



Conference Notes  
“Transforming the Way DoD Does Business”

19 March 2008  
Washington, DC

On Wednesday, March 19, 2008, the Atlantic Council and National Defense University’s Center for Technology and National Security Policy presented a one-day conference on the stakes and status of DOD business transformation. The conference was on behalf of the Deputy Under Secretary of Defense for Business Transformation. The remarks of conference participants are summarized below.

**Panel 1: The Challenges – Implosion, Urgency, and Powerful Obstacles**

Chair: Dr. Hans Binnendijk (NDU-CTNSP). Panel members: John Barry (Newsweek), Peter Wilson (RAND), RADM Gerard Mauer (ICAF), and David Fisher (Business Transformation Agency).

The comments from this panel demonstrated a substantial degree of unanimity on a number of issues. Panelists were agreed that a possible budget crisis may confront the DOD in the near future, specifically citing the costs of wars in Iraq and Afghanistan, reset costs, expensive weapons modernization programs, escalating health care expenses, daunting civilian obligations like social security, and a gloomy near-term economic picture. This potential budget crisis was believed to provide serious urgency for business transformation. In addition, panelists agreed that substantial challenges will be posed by the 2009 leadership transition, noting that past hand-offs have been disruptive to DOD business reform efforts.

Addressing the obstacles to business transformation, the panelists were in substantial agreement about the challenges posed by:

- differing definitions of “business transformation” and different interpretations of the proper scope of change (DOD-level; Service-level; etc);
- over-outsourcing, or the substantial reduction in government’s ability to manage major acquisition programs as a result of increased use of contracting for critical program management responsibilities;
- the difficulty connecting business transformation programs and their civilian advocates with the operational side; and,
- service culture, or the persistent tendency of Services to elevate operational combat billets over acquisition duties, which produces and is exacerbated by reluctance from uniformed leadership to embrace business transformation initiatives.

Finally, the panelists agreed that uncertainty about the nature of the future threat facing the US military compounded the obstacles above. While most major acquisition programs have

been developed with a high-capital conventional opponent in mind, the wars in Afghanistan and Iraq were said to have shown the unique challenges posed by insurgency/stabilization missions.

### **Panel 2: The State of Business Transformation**

Chair: Tom Hauser (ICAF). Panel members: Michael Kirby (Army), James Brice (Navy), Dr. Ron Ritter (Air Force), and LTC Bryan Sparling (USSOUTHCOM).

Panel members summarized the state of business transformation in their respective services. Kirby (Army) emphasized the importance of expanding the urgency for business transformation beyond civilian and into uniformed leadership, as well as creating an ingrained culture of continuous process improvement. He also pointed to progress in rationalizing overhead costs and clarifying authority within the Department of the Army. Brice (Navy) noted the strong and sustained top-level leadership for business transformation in the Navy and focused on progress the department has made in implementing Lean Six Sigma (LSS) process improvement. He specifically noted progress in making LSS a standard approach for all procurement efforts; developing “value streams” to identify bottlenecks; and training “black belt” LSS acquisition experts. Dr. Ritter (Air Force) identified areas of progress in the Air Force’s Smart Operations program in scaling up use of LSS techniques, providing clear objectives for business transformation, and outlining straight-forward procedures for implementation. He also identified challenges to implementation such as developing reliable and meaningful measures to assess progress, balancing efforts to trim costs between large-scale programs and quick-hit smaller ones, and the difficulty getting lessons learned to flow vertically and horizontally across the organization.

LTC Sparling summarized business transformation reforms at USSOUTHCOM. A substantial restructuring of the command is underway which is intended to facilitate interagency cooperation (via a uniformed/civilian dual-deputy structure) and improve program effectiveness in non-combat responsibilities. After initial experimentation, LTC Sparling noted that implementation of this ambitious restructuring has been greatly accelerated.

### **Keynote Address by Ryan Henry, Principal Deputy Under Secretary of Defense for Policy**

Mr. Henry summarized the efforts to date to create a business transformation in DOD. After noting the difficulty in defining the phrase and the obstacles posed by a change-resistant culture, he emphasized structural changes that hold promise for improved business management. He highlighted the DOD’s reformed planning and budget process and the newly created capability portfolio management system. In particular, he argued that the creation of new channels for input from combatant commanders (“customer demand statements”) and the Service-independent capability portfolio managers will improve strategic management of DOD resources. In Q&A, Mr. Henry noted that the DOD is currently reviewing lessons learned from past leadership transitions and that the capability portfolio management structure will help future leaders faced with a budget shortfall make strategic decisions.

### **Panel 3: The Allies and Industry**

Chair: John Young (EADS North America). Panel members: VADM Norman Ray (Spectrum Group), Leanne Viera (IBM), and Uwe Koch (German Embassy).

Panelists were in substantial agreement on a number of issues, including the potential for real cost savings from foreign sourcing, the need for simplifying federal acquisition regulations to facilitate foreign sourcing, and the importance for US firms of selling abroad. In addition, the panelists agreed that there exists a danger that new protectionist Congressional measures under consideration may make foreign sourcing even harder than it is today. Specifically, VADM Ray (Spectrum Group) argued that the upcoming review of NATO's strategic concept will provide an opportunity to articulate the importance of a strong European defense industry to the future of the alliance and therefore help leverage Congressional support for foreign sourcing. Viera (IBM) noted lessons learned from IBM's own transformation such as the importance of strong top-down leadership and the difficulty in changing people and culture. Mr. Koch (German Embassy) provided some examples of the unique defense market in Europe and some lessons learned from the German government's own acquisition experience. The panelists concluded by noting the importance of a strong and integrated European defense base; the likelihood of US companies shifting to foreign sales should domestic demand decline; and the continued concern in the US that foreign sourcing threatens jobs, intellectual property, and a self-reliant defense industrial base.

#### **Panel 4: The Way Ahead**

Chair: Dr. John Hamre (CSIS). Panel members: David Oliver (EADS North America), and Dr. Harlan Ullman (NDU).

The final panel's discussion began with David Oliver's remarks, which focused on two central points. First, he argued that reflexively applying commercial best practices to DOD business is inappropriate because DOD business violates many of the rules of the American commercial economic system. Second, he argued the biggest obstacle to improved acquisition is a lack of senior leadership and talent. Citing the Gansler Commission's recent investigation of contracting scandals in Iraq, Oliver concluded that the Services need to change their cultures by ending the operational obsession and placing generals-level leadership in contracting/acquisition. Dr. Ullman highlighted the looming budget crisis facing the DOD and the strong likelihood that major acquisition programs will double in cost and time to delivery. He also highlighted the main recommendations from the draft report on business transformation circulated at the conference, including: changes to Title X, separating the services from the Joint Chiefs, better organizing Congressional oversight, and redoubling efforts to improve the education process in the Services and DOD. Finally, Dr. Hamre highlighted the distortions in DOD resource allocation caused by the split between investment and procurement accounts. In the annual game to secure maximum funding from Congress, these two accounts and their differing levels of flexibility tend to produce tradeoffs in the procurement account rather than considering tradeoffs across areas. In Q&A, the panel noted the crisis of over-outsourcing and the need to rethink what functions the DOD considers are appropriate for contracting; the danger of a flat-line budget based on fixed percentage of GDP; and the substantial decline in number of units procured in the budgets of the 1980s versus today.

### **Capstone Speech by Paul Brinkley, Deputy Under Secretary of Defense for Business Transformation**

Mr. Brinkley noted that despite substantial resources and leadership dedicated to the wars in Iraq and Afghanistan, DOD business transformation efforts had success in three key areas. The first area was in codification of authority and responsibility through creation of a tiered, structured hierarchy which includes delegations of authority and seeks to avoid micromanagement. Second, achievement of greater financial data transparency through the creation of data standards and better systems for accessing the information, which in turn can help rollback a “hoarding information” culture. The third area of progress was in obtaining a greater degree of customer awareness by developing process maps that connect back-office business functions to the warfighter. He specifically noted the substantial change in attitude and effectiveness when such business-operational links are clearly and compellingly made. However, Mr. Brinkley also noted key areas in which progress was harder to come by. The acquisition process itself remains a huge challenge despite the heroic efforts of past acquisition reform advocates. In addition, the overall quality of the workforce at DOD continues to be suboptimal because of the difficulty in attracting and retaining young people from the private sector. Because of the lack of competitive pay and the desire of younger workers to make visible and meaningful change, the government is too often viewed as the employer of last resort.

In Q&A, an audience participant working in acquisition noted with frustration a decision-making system where many actors in the process can say “no,” making the management of programs extremely difficult. The panel also responded to concerns about emergency supplementals, noting that supplementals serve an important function to pay for unanticipated contingencies but that their use has recently gone far beyond. The panel also noted the central take-away from the conference: the next administration must be careful to manage a smooth transition and avoid reversing what progress has been made, and it must urgently tackle the task of business transformation to avoid a budgetary crisis.