Report to the Senior Executive Council, Department of Defense

MANAGEMENT INFORMATION TASK GROUP

Report FY02-2

- **Recommendations on the implementation of balanced scorecard metrics for the Department of Defense**

December 18, 2002

MANANGEMENT INFORMATION TASK GROUP REPORT

BALANCED SCORECARD METRICS

TASK: To provide an initial set of management metrics that can be used by the Secretary of Defense to drive the performance of the Department of Defense. Rely on private sector best practices in the development and implementation of the metrics. Additionally, focus on force management and infrastructure (financial) measures and linkages to individual performance.

- DBB Task Leader: Neil Albert
- DoD Liaison: Ken Krieg, Executive Secretary, Senior Executive Council

PROCESS: The task team worked with Mr. Ken Krieg over the course of several months providing guidance and feedback on the development of scorecard metrics built around the 4 major risk areas for the Department:

- Force Management Risk
- Operational Risk
- Institutional Risk
- Future Challenges Risk

The team provided input into the development of an initial set of metrics and also developed a broad set of recommendations for the implementation of the scorecard. The team relied on its private sector expertise and referenced best practices related to balanced scorecard systems.

RESULTS: The substantive findings and advice of the task group were developed as a presentation for the Senior Executive Council (SEC). This presentation was delivered as an executive brief to the SEC on November 21, 2002. An updated version of the presentation, which is attached, submits recommendations around three primary areas:

1. Getting the process started
2. Cascading the metrics downward
3. Building an institutional approach

The recommendations also include 5-6 specific suggested metrics for each of the four risk areas plus an additional category of metrics to discretely measure financial management. The financial management metrics were developed in detail by the DBB Financial Indicators Task Group lead by Bill Phillips. The financial metrics presented on November 21st to the SEC were a "first-cut" at a representative set of metrics in this area. The attached report includes the updated financial metrics as recommended by Financial Indicators Task Group.

It is the intention of the DBB, through the Management Information Task Group, to continue to provide advice to Mr. Krieg and the SEC as the scorecard is refined.

Respectfully submitted,

Neil Albert

Chart A

Balanced Scorecard Metrics for DoD

Force Management Risk		Operational Risk	
Quality Index	Civilian Workforce Progress	Joint Con Ops Progress	Specific Issues List
Force Tempo Trend	PMA Human Capital	Operational Availability	
Quality of Life Index		Joint Monthly Readiness	
Total Force Cost Trend		C-Sorts	

Future Challenges Risk		Institutional Risk	
Experiments Progress	Transformation Budget	BRAC Progress	Acquisition Cycle Time
Joint Training Progress		Life-Cycle Cost Trends	Other PMA
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Defense Business Practice Implementation Board

Balanced Scorecard Metrics

Final Report
December 2002

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Objectives, Scope and Process

- **Provide an initial set of management metrics that can be used by the Secretary of Defense to drive the performance of the Department of Defense**

- **Rely on private sector best practices in the development and implementation of the metrics**

- **Focus on:**
  - **Balanced scorecard development/implementation**
  - **Force Management and Infrastructure (Financial) Measures**
  - **Looking toward individual performance**

Balanced Scorecard Approach

The Balanced Scorecard is based on the premise that corporate improvement can be managed by measuring and evaluating all the aspects of the business rather than a singular focus on the bottom line.

- **Traditionally, 4 basics areas of evaluation:**
  - **Customer**
  - **Internal**
  - **Learning and Growth**
  - **Financial**
- **The top three areas of evaluation should directly influence the fourth**

Balanced Scorecard Approach

DoD use of balanced scorecard approach could be challenging if not implemented carefully.

- **4 issues of concern:**
  - **1. Operations:** DoD does not operate as a commercial company – no profit and loss basis
  - **2. Organization:** Diverse requirements (Services, Agencies, etc.) internal to the DoD reduce ability to integrate strategies efficiently
  - **3. Culture:** Change within the Government is difficult due to multiplicity of goals and bosses (Congress, etc)
  - **4. Systems:** Lack of a consolidation of systems makes collecting and measuring data difficult

Balanced Scorecard Approach

Given the structure of DoD and the mission for which it operates, the proposed balanced scorecard, with the 4 risk areas, is a realistic approach for managing performance.

- **Meaningful metrics can be developed to overcome issues cited previously:**
  - **Align with the overall strategy of DoD**
  - **Measurable (Quantifiable)**
  - **Defined for everyone's (Services, Agencies, etc.) use**
  - **Data easily available and accessible**

Balanced Scorecard Approach

(Proposed DoD Scorecard Areas)

Force Management Risk

- **Definition:** Challenge of sustaining personnel, infrastructure and equipment
- **Risk Mitigation Examples**
  - Manage careers and rotations
  - Modernize infrastructure and facilities
  - Training, spares and overall readiness

Operational Risk

- **Definition:** Challenge of deterring or defeating near-term threats
- **Risk Mitigation Examples**
  - Plan and prosecute war on terror
  - Elevate role of homeland defense
  - Develop forward deterrence posture
  - Enhance operational capabilities with allies

Future Challenges Risk

- **Definition:** Challenge of dissuading, deterring, defeating longer-term threats
- **Risk Mitigation Examples**
  - Experiment with new concepts, capabilities and organizational designs
  - Investing in transformational capabilities for portions of the force
  - Foster a spirit of innovation and risk taking

Institutional Risk

- **Definition:** Challenge of improving efficiency represented by unresponsive processes, long decision cycles, segmented information, etc.
- **Risk Mitigation Examples**
  - Modernize financial management systems and approaches
  - Acquisition excellence initiatives
  - Improve planning and resource allocation

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Recommendations

- **Get process started**
  - **Just do it!**
  - **Suggested metrics for the four risk areas**
  - **Fifth area to consider: financial management**
- **Cascade metrics downward**
- **Build an institutional approach**

Just Do It!

Best to get started immediately, but understand that development of scorecard is not a one-time event

- **Evolution is the best approach – no one gets it right the first time**
- **Keep it simple – Measurement viability will be realized as data becomes available and needs are formalized**
- **Initial cut to SecDef by Dec 02**
- **Review them regularly – at least quarterly**

Suggested Metrics

- **5-6 Metrics/Measures for each balanced scorecard risk area**
  - **Minimize number of metrics; do not over measure**
  - **Ensure a clear strategy**
  - **Have strong management support**
  - **Include targets and "stretch" goals**
  - **Ultimately provide incentives to reward success**
  - **Try to build Department-wide buy-in, but understand that SecDef is ultimate customer**
- **Establish "stoplight" summary based on targets and stretch goals**

DoD Quarterly Performance Scorecard

Force Management Risk		Operational Risk	
Quality Index	Civilian Workforce Progress	Joint Con Ops Progress	Specific Issues List
Force Tempo Trend	PMA Human Capital	Operational Availability	
Quality of Life Index		Joint Monthly Readiness	
Total Force Cost Trend		C-Sorts	

Future Challenges Risk		Institutional Risk	
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New Organization Standup		FMMP Progress v. Plan	
National Capabilities Definition		Competitive Sourcing Progress	

Force Management Risk Measures

Quality Index →

Quality of Force Indicators v. Plan
•highlights progress on recruiting and retaining critical skils and high quality talent

Force Tempo Trend →

Force Tempo v. Trend and/or Objective
•highlights portions of the force being used-precursor measure for future sustainability?

Quality of Life Index →

Quality of Life Indicators Trends
•highlights key satisfaction issues for service person and family

Total Force Cost Trend →

Total Cost of Force Over Time
•track total direct and indirect force cost over time

Civilian Workforce Progress →

Civilian Workforce Strat. Plan Implementation v. Plan
•need agreement on plan and timeframe

PMA Human Capital →

President's Mgt. Agenda Human Capital Measure
•if not explicitly included in measures above

Operational Risk Measures

Joint Con Ops Progress →

Joint Concept of Operations v. Plan
- highlights progress on defining approach

Operational Availability →

Operational Availability Progress
- defining what types of capability to employ in what timeframe

Joint Monthly Readiness →

Joint Monthly Readiness Reporting Review
- helps define priority gaps to be filled

C-Sorts →

Unit Readiness--Begin by Using C-Sorts
- shift to unit readiness calculations when available
- need to agree on standard to measure against

Specific Issues List →

Specific Issues
- could be plan preparation, etc.
- priorities for the next 12-18 months

Future Challenges Risk Measures

Experiments Progress →

Experimentation Progress v. Plan
•highlights process of innovation

Joint Training Progress →

Joint Training Progress v. Plan
•highlights development and use of joint training capability

New Organization Standup →

New Organization Stand-up Progress v. Plan
•highlights creation and implementation of new organizational designs (USDI, ASDHS, NorthCom, SJTF, etc.)
•need to define what to track

National Capabilities Definition →

National Capabilities Definition Progress
•track creation of measure and progress against developing capabilities-based force

Transformation Budget →

Percent of Budget Dedicated to Transformation
•need agreement on measures beyond technology

Institutional Risk Measures

BRAC Progress →

Progress on BRAC Work-up v. Plan
•highlights progress on infrastructure scaling

Life-Cycle Cost Trends →

Life Cycle Cost Trends
•highlights progress on both cost management and acquisition process design

FMMP Progress v. Plan →

Financial Management Modernization v. Plan
•highlights both enterprise process definition and modernizing financial structure

Competitive Sourcing Progress →

Competitive Sourcing Progress v. Plan
•highlights both core competency implementation and President's Management Agenda

Acquisition Cycle Time →

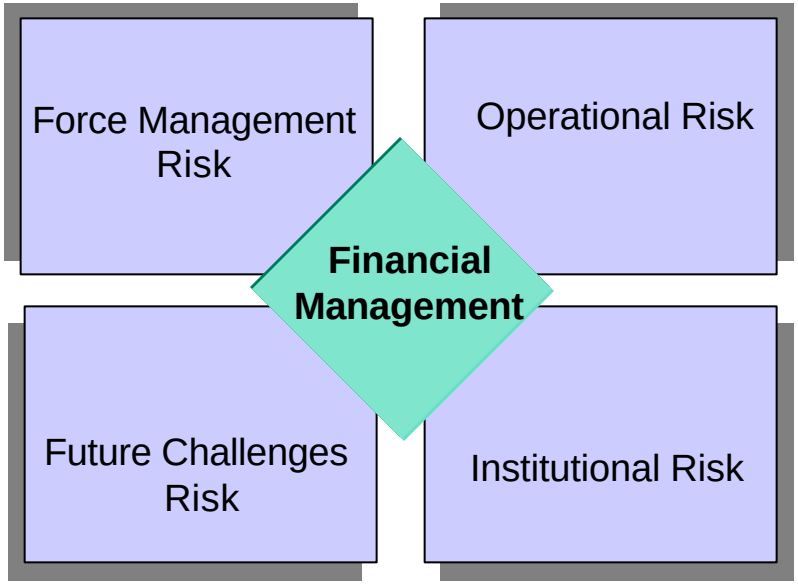
Acquisition Cycle Time
•highlights progress in integrating processes and developing spiral acquisition methodologies

Other PMA →

Other President's Management Agenda Items
•details those not otherwise captured in other measures

Fifth Area: Financial Management

Effective financial management impacts all four risk areas and should be measured and represented on the scorecard accordingly.



Financial Management Measures

Relationship of Resources to Apportionments to Allotments →

Relationship of Total Budgetary Resources to Apportionments to Allotments

•highlights management's reserve

Obligations to Total Budgetary Resources Ratio →

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Potential Canceled Budget Authority →

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•trend highlights record of program execution

Percentage of Uncovered Liabilities →

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•trend analysis highlights budget resource exposure

Solvency Ratio for the Working Capital Fund →

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•highlights shortfall, if any, of required cash balances

Cascade Metrics Downward

The Secretary's focus on the metrics will help drive the organization, but one level of management cannot develop this alone

- **Communication at all levels (Services, Agencies, Under Secretaries) will ensure full compliance--vertical and horizontal**
- **Link strategies; avoid conflicting priorities**
- **Leadership commitment**
- **Regular reviews by the Secretary will reinforce credibility of the measures**

Cascade Metrics Downward

Operational considerations--metrics should serve as a means to meet operational objectives at all levels

- **Establish targets and goals**
  - **Targets are expected results for period reviewed**
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- **Ultimately, the most junior level in the DoD structure should have individual performance criteria to ensure accomplishment of targets and goals (starting 2004)**

Build An Institutional Approach

Focused effort should be employed to ensure scorecard metrics become an integral part of Department of Defense's processes and practices

- **Use as part of 2003 Annual Report (GPRA report)**
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Next Steps

- **Coordinate with Services who are developing balanced scorecard metrics – look for overlaps**
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Get Started Now!

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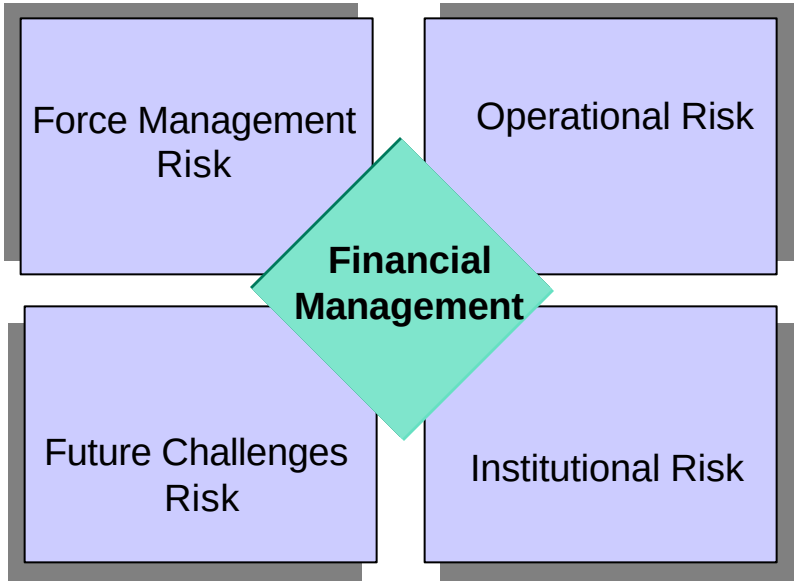

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