

DEFENSE BUSINESS BOARD



Fully Burdened and Life Cycle Costs of the Workforce

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Overview

- Task Group Focus
- Problem
- Findings
- Business Insights
- Recommendations



CURRENT DEFENSE LABOR PRACTICES PREVENT THE DEPARTMENT FROM RESTORING MILITARY READINESS AND BUILDING A “MORE LETHAL FORCE”

Task Group Focus

Terms of Reference

Personnel expenditures are the most significant overhead expense in the DoD. Over the years, the Department has struggled with a complex array of categories, sub-categories, pay bands, benefits, allowances, etc. Determining DOD's fully burdened and lifecycle cost is a critical factor in any manpower management decision.

Tasks

- Identify private sector best practices to assist the DoD to more accurately determine the fully burdened and lifecycle cost of military personnel and civilian employees
- Recommend courses of action to leverage fully burdened and lifecycle cost estimates of the workforce and incentivize cost-savings in the Department

Scope to date

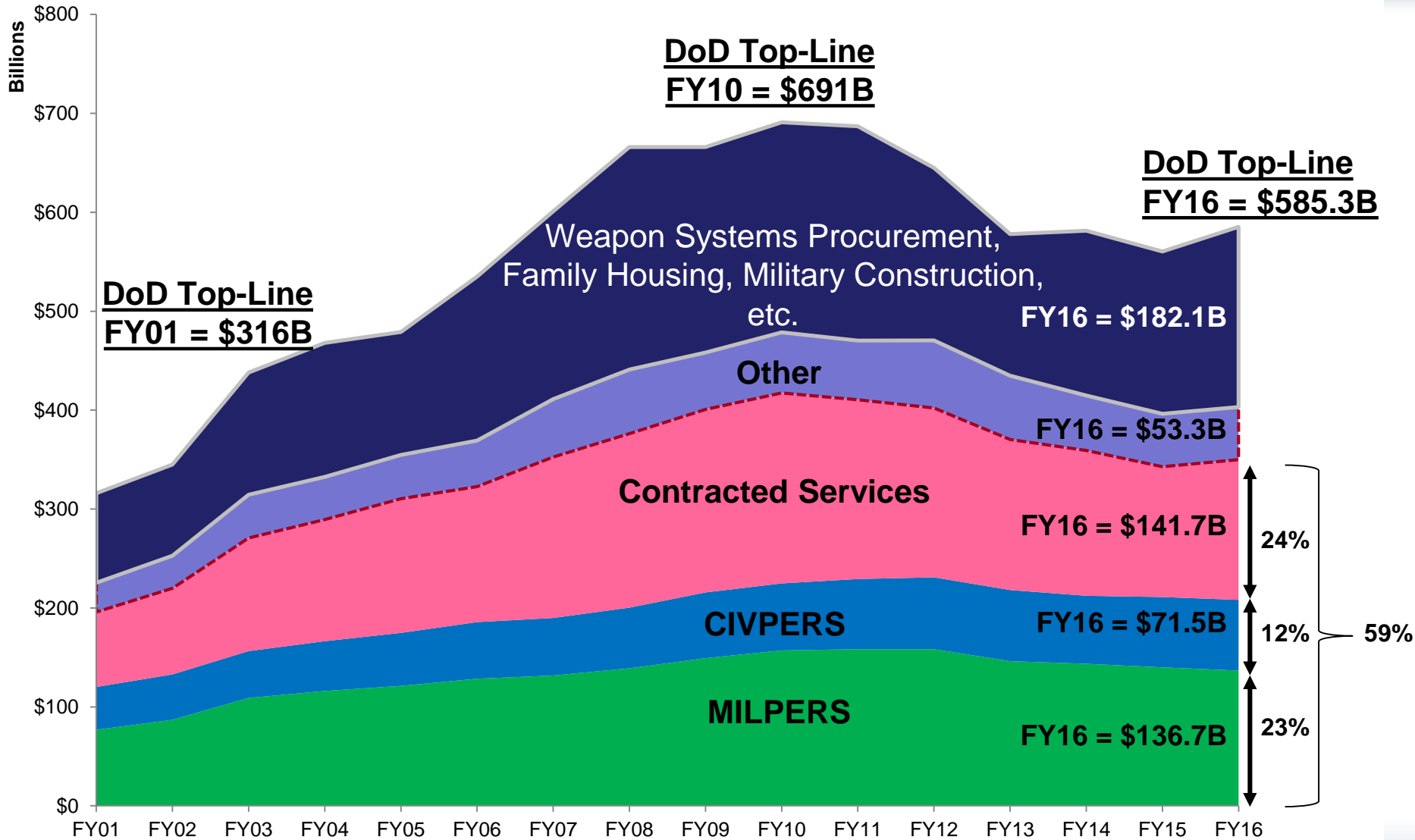
- The task group studied how the DoD:
 - Calculates fully burdened labor cost for military and civilian employees
 - Uses labor cost estimates in organizational decision making

PROBLEM

OVER 59% OF FY16 DoD BUDGET DEVOTED TO FUNDING LABOR



DoD Budget Breakout

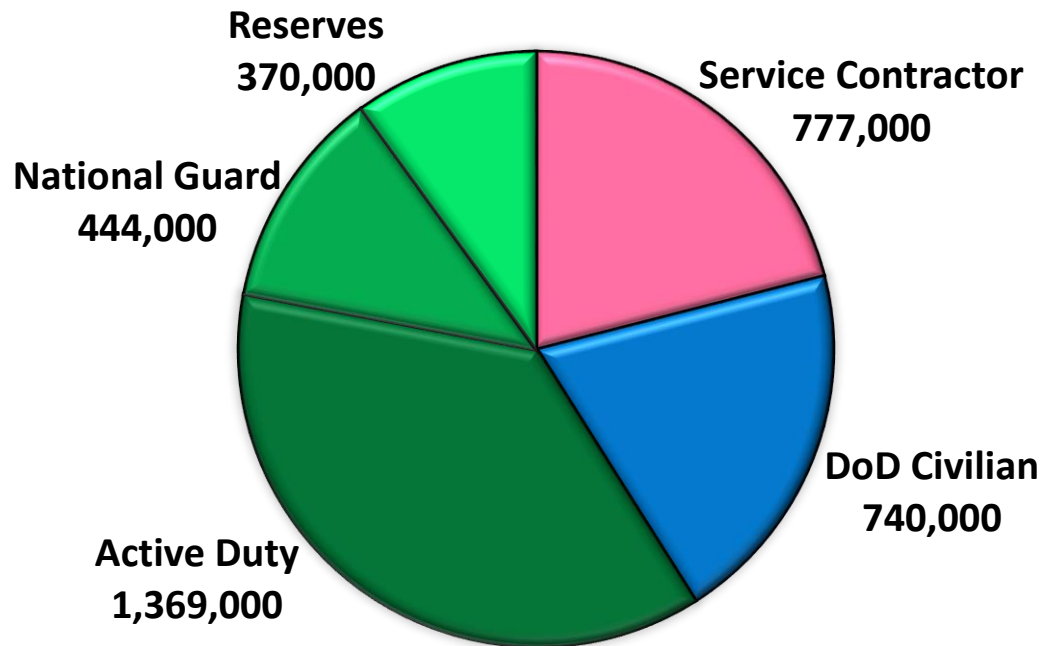


Source: ASD/M&RA (Total Force Manpower & Resources Directorate)



Problem #1: Optimizing the DoD Labor Mix

- June 2017 IDA DoD labor study:
 - Majority of DoD's \$585.3B FY16 budget spent on the 3.7M workforce personnel



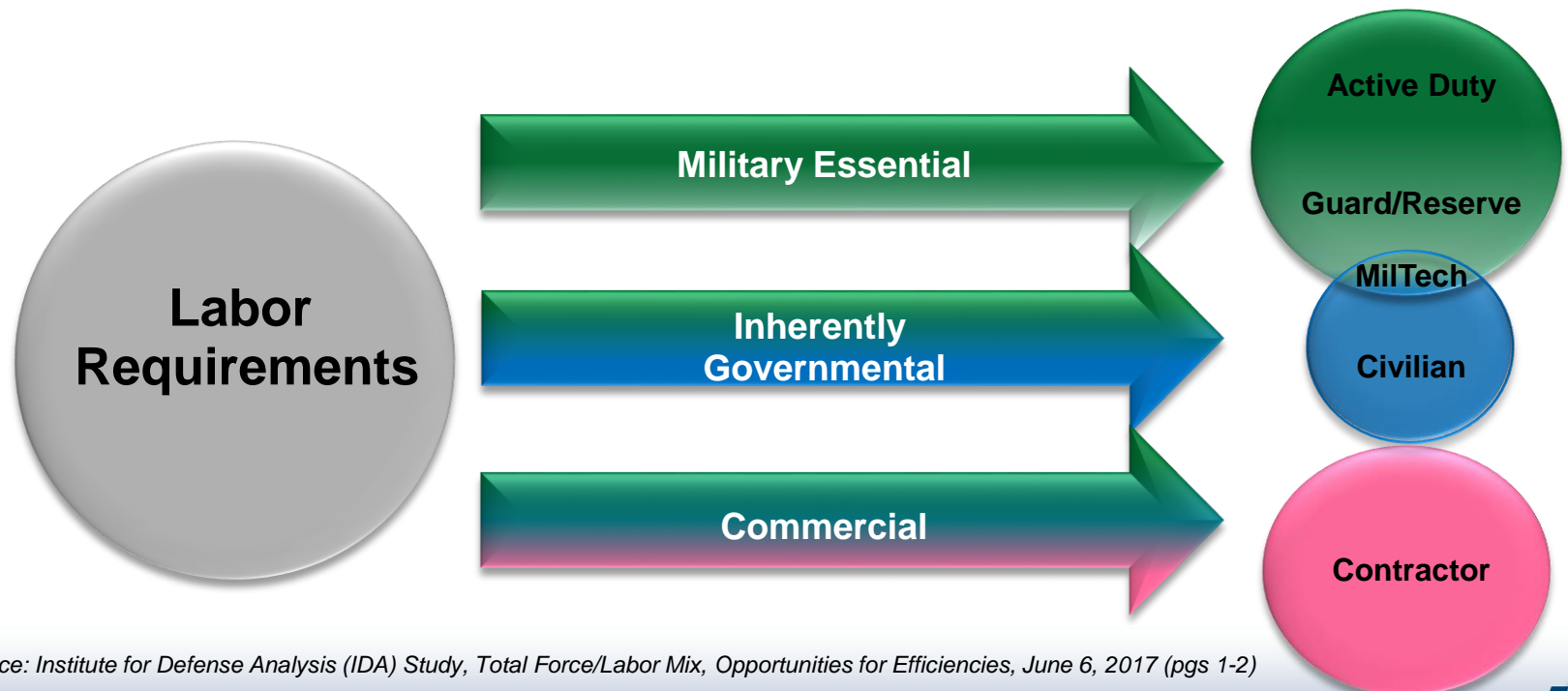
Source: Institute for Defense Analysis (IDA) Study, Total Force/Labor Mix, Opportunities for Efficiencies, June 6, 2017 (pgs 1-2)

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Problem #2: Effective Labor Decisions

- Despite DoD guidance, the default personnel policy is often to use military personnel or simply continue status quo
- While policy mandates when to use labor mix (manpower type), policy is not always followed throughout the Department



Source: Institute for Defense Analysis (IDA) Study, Total Force/Labor Mix, Opportunities for Efficiencies, June 6, 2017 (pgs 1-2)



FINDINGS

BUILDING & SUSTAINING A “MORE LETHAL FORCE” REQUIRES A PARADIGM SHIFT IN LABOR MANAGEMENT



Task Group Findings

- Policy for determining manpower requirements is not consistently applied
- Disparate lifecycle cost processes/methods/taxonomies produce different results
- Cost savings is not incentivized when determining labor mix
 - Labor decisions made with minimal consideration for lifecycle costs
 - Organizations manage labor to Full Time Equivalent (FTE) without full consideration of the budget
 - Disincentives make it difficult to save money
 - Military personnel seen as free labor

Task Group Findings (Cont'd)

- No standardized business process analysis for organizational force/labor mix decision making
- Civilian workforce seen as at-risk positions; if budget cuts imposed, billets will be lost and not refilled
- OPM barriers and impediments to hiring civilian workers undermine labor optimization (achieving best value)

BUSINESS INSIGHTS

THE EXPERIENCE OF MEDIUM TO LARGE-SCALE COMPANIES THAT HAVE SUCCESSFULLY NAVIGATED SIGNIFICANT MERGERS AND ACQUISITIONS OFFERED THE MOST RELEVANT INSIGHTS TO THIS STUDY



Business Best Practices

- Sustained leadership focus necessary to drive change and maintain continuous improvement culture
- Establish clear and precise success metrics to achieve the desired state
- Hold executives accountable
- Manage strategic integration like a project/program
 - Establish milestones
 - Hold project owners accountable to achieve milestone requirements, deadlines, etc.

Business Best Practices (Cont'd)

- Incentivize organizations to achieve cost savings via sound labor management practices
- Policy must drive common taxonomy, costing methods, and processes to achieve consistency
- Maintain consistent strategic messaging and achieve buy-in by all affected organizations is crucial to success

RECOMMENDATIONS



Recommendation #1: Appoint Executive Agent

1. Identify and appoint an Executive Agent responsible for applying Department-wide policy changes that:
 - Establish a common/standardized taxonomy and define all fully burdened cost elements to be used as part of military and civilian costing
 - Establish objectives/metrics and provide sufficient Department-wide authority to manage the process
 - Ensure all Department and Services labor costing software tools are consistently applied



Recommendation #2: Consolidate Policy/Guidance

2. Establish at the organizational level an enhanced business analysis framework for force/labor mix decision-making, by:
 - Updating Department-wide policy or DoD Instruction/Directive
 - Using at a minimum the following key elements:
 - Position inherently military or inherently governmental
 - Manning cost
 - Manpower requirements (estimated man-years/work-output)
 - Opportunity costs of realigning positions within an organization
 - Risk to mission

Recommendation #3: Adjust Business Practices

3. Cultivate cost efficiencies by adjusting labor/manpower business practices at the executive level
 - Eliminate solely managing by billet/FTE and include budget (cost)
 - Delegate civilian hiring authority to the DoD



Recommendation #4: Pilot Program

4. Consider implementing a pilot program to test results of these recommendations to validate:
 - Outputs of business enhancements
 - Determine manageability and compliance of the updated policy



Final Thoughts

- Additional insight might be gained by identifying how DoD calculates and applies:
 - Lifecycle costs
 - Service contractor costs
- Could offer a clearer understanding and approach as to how the DoD can better leverage the workforce and incentivize cost savings

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CLEARED
For Open Publication

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