

2002 Defense Economics Conference
Defense Agencies: Public Provision of Commercial Goods and Services

Management and Oversight of Defense Agencies
Thursday, February 14, 2002

Chaired by Dr. Frank Camm
Background Presentation by Dr. Carla Murray

Panel:
Dr. Bruce Carnes
Ms. Deborah Christie
Colonel Nolen V. Bivens

Frank Camm: Officially, this session is about the management and oversight of the Defense agencies. I like to think of that as a governance issue, because we're thinking broadly about both the goals and the actual execution of goals in an agency. The topics we're going to be discussing here have already been opened up pretty well in the morning. So I think if things go as I hope they do, we'll just continue the discussion we already have underway.

What we'll be talking about particularly in this panel is the notion of how these agencies set their goals, how they manage themselves against these goals, and how they can improve their performance over time, given what those goals are.

To discuss this topic, we're going to start out with a presentation from Carla Tighe Murray, who is the Director of Economics and Manpower Analysis at OSD PA&E. She'll give us a quick primer on what the Defense agencies actually are.

To me, what's most important about this is for us recognize how diverse they are in character. She'll also lay out some of the suggestions that are being considered for changing the governance of these agencies. Many of these suggestions have been mentioned this morning, but I think her presentation does a nice job of putting them together in a systematic way.

Once she's talked about that, then Colonel Nolen Bivens will get up and talk to us about the perspective from the Chief of Staff's point of view. Nolen Bivens is here to represent Rear Admiral Szemborski, who is planning to join us. Col. Bivens is the Chief of the Support Agency Reform and Assessment Division of J-8, working for General Carlson there.

He will give us a perspective on how the Chief thinks about judging the performance of the Defense agencies. What's particularly interesting is that his group is the group responsible for providing the reports on the performance of these agencies that you heard about earlier today. He'll give you some insight into that.

Just for clarity, his focus will be on the combat support agencies. So, he'll be covering a portion of the agencies that we deal with.

Once we get a sense of how one set of customers thinks about this, we'll then turn to the question of how we deal with the agencies from the inside. And Ms. Deborah Christie will cover the first part of that topic for us. She has a long history of experience in the Department of Defense, looking at program analysis and evaluation.

Her most recent position in the Department of Defense was as Assistant Secretary of the Navy for Financial Management and the Controller. And she'll draw on that experience to talk to us about the need for better business executive talent, better business managers in the context of the agencies and how we might get that and use it in an agency context.

We'll then turn to Dr. Bruce Carnes who also has a very long and distinguished career in the government, and he's worked for many different agencies. He is currently the CFO of the Department of Energy. Before that, he had a number of positions in DFAS, terminating in the position of CFO for DFAS.

He'll talk to us about the challenge of doing oversight and management of agencies from this perspective of DFAS as contrasted with DOE. We've heard a lot of concerns here about how these agencies are run. And I think a message he's going to convey to us is, "You should see how some of these other agencies run."

He'll talk to us in particular about how he was able to build on what he learned in the Department of Defense to improve the management in DOE, and give us some idea of how we might be able to improve management in the Department of Defense as well.

Then I will anchor this. My name is Frank Camm. I'm an economist with Rand. I've specialized in the analysis of the partnerships between buyers and sellers in the government. And I will talk about the relationship between the agencies and their ultimate users, and how we can use the device of a supply chain to talk about improving that relationship, bringing the improvements in management inside the agencies to the customers who really need to be taken care of.

So, without further ado, what I'd like to do is turn it over to Dr. Murray, who can give us an introduction here.

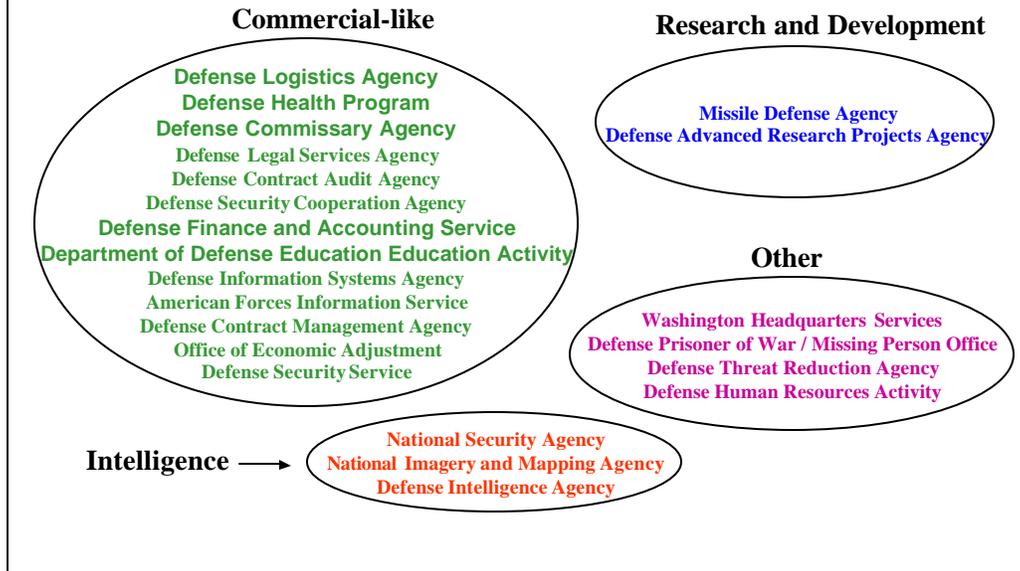
**Management and Oversight of
Defense Agencies**
that Provide Commercial-like Goods and Services

Presented at the
2002 Defense Economics Conference
February 14, 2002
Dr. Carla Tighe Murray, OSD, PA&E

Thank you very much, Frank. You can follow the slides as we go along. My goal, again today, is just to tee up the issues for discussion by the remainder of the panel. And I think we can move fairly quickly through these.

What do we have today?

15 Defense Agencies and 7 DOD Field Activities



Just to list the agencies, and different people have different groupings. This is a slightly different grouping than you saw this morning. Our focus for this conference has been the green agencies, their agencies and like activities, on the left. The ones performing commercial services.

Defense Agencies are Large Organizations

- Individual agencies rival or exceed major corporations¹

– Aetna	\$26.8B	Defense Health Program	\$24.9B
– FedEx	\$18.3B	Defense Logistics Agency	\$16.5B
– General Mills	\$6.7B	Defense Commissary Agency	\$6.0B
– T. Rowe Price	\$1.2B	Defense Finance & Acctg Svc	\$1.7B

- Employment of some defense agencies rivals cabinet agencies²

– Dept. of the Treasury	145,000	Defense Health Program	130,000
– Dept. of Commerce	43,000	Defense Logistics Agency	38,000
– Dept. of State	19,390	Defense Commissary Agency	17,000
– Dept. of Education	5,000	Defense Contract Mgmt Agency	4,000

Notes: (1) Revenues; (2) Defense agency employment #s include military and civilians

Once again, Defense agencies are large organizations. We outlined some related corporations who are doing things similar to what our agencies are doing, are about the same size, at least measured in terms of revenue, and in terms of employment.

The Crux of the Problem

- In principle, the market is first choice in providing commercial goods and services
 - Competitive sourcing represents an effort in this direction
- Though preferable, use of market mechanisms is not always possible
 - Wartime surge requirements, security, and other market failures often require in-house production
- The question becomes how to manage the in-house providers

In thinking about the economics of Defense agency management and governance, and the creation of Defense agencies, you would want the market to be the first choice in providing your commercial goods and services.

One hears about the arguments for economies of scale and scope that exist in providing certain functions. The economies of scale and scope don't address who the provider should be, necessarily. Competitive sourcing is representing an effort in that direction.

In addition, market mechanisms are not always feasible or possible even for the commercial-like functions that the department does carry on. There are wartime surge requirements. Other things that we like to call market failures may require in-house production, other than sort of straightforward economies of scale type things.

If the department feels the need to have what amounts to internal monopolies, internal providers of services, the question becomes, how does one manage at least those functions that the department does indeed choose to keep in-house?

The Problem (contd)

- Some defense agencies have become monopolies within the Department
 - Lack of competitive pressures, especially for those performing commercial functions
 - Concerns with customer responsiveness and efficiency
 - Concerns that oversight is unwieldy and ineffective
- In the absence market mechanisms, DoD has attempted to regulate with varying degrees of success
 - Mechanisms aimed at policy direction, resource management, performance, and customer satisfaction

There's plenty of literature on the problems of running monopolies. When you centralize, you often run into a problem of finding relevant competitive pressures. There is no other firm on the outside on which to benchmark at the same scale.

There are concerns, of course, about customer responsiveness and efficiency. Some of those were discussed earlier today. There are concerns that the oversight becomes ineffective. It becomes just too much. There are span of control problems.

In the absence of market mechanisms, the department has tried many different ways of regulating these things. We'll talk about those just very briefly here.

Current Oversight Mechanisms

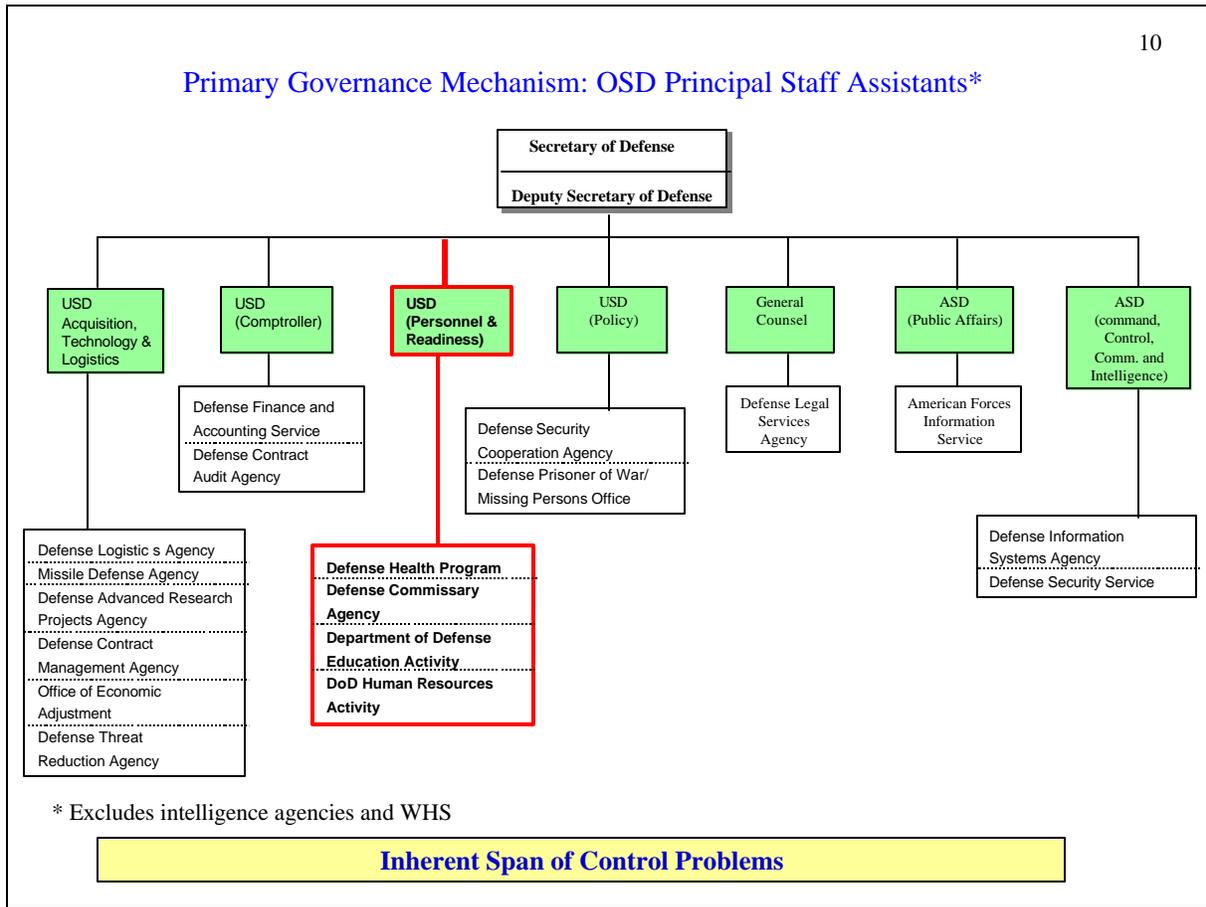
- Policy Direction
 - Senior Executive Council (SEC)
 - OSD PSAs
 - Oversight Boards
- Levers on Particular Decisions
 - Oversight Boards
 - Business Initiatives Council (BIC)
 - POMs -- PSAs
 - Program/Budget Review
 - Performance Plans
- Performance / Customer Satisfaction Reviews
 - OSD Biennial Review
 - JCS Combat Support Agency Review Team Assessments (CSARTs)
 - Performance Plans

Only SecDef / DepSecDef have full authority to act

This is what I could pull together in the way of current oversight mechanisms. The SEC is up there and the Business Initiatives Council is mentioned over on the right. That's another relatively new oversight mechanism.

There are various boards, there are customer satisfaction reviews. There are people giving policy, people trying to pull particular decisions, people trying to judge performance and customer satisfaction. Yet, in the end, only the Secretary and the Deputy Secretary have the full authority to act in the case of Defense agencies and related activities.

Primary Governance Mechanism: OSD Principal Staff Assistants*

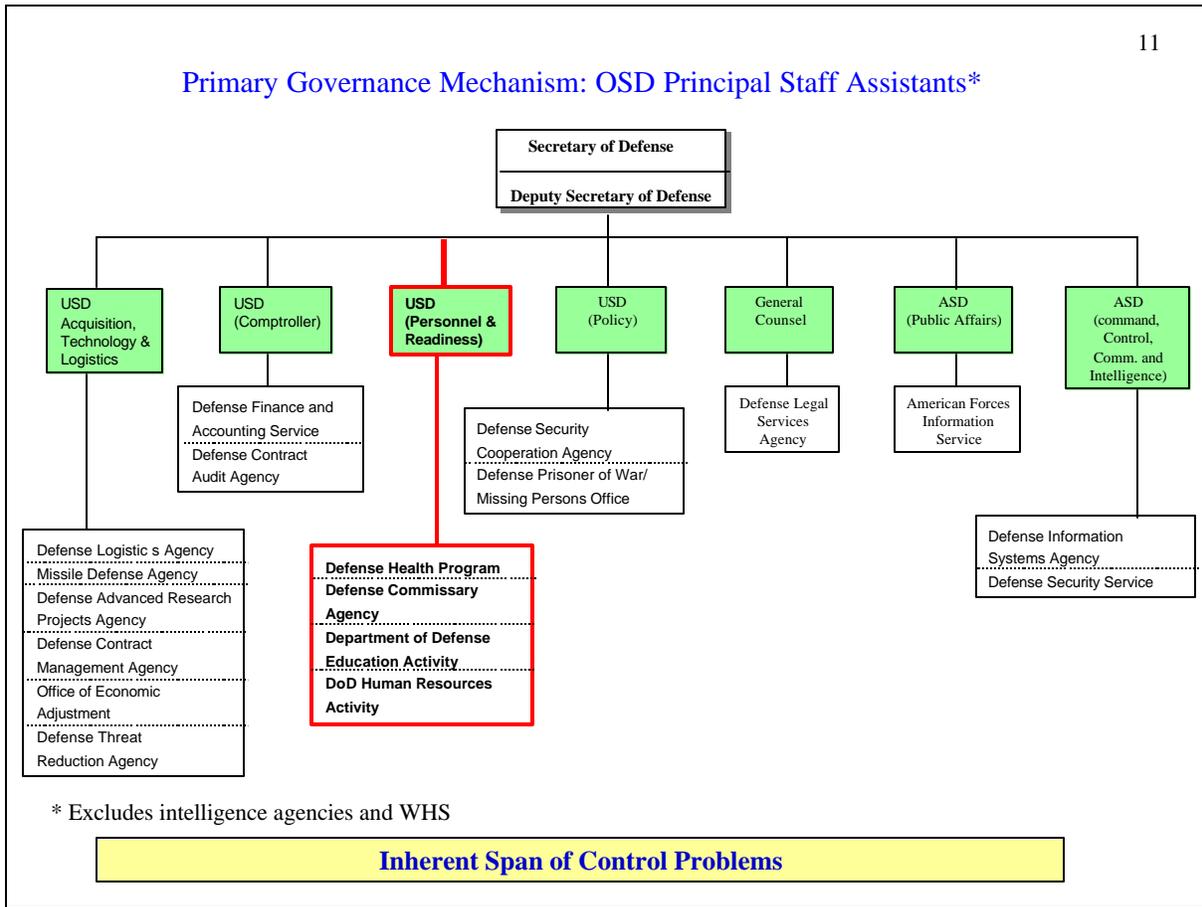


As we've discussed, the primary governance mechanism involves the OSD principal staff assistants. I've tried to line them up there on the chart, and underneath put the relevant agencies and field activities that they're being asked to oversee.

I've picked on Personnel and Readiness because he was so good-natured to come give the keynote address. I've continued to push his charity by highlighting him there on the chart.

If you think about the responsibilities of a typical Under Secretary, in the case of Personnel and Readiness you're asking that person to oversee the policy affecting all military personnel, active duty, reserve, all civilians, recruiting, retention, the whole gamut of things, an \$80 to \$90 billion dollar military personnel budget, etc.

Primary Governance Mechanism: OSD Principal Staff Assistants*



At the same time, you'd like to give policy guidance for running your hospital system, your grocery store chain, your schools, and anything else that might affect human resources.

So, notwithstanding the capabilities of the people in those jobs, there are inherent span of control problems in the system as it exists today. The department has responded to those span of control systems by creating some ancillary supplemental mechanisms that we'll look at in the next slide.

Supplemental Oversight Mechanisms

- **OSD Principal Staff Assistants**
- **Program/Budget Review**
 - Tends to focus on single agency issues
- **JCS Combat Support Agency Review Team Assessments**
 - Addresses only a subset of agencies and focuses on CINC support
- **OSD biennial review**
 - Customer satisfaction focus
- **Performance plans**
 - Enforcement is weak and there is disparity in successful implementation
- **Oversight boards**
 - Existence, activity, and effectiveness varies widely

After the principal staff assistants, which again are the primary ones, the supplemental ones would include the program and budget review. Let me just say that in general the program budget review has often ended up focusing on single agency issues. There is really very little opportunity in which to give large crosscutting views looking across all agencies.

The Joint Staff, as was mentioned, does run the Combat Support Agency Review Team Assessments. They are looking at those agencies that provide combat support. They're really looking at customer satisfaction if you will on the part of the CINCs, on the part of the war fighters, and performance from that perspective.

There is the OSD biennial review. That also is sort of a performance customer satisfaction focus. There are the performance plans, formerly called performance contracts. Those have sort of been working through my office.

Supplemental Oversight Mechanisms

- **OSD Principal Staff Assistants**
- **Program/Budget Review**
 - Tends to focus on single agency issues
- **JCS Combat Support Agency Review Team Assessments**
 - Addresses only a subset of agencies and focuses on CINC support
- **OSD biennial review**
 - Customer satisfaction focus
- **Performance plans**
 - Enforcement is weak and there is disparity in successful implementation
- **Oversight boards**
 - Existence, activity, and effectiveness varies widely

I think there is the general perception that enforcement is difficult. The degree to which these contracts or performance plans have been implemented has really varied across the agencies and across the department.

In addition, there are many different oversight boards. I'm not going to even try to list them all. The extent to which they even meet, their level of activity, and their effectiveness really has varied widely across the department.

Summary of Main Issues with Agency Management

- Clout required to fix economic problems with agencies difficult to mobilize
 - Authority rests with SecDef / DepSecDef
 - Economic problems with agencies seldom top priority
 - PSAs have mixed record of success
- DoD does not systematically attempt economic management
 - Private sector economic incentives are weak
 - Managing through existing resourcing process is clumsy and crude
 - Capital budgeting process not highly developed
 - Government personnel may lack the skills required
- Inadequate management of Defense Agency functions that cut across service and agency lines
 - No end-to-end processes

OSD management of agencies marked by consensus decision making, short-term decision focus, and “manage to budget”

Perhaps because of all these, the span of control and the magnitude of these things, the clout that's required to address these economic problems has been very difficult to mobilize in the past. The agencies are seldom the focus of the Secretary or the Deputy Secretary. There is variation in the attention and clout of the principal staff assistants.

DOD typically does not focus on economic management. We don't typically have the sort of economic incentives that one would see in the private sector. The existing resourcing process is not really a terribly good management tool. We're not terribly good at capital budgeting.

We also don't tend to hire the same sorts of people that you might see on a corporate staff that was looking for strategic planning or economic management. We don't hire MBAs typically. Talking for a moment about our pay scales, it's not clear we can hire MBAs, ha, ha!

Summary of Main Issues with Agency Management

- Clout required to fix economic problems with agencies difficult to mobilize
 - Authority rests with SecDef / DepSecDef
 - Economic problems with agencies seldom top priority
 - PSAs have mixed record of success
- DoD does not systematically attempt economic management
 - Private sector economic incentives are weak
 - Managing through existing resourcing process is clumsy and crude
 - Capital budgeting process not highly developed
 - Government personnel may lack the skills required
- Inadequate management of Defense Agency functions that cut across service and agency lines
 - No end-to-end processes

OSD management of agencies marked by consensus decision making, short-term decision focus, and “manage to budget”

As was touched on earlier this morning, there's still a problem wrestling with the idea of doing an end-to-end process rather than looking at the function from an organizational perspective.

So I emerge with the bumper sticker at the bottom, that the management typically has been a blend of consensus decision making, a rather short-term focus, and an emphasis if you will on sort of managing to budget. Execution-type things.

Avenues for Improvement

- Strengthen existing processes
- Establish a “Defense Support Executive” to provide top level business style management and look across agency lines
- Outsourcing/privatization
 - whole agencies or functions on a case-by-case basis
- Establish independent body to devise price/market mechanisms to induce desired behavior and outcomes

There are a number of avenues that have been proposed and I think we've touched on most of them this morning. One could try to fix what's wrong about the existing processes. One could try to centralize further. One could try to admit that we're not terribly good managers or that the current systems are extremely unwieldy. Therefore one should get out of the business for those functions or agencies in which one could.

Or, something else. An independent body to be sort of a regulatory board, and regulate your monopolies the way one regulates other types of monopolies.

Frank Camm: I'll turn this over to Col. Bivens, who will give us a user's perspective on this.

Nolen Bivens: My name is Nolen Bivens, I'm from the Joint Staff, J-8. I work for General Bruce Carlson. I am the Division Chief for the Support Agency Reform and Assessment Division.

I'd like to talk from a set of charts, which unfortunately I did not bring, and very rapidly go through them.

If I could tie into the last speaker's comments, I will tell you that I think if you look at an oversight or a management structure for the agencies, what the Joint Staff is doing is a part of that structure. It would be part of whatever you created to get at that oversight responsibility. That's kind of the tone I would lead into because we just see ourselves as a participant and a part, though from a specific point of view.

So what I'd like to do today is kind of tell you what we do a little bit, how we do it, and maybe really touch upon some broad results. I'm going to really make an effort to leave what I say to some of the previous speaker's comments because I think that is going to be certainly more appropriate to you. So I made some kind of side notes here that I'll try and go through.

The Combat Support Agency Review Team, which I really lead for all seven agencies, and I'll define those very shortly here for everyone. One of the things we found on the Joint Staff is that we've had to look at this thing from the outside in.

What you start asking, first of all is what is the objective function? What is it these group of organizations are trying to do?

We've kind of coined an idea that says when we look at these seven agencies, they're trying to maximize their readiness and responsiveness to the CINCs, while simultaneously minimizing the cost and increasing the quality for the Services and/or other DOD customers.

They're really between two different kinds of customers that could be looked upon as serving those two ends. So as I go through the comments, I will come back to that thought.

Maximizing readiness and responsiveness is why we're in the game, from the Joint Staff's perspective, for the unified commands. As we go through and look at that, we find out that we bump against this similar requirement of increasing the quality for the Services and other departments, but also doing it at the most minimal cost. That's obviously the efficiency side of it.

How did we get into this? Everyone knows that the Chairman was directed by Congress in Title 193 to give the effectiveness perspective of these seven agencies support to the unified commands.

Now, that presents an interesting thought. You've got 192 and you've got 193; 193 said to OSD as a whole, "I want you to tell me about the efficiencies." As we know, there's the biennial review that goes out and looks at that.

Then they turn to the Chairman and say "Tell me about the effectiveness." As we've gone out to do these assessment, we kind of find ourselves looking in both of those categories. We really try to stay in our lane, and that is one of the effectiveness. When I go through this discussion, I'll talk to you from that perspective.

If the Chairman was here today, he would tell you that as we look at the agencies, we see them becoming more important versus less important. When we look at Joint Vision 2020 and we look at all of those things that we are collectively trying to drive the Services toward, guess what we see at the back end of all of that? Combat support agencies.

Certainly the intel agencies touch everything that we do in terms of precision engagement. Just look at what's going on in the world right today. The DLA, as we say in the Army, you don't get out of the motor pool.

In this case here, we see that with focused logistics. If we're going to have focused logistics, DLA is going to be a player. DTRA and DISA in terms of communications as well as the threat reduction process, I'll talk about that in a moment in terms of 9/11.

All of these agencies are becoming more and more important, and it is placing increasing requirements on what they do for the Joint perspective.

From a customer perspective, if you're going to look at it and manage it, I think that what I'm really driving towards here is that the customer has to kind of be a key aspect of that.

When we do our assessments, we look at really four core areas. The reason we do that is because the law told us to stay in our lane and really look at how they support the CINCs. So what we do is we say, where do they support the CINC?

There's kind of four core areas that relate to all of them: delivered, and more than anything else now, crisis action planning is kind of what we see. Delivered and crisis planning. Continuously operation support. Exercises, training, and peacetime engagement.

We find when we look across all the agencies, these are some threads that all of them in some degree touch upon. So we start trying to find ways to measure. I think I'll tie this back to the previous discussion on measurement. If you're looking at it from an efficiency perspective, you would probably never look at these kinds of things.

From an effectiveness perspective, I think that the agencies find themselves looking at these kinds of things. I was out talking to one of the Deputy Directors of the agencies and he said "You know that only one time we got ready to go do an operation and we weren't even on the alert order." I will guarantee he could be most efficient, but that is not very effective at that point in time to the success of that particular unified command.

I'll come to this theme, if I was talking about governing and management, I think this whole idea of core processes and core functions is critical. That's exactly how we're kind of in many instances in the Joint side and certainly in the Services side, trying to draw our pieces together. I'll take a little sidebar. I'll take the hardest one, and that's Intelligence.

Someone would say "Well if you're looking at Intelligence, how do you draw common conclusions about it?" When you really strip the Intelligence community down, there's four things they do for the department, and really I think, any customer.

It's summed up in their language called TPED. I won't get into the details of it, but it basically talks about targeting, production, exportation, and dissemination of intelligence. When you look at those four categories, they're doing that in any particular time and place for a customer that's in DOD.

Those core processes and functions are what we really look at in the agencies to determine what it is that they're doing, and how they might increase their effectiveness to the CINC.

I think it's also here that we see some of those silent successes. Earlier they said a lot of the press you read about the agencies probably is drawn out of history. There are a lot of silent successes going on here as a result of the work that we're doing.

To give you an example, when 9/11 occurred, DTRA for example discovered that that simple recommendation of having an L&O at SITCOM served them a million times over in terms of benefit. All of a sudden a CINC could turn immediately to that guy and say, "Okay, tell me what this agency's going to do for me now." They didn't have to go through learning each other, knowing each other, and all those kind of things. That's an effectiveness issue.

DLA stood up a war room. DISA became an alternate headquarters. When 9/11 happened, the effectiveness side for these agencies' contribution went up. We immediately saw that that was a measure as well. I think that's the point that I would say. I think measuring the outcomes have to really be balanced with regards to efficiency and effectiveness. That's that twin-head monster that I see from the work that I'm doing with these agencies.

This leads to the other part. The seven agencies that we really look at, DIA, NSA, NEMA, DISSA, DTRA, DLA, and DCMA. DCMA was the most recent addition, and we have not done an assessment on them.

Then you've got OSD. Then we've got the Services. Then there's obviously the other aspect of Joint Staff. This brings me to another point. When I kind of got my hands around these agencies, I realized they were serving a four-headed monster. We are one of those monsters, by the way, so I don't take us out of that category.

I show up every now and then, and they've got to feed this monster. What they do is learn to talk to me, in combat support, unified command, war fighter language.

In that same briefing they give me, I'll find the efficiency answer that someone else may want, as they come along and look at them, the PSA and all the other individuals that they serve.

They are out there doing the best they can. In some instances, there's no one really integrating that piece. We're not going to get into the solutions on it. I think those are some ideas where I see the progress being made on that side, just like the CINCs have.

Very quickly, let me just talk about some of the broad areas that I think we are finding out there. Clearly, we've identified shortfalls in terms of the Intelligence agencies. This is not to criticize them; I think this is something that we all know.

What we find out there is this whole idea of integration. On the Joint side, why do we come up with the JROC? Well, because we had four great American organizations called the Army, the Air Force, the Navy, and the Marines, doing great things. It could be on any given day all over the terrain.

We're trying to draw them together in an integrated, interoperable way. When I looked at the agencies, the first time uninitiated to this process, I was looking for that same kind of integration arm. On any given day it may or may not be there. Obviously, the PSAs are there.

What's making the initiatives of the four thrust areas in the Intelligence community come in line with, or become synchronized with Joint Vision 2020? By the way, what is really causing the communication structures that are being created within each one of these to get some harmony and maybe some efficiencies and those kinds of things. Something kind of ought to be there, and that's one of the overall findings that we're finding in that area.

In terms of the Joint Staff, we find out that there are shortfalls in the Joint doctrine to the agencies. We had not given DLA, for example, the kind of guidance that they needed in doctrine to do their job. That's another role that we play in terms of what they're doing.

An interesting one, though, has to do with the readiness. As the agencies become more and more important to us, and they go through outsourcing, what we're questioning is who is looking at the readiness of the people that we're outsourcing to?

We are concerned about whether the Air Force, the Army, the Navy, and the Marines can any day pick up and go. What we're finding at third levels now is "Well, if we got most of the aircraft from FedEx doing this, and they can't fly in because there's been a chemical hamana hamana," it goes on and on and on. Who is making sure that we've got the redundancy there in the system to do that?

Now, what this leads to then is that management oversight perspective. Who do you go to now to talk to that? In terms of the Joint Staff integrating this to get the benefit? That then not only affects one agency, it's got all agencies in this regard. In some instances, the agencies are going to be the ones helping you solve it. In this case, DTRA in terms of cleaning up aircraft and stuff like that.

Having said all of that, the CINCs really tell us that in their general view they are happy with the seven agencies that we looked at. They always have room to improve. That is a general theme that they talk about.

Many of the agencies have made progress in areas that are important to the war fighter. Participation in the Joint training exercises has become very, very much an important learning tool for the agencies.

Many of them tell us that as a result of them now being invited in and a part of these training exercises, they are finding out more about their customer and what their customer is requiring. I think that's something that really needs to be a part of a management process.

The other points that I think are more generic get into the specific systems and capabilities. I won't really explore those unless people have particular questions in that regard.

I'll kind of summarize now, with a couple of side thoughts. Dr. Chu talked about the idea of looking at it from the point of view of outcomes. I think when you look at customers you are looking at outcomes. You're looking at what the customer sees as important.

I'm telling you, I'm sitting here with the face of a customer. When I sit there and I talk to the one stars and the two stars and even a DCINCs, who are the customers of the agencies, they tell me the real deal in terms of what they're getting. I think that's very important.

We get a chance to get that back into the system, to which the agencies, by the way, really respond. That makes us, again, I think a part of any type of oversight.

Einstein once made a comment, "You can't solve the problem with the same mind that created it." So, what we find is that as we go through this process, we have to keep what we're doing open to that. What we find on the Joint Staff is these problems we have need to get back into those existing streams and currents that go on in the building.

If the JROC is the integrating arm for the side of the Joint staff, then I'm most successful when I bring an intel problem back and say, you know, "Gen. Carlson, how do you get this into the JROC?" If it isn't in some existing structure, it becomes dust on the shelf and potentially not even resolved. So we use that as our method to keep things in the current stream, not a new process out there moving on its own that's got to be fed by a different whole process. I think that's kind of important.

The agencies fight the efficiency versus the effectiveness paradox. That's kind of the way I look at what they're doing. What I will also caution us is that we don't want to throw that baby out with this outsourcing bath water.

What I really believe, and I think Mr. Krieg was talking about it, we'd better be number one at it. There's not any kind of outsourcing you could do that would say that we shouldn't be doing it. As we go for all these efficiencies, let's make sure we don't throw the good stuff out with it in the bad water. By the way, we know that there's probably some areas that could be improved upon.

The PSA oversight strengthening, I really will just leave it at that. I will summarize by simply saying that it's high payoff in terms of our involvement in the management process as we see it. I think that if you're looking at a management process for the agencies, maybe Congress did kind of get this right when it said, "Let's look at the efficiency, but let's also look at the effectiveness." I think the oversight would help to keep that in mind. I hope I didn't go past my time. I appreciate it.

Frank Camm: Next up is Deborah Christie from IDA.

Debby Christie: I'd like to make three points, two of which have already been touched upon. They involve largely the managers themselves as opposed to the management process. The first, deals perhaps mostly with civilians. We are becoming increasingly dependent in all the agencies on the civilians who work there. Also on the civilians in OSD who have oversight responsibility.

We do a wonderful job in this department in providing career broadening and career planning for our military people. We give them both depth in a particular area, and enough breadth that when they get up to senior levels they can be reasonably good managers.

We do almost none of that for our civilians. So you can find really very good GS-15s in the Department of Defense who have spent their entire life in one narrow little part of the problem. Then we expect them to accede to the Senior Executive Service and be broad-based managers.

I think when we are asking our Defense agencies to think seriously about supporting a war fighter, and about these cross-cutting problems, we're going to have to think seriously about getting some people who have the experience to do that.

I'm a very strong proponent of a very deliberate selection of career civil servants who are likely to succeed to Senior positions, and giving them broadening experience. I don't just mean once they get to be GS-15s sending them off for a six-month rotation somewhere. I mean seeing that they get the kind of training throughout their careers that our best military people get. So that we really have people who can understand the operational imperative.

One of the criticisms we frequently have is "Well, they don't have any military experience." Did we try to give them any? I think that's going to be an important aspect of managing well Defense agencies.

The second one, is getting people with some business experience. In general, if you go out and look at the Defense agencies, or look at the people in OSD who are overseeing Defense agencies, you're going to find people who came up in an operation, or who came up in a controller budget channel.

With some exceptions, you don't find economists and you don't find business people. I fought, very unsuccessfully for 4 years with the Navy management. I'd say to them, "You have a \$20 billion dollar, wholly-owned subsidiary of the Department of the Navy, called the Navy Working Capital Fund, which is being managed by its Chief Financial Officer."

It has no CEO, it has no COO, it has no Board of Directors. It has nobody trained in business, anywhere in there, hardly to speak of. You will find a few people who went off and got a business degree later. For the most part, you don't have people who think in a business frame of reference. I really do believe we're going to have to start getting some of those kinds of people.

The third point I'd like to make is that if we can do that, we then need to free these people to manage. We have our managers tied up in such a web of regulation that they have to go say "Mother may I?" for virtually everything they want to do that deviates from the standard rule.

In this department, that can take so long that it is not worth the candle. I remember one summer when quite beside all expectation, one of my shipyards by about the end of July had actually made its numbers for the year, as my friends in business would say.

They had some excess capacity that they wanted to sell. They had some customers who wanted to buy it. They couldn't afford to pay the full rate, they wanted to pay the marginal cost. They couldn't do it. Ha, ha. So we let it go. It was July. We only lost a couple of months.

That shouldn't happen. The Secretary of the Navy at least should have the flexibility to do that. If not somebody substantially lower than the Secretary of the Navy. That would be my third point. If we can get to the point where we can set metrics and judge managers on their performance outcomes, then we ought to free them up to behave as good managers. To the extent that the law doesn't force us to tie their hands, let them go. Thank you.

Frank Camm: The next speaker is Bruce Carnes.

Bruce Carnes: Thanks very much. I want to just take a couple of minutes to give you some of the lessons I learned when I was in DOD and maybe didn't know I learned them at the time. I realize now that I'm not in DOD that I did learn some important lessons.

Many of you take for granted an organization called PA&E in DOD. In DOE there is no such thing. We may all shake our fists or may have shaken our fists at PA&E when I was there. However, I'll tell you that you can't do without it. We have tried and it doesn't work if you don't have it. You have to have something like it, if not it in itself. I in fact created something called PA&E at the Energy Department. The first thing I did.

The next thing I did was create five-year budgeting. We don't have that at DOE. This year will be the first year we've gone into five-year budgeting. Again, what the Defense Department takes as natural as breathing, is a sort of thought out conscious process for us. It should be routine and normal. So we have instituted that.

I have a feeling the travails of birth for these entities and these processes are going to be excruciating, but we are going to get there. If nothing else, I intend to leave behind me at least something that resembles these processes.

We can make all this stuff way, way, way too hard. I guess if I had any observation about my experience at DOD, sometimes we did make it way too hard. It got very Byzantine and elaborate; labyrinthine politics and so forth. You always have to, in my view, keep in mind what is the end? I really care less about how we get there than what it is we're going to get.

For me, in my current job, that means I want to know when we make a decision what it means five years out. I want to know when we make a decision what it means for other parts of the department. I need some crosscutting looks at this. I want to know when we start a project, if we have any idea what it is we think we're doing.

We have started in the past, multi-billion dollar construction projects with 2 percent design. As you might guess, we run into the ditch in a hurry and pretty much stayed there. Part of that is because what we're doing often hasn't been done before. Nobody has done the kind of stuff that we're doing within high-energy physics and nuclear science or even in the cleanup of waste from our nuclear weapons labs. We don't know what's there. We have sort of an idea what's there, it's probably not very good stuff. We don't know until we get into it.

Leaving that aside, though, there are some things that you can do. We are insisting on now at least 35 percent design. It seems kind of normal I guess to you guys. For us, that's a revolution. Five-year budget planning is a revolution. PA&E is a revolution.

It's not going to be exactly like DOD. It's going to be DOD-like. It is absolutely critical in my view to have that stuff. How DOD chooses to rearrange itself, I think, is less important than what it is DOD chooses to get at the end of the day. At the end of the day I think they need to have what they intended to get all along with PA&E and a multi-year budget process, and a FYDP and all the rest.

I won't go into any detail about critical decision points; at DOD they're milestone decision points. We have essentially copied those with little nuances for our own particulars. You do need, I think, in every instance to figure out what it is you're trying to get, count it - Debby mentioned a minute ago some of her friends in the business world talking about making their numbers. You really have to think that way. You have to make it as empirical as you can.

Now, for us, that is very hard to do. Almost half of our budget is in R&D. A good chunk of it is in Applied R&D. Which means there's going to be something that at the end of this you can measure. You know where you're trying to get when you start. You know what it's going to be. It's going to be some application of a scientific principle. You can tell if you're on track to get there.

We also have a lot of R&D that is basic R&D, and that's a lot harder. I don't think it's impossible. I may not be a scientist, and as I said yesterday in a hearing, I'm not really a doctor - I just play one at DOE. My PhD is in English, and there is no more soft - well except for maybe Economics - ha, ha - and maybe even pointless profession than that,

I think we do have to come to grips with even the hardest problems. We have to translate them into concrete outcomes and results. Having said that, I will acknowledge that an enlightened civilization always allows a certain element of discretion - genius must do what genius must do. But even Michelangelo when he painted the Sistine Chapel, the Pope didn't say "Go do whatever you feel like doing." He had an idea what he was expected to accomplish.

You might call it their basic research; some might call it applied. Even in the area of basic research, you have to define this. This is very, very hard. I think at the end of the day, all we're trying to get by whatever systems is quantified results. Whether it's revolving funds, which I actually like, I just hate the way they run.

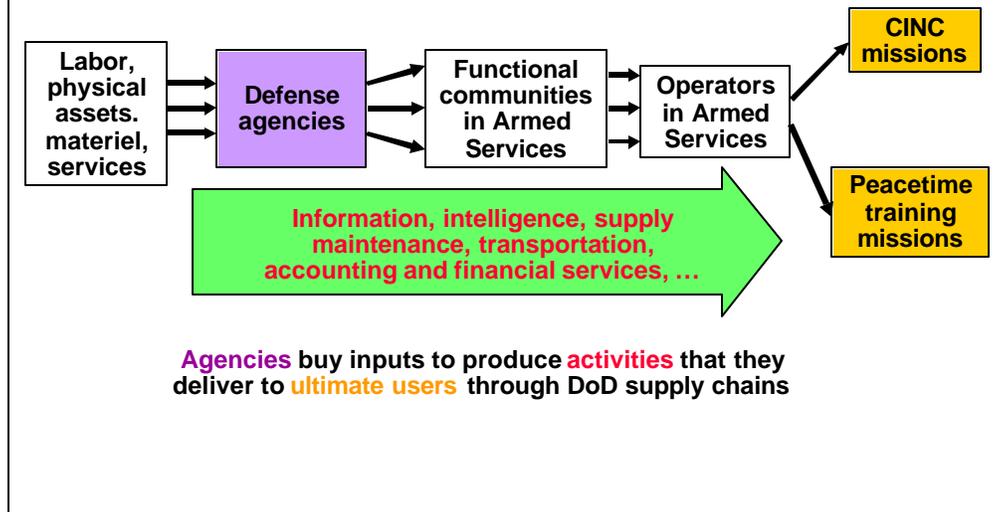
Concerning revolving funds, it seems to me it's just way too hard. We've made it just about as hard as you can possibly make it. Well, I take that back. We've actually made it harder at Energy than at Defense because it's not pure revolving funds. We actually exclude certain costs from it. Which makes you wonder what's the point?

But revolving funds attempts to get at association of costs with outputs. PA&E attempts to get at that. Attempts to translate the expenditure into a product and to make a value judgment on the basis of that.

I would say that wherever we go, let's go as simply and directly as we can. Let's not make this harder than it must be. The harder we make it, the more we just lose sight of the whole point of doing it.

How Do Agencies Affect The Ultimate Users of Their Activities?

32

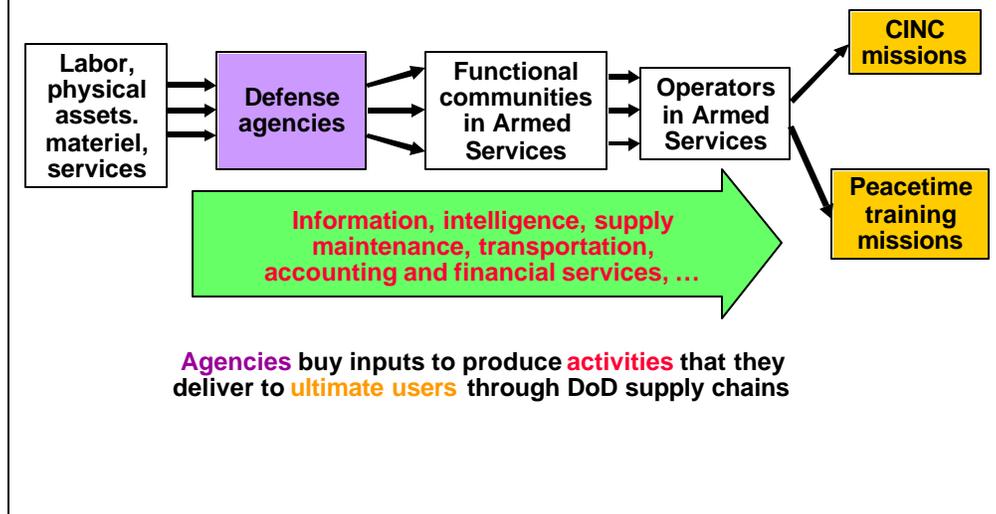


Frank Camm: Okay. Very much to the point. Thank you. I'm pleased to say it sounds like I may be preaching to the choir here. I hadn't anticipated how much support there would be for taking a different perspective on the agencies. So I'm going to try to go through this quickly.

My main message is quite simple. It is to say that when we think about governing the Defense agencies, we really have to think about where they sit relative to the ultimate users of their services. The most useful metaphor I've run across in the last few years for thinking about that is a supply chain, which is represented up here for the combat service support agencies. A similar figure could be presented for all the other agencies as well.

How Do Agencies Affect The Ultimate Users of Their Activities?

33



It very simply says that the agencies buy things from the private sector and provides those to functional communities in the Armed Services. Those functional communities are typically responsible for setting some sort of requirements or expectations of the agencies. Those communities work for the operators in the Armed Services, who in turn have both peacetime and contingency missions.

Stated that way, it's pretty simple. The fact is when we actually get down to measuring what's going on in the Defense agencies today, we very rarely go out to those CINC missions or out to the peacetime training missions, on a routine basis and ask how did the cost of those change? How did the effectiveness of those activities change?

Despite the consensus in this room that this is the right way to look at this, we haven't figured out quite how to measure this kind of performance yet.

Strategic Sourcing Seeks to Align Users and Sources

- View any agency in terms of specific activities it produces (use performance-based budgeting (PBB) or activity-based management (ABM) focus)
- View each activity an agency provides as a link in one or more supply chains
- Manage each supply chain to align it with the priorities of its ultimate user
 - in a contingency, a CINC
 - in peacetime, a Component responsible for training
 - a military family
- Align the activities an agency produces with the priorities of the ultimate users that they support

This is just putting in words what I've just said. When we look inside an agency and ask how that agency serves as part of a supply chain, we have to break it into activities. We have to ask which customer is being served by a particular activity. Once we know that, then we can begin the process.

Now, there are lots of ways of doing that. There is currently discussion of using performance-based budgeting. The President is using this phrase now. That's a technique that's used all over the world quite successfully to identify activities and associate resources with them. The private sector calls this activity-based management. It's essentially the same idea.

The idea is to break an organization down into its activities, and focus your governance on the activities, not on the agency itself. Once you can do that, you can think about how those activities play in a supply chain and how those run to the ultimate user.

Strategic Sourcing Seeks to Align Users and Sources

- View any agency in terms of specific activities it produces (use performance-based budgeting (PBB) or activity-based management (ABM) focus)
- View each activity an agency provides as a link in one or more supply chains
- Manage each supply chain to align it with the priorities of its ultimate user
 - in a contingency, a CINC
 - in peacetime, a Component responsible for training
 - a military family
- Align the activities an agency produces with the priorities of the ultimate users that they support

What we see in DOD's case is three different kinds of ultimate users. We have CINCs, we have components who are carrying on with ongoing training for the fighting forces, and we have military families who are being served in commissaries and health facilities and so on.

We have to find some way of linking every activity in an agency to one of those three groups. Once we've done that, then we can begin to think about the appropriate approach to governance.

Two Basic Governance Issues Are Critical for Any Agency

- Who should provide the activities that the agency currently provides?
 - immediate users in DoD (Components)
 - some other government activity (agency, executive agent, ...)
 - private firms
 - public-private partnerships
- What should be the terms of relationship between ultimate users and providers, whoever they are?
 - reporting relationships and processes
 - formal performance contracts or MOUs
 - effective programming and budgeting processes
 - shared models, data flows, and planning processes
 - performance (“motivational”) metrics
 - internal transfer prices
 - other incentives

When we think about that linkage, really two big issues come out in governance. The first is, who is going to provide those activities in the agency? Right now they're by definition in the agency, but they could be provided in all sorts of different ways. This will be the primary topic of the session tomorrow, so I'm not going to get into it in detail. I see this as a fundamental element of governance itself.

The second question is, once we've figured out who is going to provide an activity, wherever it's going to be provided, we need to figure out how we link that to the ultimate customer. We've talked a little bit about metrics here. We've talked a little bit about performance relationships.

What I see is a whole panoply of activities that need to be coordinated in an organized fashion. We need to have clear reporting relationships. One of the points that Col. Bivens made that I just have to confirm is that we've got all sorts of reporting relationships. Dr. Spruill made the same point this morning. The agencies are being hit from all sorts of directions. We need a coordinated set of those reporting relationships.

Two Basic Governance Issues Are Critical for Any Agency

- Who should provide the activities that the agency currently provides?
 - immediate users in DoD (Components)
 - some other government activity (agency, executive agent, ...)
 - private firms
 - public-private partnerships
- What should be the terms of relationship between ultimate users and providers, whoever they are?
 - reporting relationships and processes
 - formal performance contracts or MOUs
 - effective programming and budgeting processes
 - shared models, data flows, and planning processes
 - performance (“motivational”) metrics
 - internal transfer prices
 - other incentives

We need formal performance contracts. Or MOUs - whatever you want to call them. We need something between the customer and the activity in an agency that tells the activity in the agency who the customer is and what's expected. Also, what the consequences are of non-performance. We haven't tried that.

We need to coordinate this with our programming and budgeting processes. As Col. Bivens says, a large part of his job is saying "Once I've figured out what the problem is, I have to figure out which process to work the problem in." We need to make some way of coordinating that activity as well.

We can't do any of these things until the agencies and their users have some better shared models, data flows, and so forth. This is a point that Mr. Strassman was making this morning. We need to get that interconnectivity so that our users and our agencies are speaking the same language with a fair amount of confidence.

Two Basic Governance Issues Are Critical for Any Agency

- Who should provide the activities that the agency currently provides?
 - immediate users in DoD (Components)
 - some other government activity (agency, executive agent, ...)
 - private firms
 - public-private partnerships
- What should be the terms of relationship between ultimate users and providers, whoever they are?
 - reporting relationships and processes
 - formal performance contracts or MOUs
 - effective programming and budgeting processes
 - shared models, data flows, and planning processes
 - performance (“motivational”) metrics
 - internal transfer prices
 - other incentives

Now, what we often find ourselves focusing on is a different set of issues, which are related, but they're subsidiary issues. Those are the issues of what kind of structure should we put in OSD and the department to look after the agencies? Dr. Murray did a good job of going through those so I won't repeat that again.

We don't know how to choose among those unless we're trying to figure out what the question is in the first place. The real question is, what is it we're trying to do to link the provider and the customer? What kind of mechanisms do we have available? Only after we've thought about that can we ask whom should we ask to solve that problem. These are the people that we're actually asking to solve that problem.

Two Broader Governance Issues Derive from the First Two

- What high-level governance structure should provide the answers to the questions above?
 - Defense Support Executive, Senior Executive Council, Primary Secretarial Assistants, agency Boards of Advisors, users, agencies, others?
- How should DoD manage diversity in the nature of these issues across defense agencies?
 - No one approach is likely to fit all agencies

Choose the broad approach to governing defense agencies most likely to yield the right answers to the basic governance issues raised earlier

My guess is, as we think about this, we're going to conclude that those agencies are so diverse in their character, in the types of customers they provide, in the timeliness of the work that's required, in the criticality of the work that's required, in the measurability - all those things, they differ so much that I think we're going to find that there's going to be a different approach to each one of these.

In the end we should be thinking about how to fit those governance structures from the last chart for each one of those agencies, and ask, "Okay, who is qualified to do that?" That's how we should make these decisions about the things at the top there.

What Agency Metrics Are Relevant to Ultimate Users?

- Start with system metrics
 - Military capability (current and future)
 - Work force/quality of life (current and future)
 - Total ownership cost (current and future)
- Choose performance metrics for activities in agencies derived (“cascaded down”) from such system metrics.

A feature of a derived demand, the value generated by agency activities derives from the value ultimate users place on these activities

Okay. Just a couple of thoughts on how to think about this. We've already been talking about this today, so I don't think there's much new here.

We found in our own work that the best way to think about this is to start with the user. To think about system metrics that are relevant to the user. We think about military capability today and in the future, particularly in a time of transformation when you're actually trading resources between today and the future. We think that's important.

We found, drawing on the work of my colleague Carl Dahlman, that it's critically important to think about not just military capability, but also the effects on the workforce and quality of life today and in the future. To think of that as a separable issue.

Our favorite here is cost. That's the thing we all talk about. The real point here is to talk about total ownership cost. Not cost inside the agency, but the cost of the supply chain.

What Agency Metrics Are Relevant to Ultimate Users?

- Start with system metrics
 - Military capability (current and future)
 - Work force/quality of life (current and future)
 - Total ownership cost (current and future)
- Choose performance metrics for activities in agencies derived (“cascaded down”) from such system metrics.

A feature of a derived demand, the value generated by agency activities derives from the value ultimate users place on these activities

When we think about these in the context of the user, there are then systematic ways to flow those down, cascade them down to an agency. People are learning how to do that now in the department and elsewhere.

Our key is to say any performance metric we're using in an agency should be linked back up to these sorts of system metrics. What we do in an agency is all derived demand. Let's just remember where it came from.

On-Going Changes in the World ⁴²

Suggest a Better Way to Think about Governing Defense Agencies

- Commercial firms give increasing emphasis to alignment and monopoly issues, at the expense of scale economy and duplication issues
- Commercial firms break up the supply chain (“outsource”) only when they develop relationships that can maintain an effective level of integration
- DoD can benefit from a move in the same direction where appropriate
 - Increasing recognition of supply chain in performance management
 - Increasing emphasis on closely coupled supply chains
 - Increasing importance of infrastructure to the immediate fight

When we look inside the agency and we ask ourselves, what activity should we put together in an agency? How should we make that decision? We've heard this morning a lot of emphasis on the notion of scale economies. We've heard scale dis-economy once I think. I wasn't counting carefully, but a lot of emphasis on scale economies. We've heard some emphasis on duplication of effort.

So these are some things to think about when we're saying "Okay, I'm worried about what's happening to a user." Now, I've got scale economies in an activity. Say I've got a stochastic availability of some special asset that means I want to put a lot of them together to get better availability.

Well, I can improve the performance of that activity. Can I improve the performance for my user by doing that? Maybe. All I've shown so far with that scale economy is that I've improved the performance of that activity.

On-Going Changes in the World Suggest a Better Way to Think about Governing Defense Agencies

- Commercial firms give increasing emphasis to alignment and monopoly issues, at the expense of scale economy and duplication issues
- Commercial firms break up the supply chain (“outsource”) only when they develop relationships that can maintain an effective level of integration
- DoD can benefit from a move in the same direction where appropriate
 - Increasing recognition of supply chain in performance management
 - Increasing emphasis on closely coupled supply chains
 - Increasing importance of infrastructure to the immediate fight

Similarly, I think about getting somebody the unique right to perform some particular activity - create a center of excellence. Is that a good thing to do? Well, it reduces duplication, and we all agree on that. We also know that it creates an opportunity for monopoly and Carla talked about that in her presentation.

When we look at the relationship between the user and the provider, we can ask ourselves "Well what good might we get out of an enforceable, incentivized performance agreement?" The first key here is saying we have to make sure to know what we're going to provide an incentive. We're going to tell people what to pay attention to. Once we've done that, this gives us an opportunity to increase the alignment between the provider and the user. Potentially to get better control over that monopolistic waste.

On-Going Changes in the World Suggest a Better Way to Think about Governing Defense Agencies

44

- Commercial firms give increasing emphasis to alignment and monopoly issues, at the expense of scale economy and duplication issues
- Commercial firms break up the supply chain (“outsource”) only when they develop relationships that can maintain an effective level of integration
- DoD can benefit from a move in the same direction where appropriate
 - Increasing recognition of supply chain in performance management
 - Increasing emphasis on closely coupled supply chains
 - Increasing importance of infrastructure to the immediate fight

There are lots of factors of this kind that we can think about. What I've seen in the discussion of Defense agencies over the years is that we've put almost all of our emphasis on the first two - on scale economies and on duplication of effort. We haven't thought nearly as much about the issue of alignment between the user and the provider, and the potential for monopoly waste that comes when we have a single provider of a service.

The question is, have we as analysts, economists, programmers, and so forth, thought about that balance in an appropriate manner?

On-Going Changes in the World Suggest a Better Way to Think about Governing Defense Agencies

- Commercial firms give increasing emphasis to alignment and monopoly issues, at the expense of scale economy and duplication issues
- Commercial firms break up the supply chain ("outsource") only when they develop relationships that can maintain an effective level of integration
- DoD can benefit from a move in the same direction where appropriate
 - Increasing recognition of supply chain in performance management
 - Increasing emphasis on closely coupled supply chains
 - Increasing importance of infrastructure to the immediate fight

When we look at the world the way it is today, if you go out and talk to commercial firms, they face the same problems that we face. We like to think that we're different, but the more time you spend with them, the more you realize they really have a very similar world to our own.

What they're doing today is facing this same tradeoff themselves. They've concluded that for the most part they have chosen too large a scale for activities. They have chosen to avoid too much duplication. They are giving much greater emphasis to the need to align their supply chains and deal with the monopoly issues in those supply chains to get the monopoly rent out of those supply chains.

They're really changing their activity to focus on the supply chain and not on the individual activities themselves. When they look at their supply chain and they say "Well, it's time to outsource something." You know, we've all heard the common wisdom, "The commercial sector is outsourcing everything in sight." They are increasing outsourcing, but they don't outsource until they have a very clear link. They don't break the supply chain until they know how to manage that outside provider in the context of the supply chain. That's their first emphasis.

On-Going Changes in the World Suggest a Better Way to Think about Governing Defense Agencies

- Commercial firms give increasing emphasis to alignment and monopoly issues, at the expense of scale economy and duplication issues
- Commercial firms break up the supply chain (“outsource”) only when they develop relationships that can maintain an effective level of integration
- DoD can benefit from a move in the same direction where appropriate
 - Increasing recognition of supply chain in performance management
 - Increasing emphasis on closely coupled supply chains
 - Increasing importance of infrastructure to the immediate fight

When we look at DOD, we're already talking this way. We know what a supply chain means. We talk about that now, and you're beginning to see that kind of language throughout the Department.

We're beginning in things like Agile Combat Support and Velocity Management in the Armed Services, to talk about closely coupled supply chains. We're talking that language. We're talking about reach back, we're talking about projecting force from CONUS and supporting the war fighter overnight.

We're getting to the place where our infrastructure really is in the fight. So we are in this situation where alignment is increasingly important. I think it's important for us to recognize that when we make this balance between the concerns about scale economies and alignment between the user and provider. Next chart, please.

An Updated Economic Perspective⁴⁷ Should Help Improve Governance of Defense Agencies

- Lots of trade offs to consider.
 - Factors: Scale economies, duplication, monopoly, alignment, ...
 - Elements of alignment: Reporting relationships, agreements, system integration, incentives...
- Different governance arrangements are likely to work best for different activities now provided by agencies
- Choose governance arrangements to optimize supply chains, not agencies or even activities in agencies
- Recognize the growing importance of alignment relative to scale economies when placing activities in an agency or elsewhere

This is my last chart. When I think in these terms, I say okay, so what? The first thing I recognize is there really are lots of tradeoffs to make here. In the past it's been fairly easy to focus on scale economies and duplication. I think when you start talking about alignment, you really do have to make some tradeoffs between cost and efficiency. So that's something that needs careful attention. When we start talking about creating an alignment structure, we have lots of things we can use to put together. I hope one of the things that comes out of this session is a better sense of how to do that in a unified way. I think the discussion is already moving us in that direction.

As we think our way through these, we're going to discover that we're going to get very different governance arrangements for each of these Defense

As we think our way through these, we're going to discover that we're going to get very different governance arrangements for each of these Defense agencies. We're going to want to think carefully about changing those over time to respond to changes in the environment.

An Updated Economic Perspective⁴⁸ Should Help Improve Governance of Defense Agencies

- Lots of trade offs to consider.
 - Factors: Scale economies, duplication, monopoly, alignment, ...
 - Elements of alignment: Reporting relationships, agreements, system integration, incentives...
- Different governance arrangements are likely to work best for different activities now provided by agencies
- Choose governance arrangements to optimize supply chains, not agencies or even activities in agencies
- Recognize the growing importance of alignment relative to scale economies when placing activities in an agency or elsewhere

What individual office is responsible for a supply chain? We don't have an individual office that's responsible for any supply chain in the Department of Defense.

As we do this, what are the implications for what these activities actually should be provided in the first place. Do they belong in a military department? In an agency? Should we have an executive agent? Should we go to a private sector source? I don't think there are immediate answers to any of those without thinking about these prior governance issues themselves. So that's my bit; that's my point of view. Let me open this up to the floor. Questions of our panelists? Yes, Ma'am?

Comment: This is less of a question than a comment. One way of reforming this civilian workforce that we hear about is to open it up. To make it more open, to have competitive wages, be able to bring in people from the private sector who've had real private sector experience, not just a little tour.

Another way is to move more towards an internal labor market, more like the military where you groom people. They move up through the ranks, you send them for training, and you maybe pay for the training. Their wage may not be competitive, but they'll stay with you because they've gotten the valuable training from you.

I'm not sure it's possible, although I hear about proposals, to move in both those directions at once. One is an external market oriented kind of market, where you bring in people from the outside. The other is an internal market. They both have advantages, but I'm not sure you can do both at once.

Debby Christie: I think I agree with you, and it may have to be business area specific. As I mentioned this morning, when you get in a business area where the grunt work is heavily outsourced, where most of the low-level entry positions are largely done by contract, there aren't any entry-level positions to train people.

If you really want to get people at senior levels, you're probably going to have to pay more than you're paying for them right now. I remember talking to DFAS when I was working on the agency review and they seemed to think that in a lot of labor markets, they can compete with the private sector for fairly senior people. Although not in Washington, DC. So, it is fairly situation-specific.

I think you are going to have to do some growing if you're going to make sure that those civilians who come in from the outside don't just bring a business perspective. That can be positively dangerous, they also really do need to understand the military mission.

It takes a while for anybody to understand the operation that they're really supporting well enough not to do stupid things. I've been quite concerned that in the department the focus is often on peacetime efficiency, without thinking about what that is going to mean for our ability to support a contingency. This can be very dangerous.

We really need to have people who understand the military mission as well as the business aspects to do the right thing for both.

Frank Camm: Yes, sir?

Q: We have a problem in DOD with no one's in charge of the supply chain, end to end. A couple of sound bites. I've heard this term "FedEx to foxhole", you know, eliminate DLA and we'll just use FedEx to foxhole.

I think even the Secretary Rumsfeld may have mentioned this at Ft. McNair. They talk about the supply chain being for an example, the humanitarian rations that were dropped out of the airplane, the C-17. Somebody said, "Boy, look how broke this system is. We flew them to Turkey and then we had to move them out of that airplane into another airplane. That airplane went up and dropped them. And isn't that awful?"

I'm frankly having trouble figuring out who in the world could possibly be the single manager, the single owner of the supply chain? I mean, what are the alternatives under Secretary Rumsfeld? Below his level?

Frank Camm: Everything's connected to everything else. So I guess what I'm suggesting is that when we think about governance, everything is going to be a compromise and approximation. It strikes me that how we're most likely to get effective governance is to have someone who is responsible for measuring the performance of those supply chains, and providing visibility to those so that we can make decisions.

That's the concern. We're going to have to break this thing up just to manage it. You have to break everything up to manage it. The question is whether there is some way that we can give visibility to the end-to-end process so that we know how well it's working? That's what I'm after.

Frank Camm: Yes, sir?

Q: For Bruce Carnes. My question is whether that guidance doesn't get itself entangled with the character and location of authority? The government authority tends to be concentrated at the top. Would you agree that that breeds consensus decision-making and baroque decision-making processes? So that to keep it simple, you have to have more delegation than we do now?

Bruce Carnes: No. Thank you.

I've worked in a number of different places besides DOD and DOD does a better and more elaborate job than any place I have ever seen or even heard of, in coordination.

I've worked in some places where there's almost no coordination. It's just as complicated and elaborate and baroque in those places as it is in a place where there's a lot of coordination.

Coordination in and of itself can complicate and delay things. It can bring enlightenment, it can bring delay. I don't think

that it is intrinsic in a coordination process that that has to happen.

Let me give you another example. Years ago, I worked in the Office of National Drug Control Policy when it was first created in EOP. The law said you need to have concrete, specific, measurable goals for the reduction of drug use in America. You could have had a bazillion, we created ten.

They were goals in and of themselves, but also proxies for other things. Subsequently, those goals sort of got all fuzzed up. People developed elaborate systems for monitoring what is going on to achieve those goals, what is going on in the drug market, what is going on in surveillance, and what is going on overseas, etc.

Suddenly what happened was all the energy of that place got focused on the means and not the end. The office was no bigger. In fact, if anything, it was smaller. It seems to me it got bogged down by losing sight of what it is they were - of the mission.

I think that may be changing. They're trying to look at what the outcome is supposed to be, and getting rid of a bunch of that stuff. The size of the office, the size of the organization, and the power that was in it really had no bearing on whether they got distracted or not. Thanks so much for that question.

Frank Camm: Yes?

Q: Frank, one of your slides showed things that you thought needed to be done. What is the mechanism now for actually making that happen? What would you see that would force people to address the things that you laid out as needing to be done?

Frank Camm: Well, I guess the first thing I would do is in a particular agency look for a mechanism for an 80 percent solution, saying what does each of the resources I'm spending contribute to? What is it really supporting? Lay it out by customer group and by general class of service. Just force that discussion. It's something that you'll never get exactly right. It's something that to an 80 percent solution you can do pretty quickly. That's the first thing I'd do.

The next thing I would do is start asking myself for each one of those lines of service and those classes of customers, what is it about the service they care about? I think the only way you can ultimately answer that is to bring the customer in.

Our experience working inside the Air Force with that problem is that when I go to an operational organization, and I say, "You know, you ought to take some time out from your, you know; and

you should get your staff to do this for you; and then you should sit down with the guys at Air Force Material Command and talk to them about this activity."

The guys in the operating commands always say "That's not my job; that's their job. I'm not going to do that. I don't want to talk to them." The guys in the FMC sort of go, "Well, you know, we're the logisticians; we're the experts. So why should we?"

Part of the problem we've got even inside the Services is the users and the providers aren't talking to each other. As a result, they're not in sync. The same problem we have inside the Services is present between the agencies and the customers as well.

We need to encourage that kind of engagement. So, that's the kind of engagement I'd like to see. Now, how do you actually get that done? I mean, it's a matter of leadership, incentives, and so forth.

Q: Well, part of the reason I asked the question is because it's not a given agency. The agency, one of the things we tried to do with the logistics area was say okay, even though DLA doesn't have control over the whole system, let's kind of force them. Let's measure the whole system from when the customer asked for the part until the customer gets the part. Let's force them to deal with it just like L.L. Bean has to worry whether UPS delivers your sweater on time.

You're going to not come back to them if you don't get it. It forces the one who is the leader to pull in the other pieces. I think that's what's hard.

Frank Camm: Right. Well, it's the end-to-end concept that makes sense to me. The difficulty we run into repeatedly is, okay, what should those metrics be? Let me just give you two examples.

DLA is to my knowledge the first organization in the government to really go to direct vendor delivery, which is turning a responsibility for maintaining inventory over to an outside source.

A great idea. The problem is that when they implemented it the cycle times for order and ship time went up. Okay. So we have these two measures of end-to-end performance. The one says a large portion of our transactions are now under direct vendor delivery. That's a good thing.

The other thing is, the order and ship time for our average item shipped is higher than it was. That's a bad thing. Which one do we care about? We care about the second one. We judge the policy on the basis of the first one. That's an example.

Another example comes out of GE. This just came out of Jack Welch's autobiography. He said "GE made this big commitment to Six Sigma, which is a kind of total quality management and used that as a way for dramatically reducing order and ship times. They really made a giant difference by orders of several factors.

Nothing happened. Their customers didn't care. They couldn't figure it out. So they went and talked to the customers, ha, ha. They discovered that what the customers cared about wasn't so much the length of the order or ship time, it was the variance. It was getting the variance down that they cared about.

Okay. So what did we measure in our order and ship times now in the department? We're measuring the average. We should be saying what portion of this is outside the 75th percentile and the 50th percentile and the 20th. That's what we should be measuring.

So there's this problem of sort of apple pie and motherhood stuff here. Of course, we want this end-to-end process, but make it serious. Go talk to the customer and figure out what the customer really cares about.

Comment: There are an awful lot of good things going on up there. There were an awful lot of people involved in that and I would just mention that.

Frank Camm: Let me concur 100 percent. I think one of the nicest surprises about the IDA report is that it backs up a lot of what Carla talks about and some of the other comments this morning. Col. Bivens confirmed this in his comments, it is the degree to which the customers are satisfied with the service that they're getting from the Defense agencies.

That's good to know. That said, we can do better. It's not as if we're any different, we can always do better. The question is, what's the next step we take?

Q: I guess the question is, who is the "we"? Where the mechanism already exists, where they already have relationships with the customer, and things are changing. So it seems to me we ought to be thinking about those places that it doesn't exist. We sat through meetings for hours and hours. They have heard. It's the new places. It's the places that we haven't set up yet I think that need attention.

A: To that last point again, I think there's an interesting challenge we have ahead of us. I don't think we're very good customers, either. We don't set up a very demanding customer

base. Your example that you gave with the logisticians and the operators in the Air Force is the perfect example.

The operators say "not my job, their job"; the logisticians say "why are they worried about what I'm doing?" We have a very centrally planned model where we've got to link that. As you said, you need to link the system together, and you look at the opportunity cost, which is something we don't measure very well in our economy. We're okay if there's more inventory, unless somebody's pushing it down.

We have to be better consumers of activity as well. I just think that's an interesting culture change that has to take place.

A: Absolutely.

Dale Schoenberger: Regarding all the comments on performance measures for the agencies, are not the agencies under the Government Performance and Results Act required to develop performance measures and make metrics to measure those measures? If they aren't - or if they are, and they're not doing that, is that what we're saying?

Frank Camm: Well, others can comment on this. Bruce, do you have any?

Bruce Carnes: Yes. That is what we're saying. Or at least my experience is that we're required to do it and we don't do it.

A: At DOD I don't think that's correct. I believe that when we set it up, we set it up explicitly. It's set up so that the requirement is at the DOD-wide level, not the agency level.

Frank Camm: The difficulty we've seen more generally in GPPRA is that the performance measures are reported to the folks responsible for GPPRA; so they all get reported, but they're not actually used in the day-to-day management of the activities. That's where we have to take it.

A: Right. Yes?

Dave Graham: I'd like to give kind of a nuts and bolts answer to your question. You've got the PA&E folks who've been trying to develop the metrics under their performance contract initiative. They've been trying to engage the Services as customers. Maybe greater efforts along that line, perhaps under the supervision or aegis of the SEC.

And also, Col. Bivens and his organization have done a lot. They understand many of these issues extremely well for the combat support agencies. We were surprised when we did the agency review that there was not a very tight coupling between

what the Joint staff was doing and what OSD was doing in terms of creating these kind of performance metrics.

So I would say building on some of these existing activities could be a good first step.

Debby Christie: One of the things that I liked in a few of the performance contracts that I saw, especially the DFAS performance contract, was the clear recognition that in some of the areas there was only so far that DFAS could go.

If certain objectives were going to be met, like the timely payment of vendor bills, there were other things that were going to have to be done by the acquisition community and the Service controllers. Whoever it is down in the Services who receive the material and report, "Yeah, I got it." Because all that has to come together.

It was not just a contract between DFAS and its PSA, but it was a contract among the communities served, that were all going to do these things together. Or at least it had the potential of moving in that direction. I haven't looked in other years, so I don't know where they are. It seems to me that that's a mechanism that could be used to work these interlinked problems that cut across the agencies, the Services, sometimes TRANSCOM.

Bruce Carnes: Don't get me started about those performance contracts. I thought every iteration of it got worse. Not because, Dave, you were in charge of it. But because we just got too darn fancy and it became exculpatory.

We started with something like 30 deliverables. Remember, DFAS only had like 16 or 17 outputs. We ended up in the first performance contract with like 37 deliverables. In the next performance contract we were up to almost 100 deliverables.

I ask you, what were people going to do exactly when measuring some of these fine little things with micro calipers? Okay, so we measured it. We had to put in whole staffs to be able to track and measure and manage this stuff. It was ridiculous. We were now actually slaves to the contract, and being able to report measurements against those indicators. Actually producing what it was hurting what we were supposed to be producing in the first place.

Q: As activities start looking at what they're doing, they shouldn't say "Hey, this thing we're doing over here, has nothing to do with this output." For example, when I was in DLA we started out there was this depot with six outputs. We were soon up to 30 or 40. For the same reason. Because they do a lot of other things. As they do those other things, the activity that is getting measured says "Hey, we're getting that

cost in here, and we need to get it out." You're going to find how you measure the activity gets to be a different question.

Bruce Carnes: Yeah, don't get me wrong. I'm not completely against knowledge. Although I did say to the head of our science programs, we really have too much knowledge and I can't afford to pay for any more of it.

Q: Thinking about knowledge, you may be complaining about the contracts between you and management.

Bruce Carnes: My problem was he couldn't tell me what he was going to do with it. I just didn't feel like I could afford that indulgence. I'm not against finding out what it is that causes a problem. You do have to measure stuff to find out what it is that causes the problem. If you've got an indicator going south on you, you've got to know why. You've got to bust it apart and figure out what is driving this thing in the wrong direction.

I've just seen it happen too many times that you get diverted from that into finding explanations for why bad things happen. Then sometimes I don't really care why bad things happen. Somebody's just got to fix it.

They have to figure it out, but I don't know that the whole OSD has to get involved. Maybe they do. I don't know. But anyway I'll let it go there. I think we're in violent agreement, not disagreement.

Comment: My last word. I think the problem that many activities have, that these exercises kind of helped them with, is identifying their outputs.

Bruce Carnes: Right.

Comment: I'm really only talking about from the standpoint of if I'm selling something, what am I selling? I soon find, gee, I really don't have six products, I've got 30 products. That means I have to have cost accounting and management accounting in those various categories.

Bruce Carnes: Right. DFAS is one of the easiest agencies of all to be able to do that. They're doing widgets. You can count them, you can measure them, and you can get the speed on them. And the quality. A lot of other guys have a hard time with that.

Debby Christie: But you have several different sets of customers. Some of whose objectives don't always agree. At the basic level, you've got people and contractors and vendors who are getting paid. That's nice and straightforward.

You've also got the people who by law have to file all these accounting reports. Which as far as I can figure out never influenced any decision that anybody ever made, but we filed them anyway because it was required by law. Then you've got a totally unserved customer base out there who'd love to have real managerial cost accounting. We can't get around to doing that problem because we're so bogged down in filing.

Bruce Carnes: Right. I agree.

Debby Christie: You've got the overall problem of financial management reform and coming into compliance with the law. Many of the things you guys had to do to get into compliance with the law, worked totally against some of these other objectives.

So it's a hard balancing act. You've got to figure out what you are trying to measure. You're trying to measure progress on all of those fronts as once which is part of the reason there were so many of those performance measures.

Bruce Carnes: There are a lot of barnacles on this ship and we've got to find a way to scrape them off.

Q: Is that the last word?

Bruce Carnes: I hope so.

Frank Camm: I guess that's it. Thank you all very much. I appreciate it.