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The End State

by Mike Young

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Modernizing the Department of Defense (DOD) organization using known blueprints from the market place will allow the DOD to remove $100B from its annual baseline budget without cutting a single weapon system program. Pretty bold statement; but take it to the bank.

The Department of Defense (DOD) approach to organization was once the organization construct most copied by large corporations in the 1950's. Back when General Motors was the largest employer in the country, the competitive landscape did not change very often, and firms were able to sell everything they made to the domestic market. This management construct was put in place to reduce the chance to make mistakes and preserve the status quo. Most companies produced their overall profit and loss statements for the company as a whole, masking how each business unit fared. To say the competitive landscape has changed significantly since the 1950's would not do it justice.

Over the past thirty years, in response to investor insistence for clarity, global competition, and a customer with access to all the information necessary to make an educated value driven decision on whether to buy from company A or company B, the world's largest public corporations modified their organizational and accounting constructs to be more agile, autonomous, self-contained, accountable and successful. Global conglomerates opted to set up semi-autonomous strategic business units (SBU) who are solely responsible for their success or failure. In concert with the organizational change, companies adopted profit center accounting practices whereby each business unit inside the corporation is a stand-alone unit responsible for its profitability, allowing management and its investors to see exactly which unit is doing well and which ones are not. To survive, they slashed overhead, merged organizations, eliminated whole echelons of management, increased individual productivity, optimized its supply chain, and provided its investors complete transparency to its management and business successes or shortcomings in near real time.

In organizational terms, the DOD, its five Under Secretaries, fifteen Defense Agencies, ten Joint Combatant Commands, and its three Service Secretariats remain organizationally in the backwaters of the middle of the last century. Each employs a traditional top down autocratic, bureaucratic, mechanistic line and staff organization. The organization by design is slow to move on an opportunity, slow to innovate, slow to respond to complaints about product or service, risk averse, and often if not always has very complex and confusing chain of command. The old organization cannot keep up with the speed of change. The old organization is bloated with overlapping and duplicative functions. The old organization does not provide incentives to the employees to improve their productivity. The old organization does not incentivize management to flatten their organization; in fact it incentivizes them to do the exact opposite. The old organization is not easy to understand who does what, to whom, and when. The focus is blurred and accountability suffers as a result. Note the term "old"; unfortunately it is really "current."

The richness of the United States and its citizen's willingness to spare nothing to ensure the country is able to preserve its way of life is legendary. President Kennedy's inaugural address 50 years ago, he advised the world "*…that we shall pay any price, bear any burden, meet any hardship, support any friend, oppose any foe, in order to assure the survival and the success of liberty."* No one questions the military's or the country's willingness to do what it takes "*to assure the survival and the success of liberty."* To date the Defense Department has taken his words "*we shall pay any price*," literally to mean send money and people. Admiral Mullen, the Chairman of the Joint Chiefs (CJCS) has gone on record stating the national debt is

the number one threat to our national security; and yet the fundamental military combat strategy in all venues is to never go to a knife fight with a knife.

Something has to give. The country faces the worst economic conditions in 80 years; it has $17 trillion dollars of debt. The country incurred most of that debt to fight wars, provide money for infrastructure enhancements to facilitate trade, incubate new technologies in all disciplines and provide social support programs for its citizenry. One would think, because of the state of our nation's economy, the President, DOD and Congress now have the closest thing to a "burning platform" to make radical change in the way DOD and the Services operate internally as well as the way they each work with the Congress to manage the nation's defense. The President called it "our generation's Sputnik moment" is his 2011 State of the Union address. If one took a poll of the DOD employees the day after the speech, do you think we would find the vast majority of the DOD community "burning" to lead the charge towards remaking the DOD into the most cost effective, efficient and accountable military in the world?

On the emotional level, how do DOD, Services, and Congress see and feel the need to change? Virtually all of the discourse on how to effect change tells us substantive change cannot grow roots unless the senior leader is leading (not managing) and championing change and the people involved have a cathartic experience that provokes an emotional response that helps them see and feel the need to do something. It is not hard for the change agents to see and feel the problem. The challenge is how to viscerally connect with a significant portion of the organization.

On the analytical level, the question before DOD and Congress is how do they acknowledge these facts and produce a politically acceptable management model? What model will allow the DOD to maintain civilian control of the military establishment, collapse duplication of common skills and management echelons, and still provide the Congress the visibility into how DOD manages their investments and the President the capability to support the country's global national security agenda? The core challenges facing the DOD today:

- Congress imposes administrative requirements that by their very nature introduce a lot of make work for the sake of information and oversight. This is their way to impose their will upon and manage DOD and the Services and hold them accountable. Unfortunately, it perpetuates illogical procurement practices that ultimately increase the landed price of the asset.
- DOD may not make any changes without Congressional approval. How many businesses would survive if they had to go to their stockholders to get approval each and every time they wanted to close a factory, lay off people, hire a CEO, promote an executive, buy a product, or change the way they are organized?
- Civilian control of the military has led to an organizational approach where civilian and military staffs are virtual mirrors of each other
- There isn't any distinction between a business and a cost center
- OSD staff manages a number of line organizations directly engaged in war fighting and support
- The military "Christmas tree"… Echelons of command remain in spite of advances in technology that would logically allow them to eliminate the extra layer of dialogue
- Each echelon of command replicates the staff structure above, again in spite of the enabling technology to remove and/or consolidate them
- Compensation plans do not provide the workforce with any incentives to optimize

- The existing culture agrees philosophically that there is waste, but it is someone else being wasteful

There are four phases DOD will need to successfully complete in order to transition from the most expensive and lethal military to operate and maintain to the most efficient, sustainable and lethal military to operate and maintain. These phases are not serial once DOD starts the first phase.

Phase I will be the easiest to execute, but hardest to start. This is the building block phase. This is where the DOD leaves the comfort zone of its current manifestation, decides to take the leap into the unknown, re-organizes the corporation along strategic business units (SBU's) and separates cost centers from business entities. This phase will produce a minimum 5 SBU's and 3 cost center groups. It eliminates duplicative staff between OSD and the Joint Staff. It eliminates the practice of having staff manage line organizations. It eliminates duplicative staff between the Service Secretariat, the military HQ staff, and the major commands. It consolidates a number of headquarters staffs whose line of work is closely related. Using the Army as an example, they will be able to close a minimum of 25 center or command headquarters in this phase. And it completes the transition to joint objectives as envisioned by the Goldwater-Nichols legislation of 1987.

Phase II will be much harder and will have more emotion involved. It still is an organization alignment exercise, but this one will explore and eliminate echelons of command because technology enables them to do so. This is where the military Service Chiefs will have to bite the bullet on their watch and lead the effort to winnow down the senior officer "Christmas tree." This is also where DOD will adopt a much leaner management model within the remaining companies themselves. Lean is defined as *"doing more with less. Use the least amount of effort, energy, equipment, time, facility space, materials, and capital – while giving customers exactly what they want"*. It is designed to remove duplicate functions at each management level. It is designed to eliminate waste in any business process. In this phase, again using the Army as an example, they will be able to close 30 command headquarters. Of the commands remaining, their staff structure will become much leaner. Each HQ will have a commander, a director of operations, director of industrial support and a director of community support. The director of operations fills the role of commander in his/her absence. Deputy CGs will disappear. Everyone will work in the command center; there is no staff. They will not replicate cost centers below the Strategic Business Unit.

Phase III, which has proven to be intractable to date, centers on getting the internal DOD businesses to operate collectively and collaboratively on a unified business platform. The savings achieved in the first two phases will appear trivial compared to the savings phase III will deliver. Again using the Army as an example, this is where the Army will take advantage of the ERP software they have selected by adopting an entirely different approach to fielding software across the Army.

Phase IV will be the hardest because it will require Congress and DOD to collaborate and agree to modify business practices in areas of budgeting, acquisition, spending, resource management, asset management and compensation plans. This section is a summary of types of things that need to be addressed, since in reality, this section alone could be the subject of another paper.

Given the challenges noted above, it would seem unless the DOD and by inference the Service Secretaries, take a step back and view themselves as a group of business teams that could be led, evaluated, managed and compensated in terms of a business, progress towards providing the kind of visibility, efficiency and accountability one would expect from a publicly traded company will languish. More importantly, each team needs to find the gut-wrenching event that makes it clear to the team members, what is at stake if they are not successful. And Congress must be a partner willing to take a fresh look at how they work with the DOD. They can no longer treat the DOD as a jobs program for their respective districts. It is time Congress and the Defense Department drop the gloves, open the books, evaluate how they work with each other and move out briskly to effect the needed changes: the status quo will not do any longer.

Phase I

Walt Kelly's immortal phrase coined on an Earth Day poster in 1970 really does capture the essence of the challenge facing DOD. *"We have met the enemy…and he is us."* The arrogance of the status quo has been and still is easily the single most common source of impediments to human progress; and it is not constrained to any specific discipline. The history of scientific progression is littered with examples of arrogance stifling alternative views that conflict with accepted thinking. The history of religion is rife with horrific pogroms intent on stifling or even worse, eradicating those who choose to worship their deity in their own way. The fact that the same chemicals that constitute your physical self also govern your emotional self is a fact that even today is difficult for many to accept. When your emotions become unbalanced, you are a whack job in need of adult supervision in a lockup; when your lungs fill with fluid, you are sick and in need of care.

And so it is with organizational change. Things like "if it ain't broke, don't fix it" perpetuate the status quo. "It's good to be king"; "I like things just the way they are"; "the stockholders are happy, I'm happy." History tells us that without outside forces pushing the envelope, the status quo will own the day. In the main the only thing the status quo needs to diminish the challenge is to ignore it or at the very least scoff at the person promoting the idea as some insipid intellectual lightweight. Nothing of value could possibly come from such a dolt. But should the idea start to gain some followers, it also tells us the status quo will spare no fury and leave no stone unturned to squash the upstart who has the temerity and gall to present an idea that challenges the way the status quo does things.

The paper declares unequivocally the Congress of the United States and its Defense Department must embrace radical organizational change in light of today's economic challenges. It spares no punches. The United States has the finest military in the world; and yet, were it not for countless improvements in the technology of war and conflicts that didn't fit the model of conflict they prepared and planned for to shock the status quo, it would still prepare to fight the Spanish American War on horseback. If BG Billy Mitchell, USA where still alive, he could relate.

One of the sacred tenets of our Constitution calls for civilian control of the military. Beginning with President Washington, each subsequent President has deemed it appropriate to have a cabinet to help him manage the business of government. There have been several iterations of this model, but the basics are the same. The political leadership has its staff and the military leadership has its staff. Some will say it is a "partnership", but the fact remains each staff duplicates the other. The overriding premise of this construct has been two fold. The

nation's military is under civilian control, and the civilian leadership jealously guards this prerogative. That said the military is equally jealous about its self-worth and has always felt that it had to have its own staff to "interpret" the political guidance to the field commanders so that military people could relate to military people.

After twenty years at war, the political and military echelons in DOD and the Service Secretariats have never worked more closely and in concert even though these two entities still operate as separate staffs. If Secretary Gates brought in Jack Welch, the legendary former CEO of General Electric, how do you think he would structure us? What would be the art of the possible if they were to look each other in the eye and say, "Do you think this construct has outlived its useful life?

In order to begin the transition from the current management model to one that is more accountable, DOD will need to put in place an executive management team modeled after the publicly traded companies. All publicly traded companies and most private companies have an outside board of directors. Their role is to represent the shareholders' interests, provide advice and counsel to the Chairman of the Board as he/she works with the CEO leading the company, secure an outside audit firm to inspect the books, and in many cases determines the company's executive management team.

The traditional US management model is "one guy is responsible for everything." All roads lead to the CEO. In the US public traded firms, the Chairman of the Board, more often than not, is also the CEO. Underneath the CEO are the President and Chief Operating Officer. All businesses and support cost centers report to this person. If DOD went with the typical US model, the SECDEF would be the Chairman and CEO, the DEPSECDEF would be the Vice Chairman of the Board, and the Chairman of the Joint Chiefs of Staff (CJCS) would be the President and Chief Operating Officer and all of the Under Secretaries and Service Secretaries would report to the CJCS. Given the need for civilian control, this model would not be feasible.

If DOD adopted a prevailing European public corporate governance model, they could

Secretary of Defense = Chairman of the Supervisory Board
Deputy Secretary of Defense = co-CEO of Executive Board for product development & resourcing
Chairman Joint Chiefs = co-CEO of Executive Board for sales, support & service

DOD Supervisory Board of Directors	DOD Executive Board of Directors
Board Chairman: SECDEF (has the President's proxy)	DEPSECDEF: CO-CEO for Product Development
Director, National Security Council	CJCS: CO-CEO for Operations
Secretary of the Treasury	Secretary of the Army
Secretary of the Veterans Administration	Secretary of the Navy
Secretary of State	Secretary of the Air Force
Non Defense Industry CEO (paid)	Non Defense Industry CEO (paid)
Non Defense Industry CEO (paid)	Non Defense Industry CEO (paid)
Non Defense Industry CEO (paid)	Non Defense Industry CEO (paid)
Non Defense Industry CEO (paid)	Non Defense Industry CEO (paid)
Majority Whip (Senate)	Majority Whip (House)
Minority Whip (Senate)	Minority Whip (House)

work within the intent of the founding fathers and always have civilian control of the military.

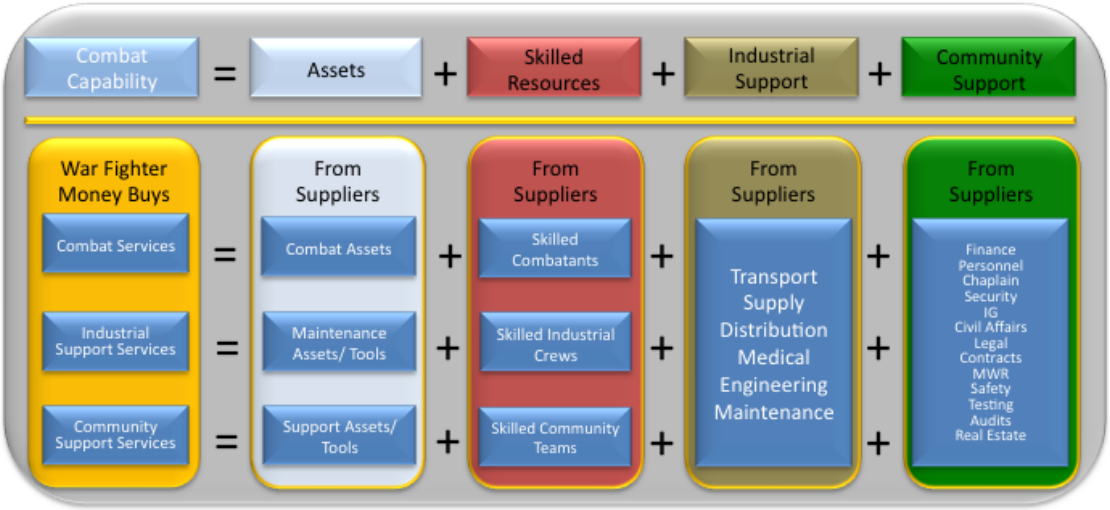
Their public corporations have two boards: a supervisory board and an executive board. The supervisory board is elected by the shareholders to provide oversight over the executive board. The Chairman of the Supervisory Board is the leader of the company. The

Supervisory Board decides how many members are appointed to the Executive Board and who is to serve as chief executive officer (the CEO or co- CEOs). The chairperson of the Supervisory Board regularly meets with the Executive Board or the co-CEOs to discuss their strategy, current progress in business, and risk management. The executive board in technology companies is often chaired jointly with co-CEOs. One CEO is responsible for Operations (delivery) and customer relations (outside) and the other CEO is responsible for product development and resourcing (inside).

In addition to providing a model for leadership, adopting the board could also be employed as the medium to collaborate with Congress. In so doing, it would seem reasonable that Congress would be amenable to repealing the myriad of laws that introduce so much nonproductive work over and above what is already an excessive overhead structure. By eliminating all of the reporting in exchange for adopting the standard industry requirement to report progress every quarter, Congress would have a steady view of the comings and goings at DOD. It seems reasonable Congress would be willing to drop the "colors of money" management approach in exchange for access to the books. Lastly, DOD should be compelled to certify their statements each quarter as well as file an annual report to the stockholders.

DOD may be scoped to five strategic business units (SBU)

Businesses are organized along common principles. All businesses have profit and cost centers. Whether the business is for profit or a nonprofit is of no relevance; the business fundamentals are still the foundation for success. Companies still need people to do the work, leaders and managers to develop, resources to produce and/or deliver capability (service) or product, account for and control the outcome, and provide the unqualified audit of the "books" for open stakeholder and regulatory review. The successful large global multi-national conglomerates that have met and dealt effectively with the rate of change in the 21st century have moved to a Strategic Business Unit (SBU) construct at the macro level. This model empowers each leader of their respective SBU to semi-autonomously manage their organization. Hire, fire, train, organize, budget, account, innovate, produce, and profit are all in his/her control. Similarly, each business unit within the SBU has the same



autonomy.

Looking at the figure 1 below, the Operations business as depicted in gold, is the reason the founders formed the company. It is what they do. The operations business has outsourced resourcing and support internally to the conglomerate. The resourcing business, enabled by money, secures the company capital assets depicted in silver and the people depicted in red deemed necessary to conduct the business in the market that the company was formed to compete. The support & services portfolios, depicted in brown and green, provide the means necessary to make sure the operations business continues to operate smoothly and without delay and support for the well-being of the employees.

With this in mind, the DOD and its three corporate entities each could be repurposed to operate five lines of business. The Defense operations business (Global Defense & Assistance) outsources its resourcing requirements to two business entities: Recruiting, Training & Education for its people and Product Development & Manufacturing for its equipment. It also outsources its support requirements to two others: Industrial Support & Repair for its resources and Community & Professional Services for its infrastructure. Using the same leadership model as the Defense Secretariat, DOD may repurpose the existing USD staff construct into one that is more discrete and identifies exactly what the USD is focused upon. Likewise each SBU in each Service rolls up to its corresponding Executive Vice President & Group President (Under Secretary of Defense) whose role is to keep track of each corporation's input to that line of business.

1. **USD, Recruiting, Training, & Education (RT&E) (Resourcing)**
   - Recruiting, Training, Education
   - Business Travel, Personal Property, Payroll, Housing & Relocation Services
   - Talent Management & Assignments
2. **USD, Product Development & Manufacturing (PD&M) (Resourcing)**
   - Aviation & Missiles
   - Ocean & Water craft
   - Tank, Automotive, Construction & Material Handling Equipment
   - Satellites, Communications & Electronics
   - Munitions & Weapons
   - Special Weapons
   - Individual Gear
   - Fuels, Lubricants & Chemicals
   - Medical Systems & Technology
   - Business Systems & Technology
3. **USD, Global Deterrence & Assistance (GD&A) (Operations)**

- Regional Operations & Assistance
  - US Asia Pacific Command (USASIAPACOM)
  - US Europe, Middle East & Africa Command (USEMEACOM)
  - US America's Command (USAMERICOM)
- Global Deterrence
  - US Strategic Command (USSTRATCOM)

- US Special Operations Command (USSOCOM)

- Global Support

- US Joint Industrial Support Command (USJINSCOM)
- US Intelligence & Network Operations Command (USINETOPSCOM)

4. USD, Industrial Support & Repair (IS&R) (Support)

- Medical, Dental & Veterinary Services
- Engineering and Construction Services
- Wholesale and consumer retail trade
- Warehouse management, storage, customs, transportation & distribution
- Equipment Repair & refurbishment
- Energy Management, Waste management & disposal
- Network Operations, Communications & Intelligence

5. USD, Community & Professional Services (C&PS) (Support)

- Inspections, Audits, Testing, Environment & Safety
- Legal, Contract Management, Insurance, Financial & Physical Security Services
- Real Estate, Installations, Communities and Hospital Management
- Morale, Welfare, Religious & Recreation Services

Chief, Human Resources
Chief Financial Officer
Chief Information Officer
Chief Procurement Officer
General Counsel

Chief Strategy Officer
Chief Technology Officer
Chief Corporate Initiatives
DOD Intelligence Officer

Chief Public Affairs
Chief Legislative Liaison
Dir Admin & Management

As mentioned, this model empowers each leader of their respective SBU to semi-autonomously manage their organization. Semi-autonomous implies there is some overarching framework to which all the business leaders must conform. That is true. The framework represents the cost centers of the corporation. Typically, every organization has three functional cost center groups.

The most common is the "set the table" group. They are responsible for framing the rules by which the company will operate. The second group is the "plot the future" team. The third group is the team that communicates with the public.

Today companies rarely if ever, replicate cost centers below corporate because technology allows consolidation without impacting the conduct of business and provides as good or better service. That means the SBU's do not need this overhead. They focus on the business…their customers.

What all of these companies recognized is their approach enabled the leadership to focus on their respective businesses. They learned that if they focus and align more precisely, efficiency followed. Focus bred efficiency. They also learned their investors would not tolerate a board of directors that convened to just rubber stamp the CEO's desire. They insisted on accountability and a voice at the table.

A Service organized into five SBU's Modeled after the DOD

Similarly, at the corporate level, (Army, Navy, and Air Force) this model allows each Service Secretary to collapse the Secretary staff, the military counterpart HQ staff and the MACOM HQ staff responsible for operating the line of business from three echelons of staff into one SBU at the Secretariat level. Using the Army as an example, the Army Secretariat would look like this:

- Secretary of the Army = Chairman of the Army Supervisory Board
- Under Secretary = co-CEO for product development & resourcing
- Chief of Staff, Army = co-CEO for sales, business operations, support & service

The leadership of each line of business would look like this:

ASA, Recruiting, Training & Education (RT&E) = EVP & Group President

PDASA = co-CEO for product development

CG TRADOC = co-CEO for sales, support & service

ASA, Product Development & Manufacturing (PD&M) = EVP & Group President

PDASA = co-CEO for product development

CG AMC = co-CEO for manufacturing

ASA, Global Deterrence & Assistance (GD&A) = EVP & Group President

PDASA = co-CEO for product development

CG FORCES = co-CEO for sales, support & service

ASA, Industrial Support & Repair (IS&R) = EVP & Group President

PDASA = co-CEO for product development

CG IS&R = co-CEO for sales, support & service

ASA, Community & Professional Services (C&PS) = EVP & Group President

PDASA = co-CEO for product development

CG C&PS = co-CEO for sales, support & service

This allows the Services to comply with public law that directs certain functions like finance and acquisition be managed at the Secretary level. Even more important is the "staff" is actually running a well-defined strategic business unit.

Phase II: Lean out the new organizations

Phase II is one that will generate a lot of angst. In this phase the DOD must address three core elements. The first requirement will be to evaluate all of the existing commands grouped within a SBU and discern if there is any commonality; the logic here is to determine if the commonality will allow the SBU leadership to merge two independent business units into a single business entity. Commonality may take a number of forms; product, location, mission or business, dependency or staff. Here are three examples:

Staff: If DOD looked at USD (P) and the Joint Staff (inclusive of the COCOMs) it would be fairly obvious there is a lot of duplication. Merging the two would "flatten" the staff echelons.

Location: If DOD were to evaluate the regional COCOMs, especially in light of how DOD has managed the war effort to date, it would appear DOD could consolidate regions. In WW II, the US managed the war effort in three regions. Anything left of the US was MacArthur's; right of the US was Eisenhower; in the center was Marshall's. Interestingly enough a sizeable number of global corporations follow this same delivery model and break the world into three regions: Asia-Pacific (ASIAPAC), Europe, Middle East & Africa (EMEA), and North & South America (AMERICAS).

Mission: If DOD were to look at AAFES, NEX, and MCEX, all retail store operations, it would seem their commonality would lend itself to a merger. Overhead would go down, operations costs could be driven downward and profitability would go up without increasing prices. That means more money for Morale, Welfare, & Recreation (MWR).

Following that exercise, the next step is to evaluate the new merged entity and determine how many subordinate management echelons are necessary in light of available technology. Here is an example:

Management: The Army Materiel Command's command structure manages its commodity maintenance depots, manufacturing plants, and supply storage centers. CECOM manages communications & electronics, JMC manages weapons and ammunition, AMCOM manages aviation and missiles, TACOM manages tanks & automotive assets, and NADICK manages troop support assets. Essentially these are fixed plants of which there are 29, give or take a couple. What if they took a page out of the Toyota book and eliminated the intermediate commands altogether? Certainly technology enables AMC to manage 29 independent plants. Envision the AMC operations center with 29 flat screens with streaming information on production, bottlenecks, inventory, inventory in transit, sales orders, reparable carcasses en route for repair, resource issues, backlog, work in progress, customer service centers, etc. All of this information is simply the result of people doing work at the plant.

The last aspect of the phase II journey is to look at the remaining management echelons and determine what could be done to reduce the size of the staff. The staff offices of each management echelon duplicate the parent. Again, technology should enable the lower echelons to reduce their staff complement. And again, here is an example:

Virtually all command echelons in the Services have the following staff structure:

- Commander
- Deputy Commander
- Special Staff: PR: CH: SG: JAG: MP: Protocol
- Staff: A/G/N/J 1:2:3:4:5:6:7:8
- Operations Center

What about changing it to this?

- Commander
- Director of Operations
- Director of Industrial Support
- Director of Community & Professional Services

- Operations Center

In this model, DOD adopts the same model that they use to manage the DOD in each organization. First, DOD eliminates the deputy; the director of operations is the next senior individual in the organization. Second, DOD reduces the number staff front offices from 15 to four in each echelon of command. Third, the operations center is the where everyone works.

Phase III: Automating the business: The Promise of Enterprise Resource Planning (ERP)

The DOD estimates it has 5000 legacy business systems in its portfolio, the vast majority of which are custom developed to address a specific niche need. The cost to sustain this in the Army alone is a $20B/year cottage industry for the defense contracting community. Only $7B is visible. The other $13B is buried in the O&M line. The Army has 750 business systems in its IT footprint. Each of the Services and Defense Agencies has been working independently to replace stovepipe legacy applications within confines of their functional domain with modules of a more modern application (ERP). This acquisition strategy was not borne out of stupidity; its genesis lies within the Services' organizational construct. So when the Clinger – Cohen Act instructed the Services to use computer off the shelf (COTS) products to replace its legacy systems, each stovepipe bought pieces of an integrated product to replace the stovepipe legacy application.

The Navy's journey began in 1999. Four separate commands independently started prototypes; each competed and selected SAP. By 2002, they had consumed $1B. The Navy determined they should merge these independent efforts. Over three years they modeled the "as is" state and the "to be" state at a cost of another $1B. In 2005 they began the effort to configure and deploy the first version of the merged ERP for NAVAIR. They subsequently rolled it out to NAVSUP and SPAWAR and are continuing to refine their future deliveries. They have purchased approximately $60M in SAP software to date.

The Defense Logistics Agency (DLA) started in 1999 and selected SAP as well. Over the next five years they consumed $1.2B to model the "as is", the "to be", customize the product and develop interfaces with legacy systems. They also paid SAP $60M to extend the SAP footprint to support purchasing for the public sector and to extend the SAP Oil & Gas solution to operate in the public domain. Their software purchases with SAP are approximately $30M to date. They are live and continue to extend it to other activities within the agency.

In the late nineties, the Army began its business systems modernization effort. In 1999, Army Materiel Command outsourced management of its inventory management (SDS) and depot maintenance legacy systems (CCSS) and hired CSC to modernize and replace these two systems as well as assume the government and support contract sustainment operations for the legacy systems; CSC chose SAP. Over the next 12 years they consumed $1.7B of working capital funds to model the "as is", the "to be", customize the product and deploy it. They are live, but have not been able to shut down the legacy systems the program was supposed to replace. The Army does not own this SAP instance. They rent it from CSC. CSC filed a $3B lawsuit in 2005 and is in the midst of arbitration with the Army.

Also in 1999, the Army G4 started G-ARMY to replace its field level Standard Army Management Information Systems (STAMIS) for logistics (supply, transportation & maintenance) and selected NG and SAP. In 2005 the Army G8 started GFEBS and solicited bids to replace its two standard financial systems (SOMARDS & STANFINS), again selecting

Accenture and SAP. Finally, also in 2005, the Army G4 determined that they needed a hub system (PLM+) to keep everything straight between these independent SAP programs as well as the remaining legacy systems that needed to either feed or get information to/from these systems. Again, the Army selected CSC and SAP.

Each of these programs has individual and unique SAP license and consultant support contracts. That means anything they buy from SAP may only be used for that specific program. To date these programs have consumed $1.8B to model the "as is", "to be", customize the product and develop interfaces with legacy systems. G-ARMY is not in production; GFEBS is in the process of being fielded. These three programs have purchased approximately $30M of software from SAP.

The Air Force began its business modernization effort in 2005 with ECSS. They selected CSC and a consortium of software led by Oracle. They have consumed $500M to date again to model the "as is" and "to be". A prototype of a very limited scope exists. The Air Force paid Oracle and its partners $100M for software.

The DOD, prior to the formation of the BTA, established Defense Integrated Military Human Resources System a program to modernize payroll. In February 2010, the DOD cancelled the program, after 10 years and $1B.

The Business Transformation Agency, in 2006, on behalf of the remaining Defense Agencies selected CSC and Oracle to modernize the remaining agencies business practices. They delivered a financial management solution to the BTA in 2008; but the BTA opted not to extend it any further.

What do these programs have in common?

- Stove-piped functional domains bought ERP to replace a legacy domain system.
- Each program spent years modeling "as is" and the "to be" as required by the DOD 5000 series program development approach.
- Each program customized the COTS product to adhere to current domain business practices.
- Each program has hundreds of interfaces with legacy systems. The domain owners of the legacy systems did not program funds to change their systems to comply with the stringent edits, the ERP requires. Data latency, data quality, syntax, semantics, and whose data is the correct answer surely are suspect and business process re-engineering is limited to the lowest common denominator…the legacy system.
- None of the programs possess any organic capability to configure, deploy and sustain their business system of choice.
- Financial systems cannot pass an unconstrained audit if the sales, distribution, time keeping, travel, payment, and procurement systems feeding it do not post to a common General Ledger and meet the same level of edits, process rigor, and security to which the financial system must adhere.
- The cost of the ERP software selected is trivial in context to the cost to implement IAW DOD 5000.
- In any commercial company they all would have been shut down long before they could consume $100M much less $1B.
- The return on capital employed is marginal at best.

Two other examples with different results

Independent of the national Navy programs above, Navy MWR runs its operations on SAP. Selected SAP in 2000 and began deploying it in 2001. As of today, MWR and its 2800 business users and 16,000 employees use SAP to manage financials (both appropriated funds as well as non-appropriated), contracting and payments in multiple currencies, sales & receivables, Point of sale interface, asset management, general ledger, NAF payroll, treasury, HR personnel administration, time keeping, travel management, employee self service, facilities management, retail operations which includes supply chain planning, transportation management, warehouse management, inventory management, and business warehouse. And they are able to pass an unconstrained audit every year.

Independent of the national Army SAP programs above the Army Armament Research, Development and Engineering Center (ARDEC), and its 5000 employees and customers use SAP to run their business. ARDEC selected SAP in 1999 as well. In 2002 they went live with their financial, budgeting, training, travel, time keeping, HR, project management, credit card management, contract management, and procurement modernization. They have been in production for eight years. Their financials handles all lines of accounting to include cash and working capital funds and manage $1.7B in revenue/year. They balance to the penny and complete year-end close in two days.

The stark contrast between their success and the lack of success of the national programs is too vast to ignore. What is/was the fundamental difference?

They each set out to automate their respective business

They each knew a business cannot pass an unconstrained audit if the sales, distribution, inventory storage, time keeping, travel, payment, contract, delivery, and procurement systems feeding it do not post to a common General Ledger and meet the same level of edits, process rigor, and security to which the financial system must adhere.

Under the covers at ARDEC: Why were they successful?

ARDEC had an <u>incentive</u> to do something. BRAC 1995 proposed to cut their organization budget by 40% and change their funding profile from a direct appropriation paradigm to a fee for service working capital fund paradigm. The mandate from the ARDEC leadership was to find a way to address the cut without losing an engineering resource.

The <u>ARDEC leadership led</u> the effort, which in no small measure was the key to their success; the cultural change was painful and significant. In fact it became personal. If the team charged with the responsibility to deliver did not have leadership top cover, the program would have vanished.

The team charged with delivering determined they needed to "trust" the product they selected and implement it as designed. Hence they eliminated years of "as is" and "to be" modeling and collectively agreed they would assume the <u>architecture and the functionality would be the product as available out of the box</u>. If there were differences, the leadership agreed that unless the law dictated the difference, ARDEC would adapt its process to meet the ERP approach. At the end of the day, ARDEC had nominal modifications or extensions to the baseline product.

The team at ARDEC asked themselves what they needed to implement so they could run their day-to-day business. By "team", the Picatinny Arsenal is not one business entity; they are a number of distinct organizations that report up through multiple chains of command.

Collectively, they realized that if they did not band together as a team and view their respective stovepipes as part of an overall business entity, they most certainly would have failed. They did not look at system replacements per se; they did the analysis of what they needed to run their business; that analysis led to what systems would be shut down in what order, and what systems they would retain.

In the end, they shut down one hundred twenty systems, retained six and interfaced with nine systems. They cut millions of dollars out of their budget and retained its engineering work force. To go live software expenses for 3200 people were $648,000. Implementation costs totaled $4M. Their software to services ratio is .65 to 4. Industry standard is 1 to 3. The national programs are running 1:100.

In the meantime we still have all this IT over here

Clearly the DOD and the Services are not going to re-organize overnight; so one might ask the question: is there anything the DOD could do to get started before the entire DOD is re-organized? The answer would be yes. The DOD should take advantage of the organic SAP talent it has at ARDEC and Navy MWR. Empower them to lead the way. Waive anything and everything that is not public law. Work with Congress to "waive public law" as deemed necessary.

The DOD needs to understand why the MWR and the ARDEC model worked and leverage it. The DOD modernization strategy is centered on the successful implementation of ERP in the Service and Defense Agencies. This is a good strategy. Even more important is the business model. DOD needs to organize around businesses and eliminate several echelons of staff in the process. The country cannot afford for DOD to remain in the 20th century.

Phase IV

As stated in the executive summary, this phase is the most difficult. It is the hardest because it will require both Congress and DOD acknowledge it takes two to tango; the DOD did not get here by itself. It is a classic "catch 22". Why would Congress be willing to repeal anything when the DOD has not demonstrated they can close the deal and provide them the visibility into its business operations? Why would DOD even take the first step if Congress holds them at arm's length?

As in most adversarial relationships, someone has to take the first step. Since Congress as the investor holds the upper hand, DOD will need to bite the bullet and demonstrate to the Congress they can deliver organizational efficiencies and provide the kind of accountability in a pilot. But Congress needs to be on board and supportive. What kinds business processes could be improved? Here's a short list:

- It will eliminate the artificial, congressionally imposed restrictions that encumber day-to-day financial management.
- It will eliminate the "colors of money" and the associated time limit to spend the money.

- It will require DOD to open its books and enable the Congress to run its own analyses against the same data the DOD uses. It will require DOD and Congress to establish an outside board of directors.
- In order to qualify for command it will require each commander become acquisition certified prior to taking command. Both the commander and the acquisition official will sign contracts.
- With the exception of GS 15's and SES's, it would mandate that the DOD civilian work force become funded through working capital funds.
- It would change the way the uniformed military and the civilian workforce operate. The uniformed military is the buyer and the civilian workforce is the seller.
- It would change the labor union construct. Anyone who wishes to be a GS13 or higher is not covered under the union agreement.
- It would eliminate the practice of moving every three years to somewhere else to do the same job.
- It would reduce the size of the executive airlift fleet by 80%.
- It would significantly reduce the four star billets in each service.
- It will require compensation plans that incentivize the employees to increase productivity. A portion of the money that is saved each year will fund the employee and executive bonus pool. Bonuses will not be direct funded.
- It will require Congress to allow the Services to keep 50% of the revenue from foreign military sales and apply it to a mutually agreed upon set or type of programs.
- It will change the working capital fund rules to require 50% down payment upon order and the remainder upon receipt.
- It will require the depots to warrant their repairs.
- It will require the depots to write off obsolescent parts in stock and apply that write off to their annual Net Operating Result.
- It will prohibit end of year buying just for the sake of obligating the money. There won't be a need since the money won't go away.
- It will change the current acquisition situation where the transaction costs and time needed to complete a transaction to put one person on contract is the same as putting 5000 people on contract.
- It will change the way DOD buys things all the way from end items to piece parts and supplies.
- It will eliminate artificial manpower protections such as the depot caucus 50/50 law.
- It will require Congress and DOD to stand up and say no to the "military-industrial complex." It will not allow Congress to insert pork spending on programs the DOD and its Board of Directors did not request because Congress is on the DOD BODs. For the same reason, it will not allow Congress to stop manpower reductions the DOD and its Board of Directors deem necessary just because the reductions will take jobs from members' districts.

And this **is** a short list. Congress and DOD need to vet these and many more together; demonstrate cause and effect and collectively face this adversary together.

Summary

The title of this paper, "The End State" has two meanings. On the one hand it represents a goal; on the other it is a goal that never ends. The need to morph the organization to respond to

threat is no longer a once every ten years gig. It is a daily event now and will eventually become an hourly event, just like it is on the battlefield. The world knows there is no military more able to morph to the conditions of the battlefield, respond accordingly and deliver the desired outcome than the United States military. The rules of war have changed. It is not enough to throw money at the problem and win by brute force logistics; in fact the country cannot afford to fund the DOD at the current levels of the Gross Domestic Product (GDP). The internal businesses supporting the military team in the field are now faced with a crisis they have never before witnessed: what was once a variable is now a constant. Change is constant. The military must now turn its attention to becoming the most efficient consumer of resources without sacrificing capability The support organizations in the Defense Department that provide resources, assets, support and service to the military need to acknowledge they have not kept up with modern organizational constructs and the corresponding improvement in business processes that have appeared over the last thirty years. They need to acknowledge if they were exposed to the same market forces as the private industry and had to compete today, they would not be relevant. The military needs to acknowledge they are fat in staff and lean on boots on ground. They too need to acknowledge, if they had to compete at a price point, they would get their butt kicked.

This will be the toughest fight the military has ever engaged because the enemy is the arrogance of the status quo.

J. Michael "Mike" Young is a logistician with a major in business software that facilitates business operations (logistics). A twenty-year veteran of the US Air Force, Mike has a B.A. in Political Science from the University of Georgia and knows enough about object oriented programming, user interface, and database design to keep out of trouble.