremental timeline is required and needed skill sets should be validated through personnel reviews. Tools should be used such as information modules and other academic institutions that support DoD, war game simulation, and score cards. Success should be celebrated visibly and often.

Returns on investment include enabling DoD leadership to focus on defense core missions, turbo charging business support capabilities, fostering closer interagency relationships, and deepening coalition relations. The status quo should always be challenged and a well-structured cultural



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change process will facilitate, optimize, and support all efficiency initiatives in DoD, now and in the future.

The discussion following Mr. Amandi's presentation addressed several issues. A recommendation to add a sunset clause in the change management office was recommended since an organization should not have a group leading change forever. Its job will be to transfer knowledge so that the way people change is embedded. In addition, consideration of private sector successes was recommended.

Mr. Goodman asked for a motion to vote and received a motion and a second. There were no abstentions and the recommendations were approved.

1030 – **Task Group Updates**

Assessing Global Logistics Management, Mr. Pierre Chao

The Task Group has finished data gathering and interviews and is preparing its report. The Task Group believes it will be ready to report its findings and recommendations during the April 2011 meeting.

Energy Acquisition, Mr. Denis Bovin and Mr. John O'Connor

The Task Group informed the Board Members that this had been a previous task group and provided background on that effort. Mr. Bovin stated that if DoD had hedged, DoD would have saved in the billions of dollars. The Task Group will examine if anything has changed, if business practices in private sector have changed, and if new recommendations should be put forward. To date, information has been gathered from several companies to examine best practices on hedging and managing predictability as well as price.

Military Retirement – Alternative Plans, Mr. Richard Spencer

The Task Group informed the Board Members about its terms of reference. It noted the broad consensus about the capability and the quality of our military force. The question was how to maintain a fiscally sustainable retirement system and not lose capability or quantity. The Task Group believes that it will be ready to brief findings and recommendations during the April or July Board Meeting.

Skill-Sets for Program Managers, Mr. Joe Wright

The Task Group is analyzing how to select, train, and oversee program managers on the military side. These program managers need to know how to manage multibillion dollar projects and understand the business side of operations.

ADJOURNMENT

Mr. Goodman adjourned the DBB's January 20, 2010 public session at 10:40 AM.



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

A handwritten signature in cursive script that reads "John B. Goodman".

John Goodman
Chairman
Defense Business Board