THE CIPHER BRIEF

Making the Pentagon More Efficient

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By General Norty Schwartz & Raphael Benaroya

It's been 15 years since the nonpartisan, nonprofit Business Executives for National Security (BENS) issued its first Tail-to-Tooth Commission call to action, a landmark report designed to suggest business-like ways to streamline and improve the Department of Defense's (DoD) overhead and infrastructure (the tail) to free up resources to put into military force structure (the tooth). Today, its recommendations still resonate:

- resist the temptation to launch yet another lengthy study

- target areas where the need to reform is well known, such as improving the process of contracting for services

- reinstitute outsourcing competitions, making the private sector the preferred provider of goods and services that are not inherently military in nature

- reform the Defense Department's financial process using activity-based costing

- adopt biennial budgeting.

We believe that the Defense Department still needs to retool its business model to know and contain cost. The Pentagon's goal remains to match its force structure with the threat picture but to do so with a business model for its operations that recognizes and compensates for the reality that resources are not infinite. This article takes up the issue of how to more efficiently and effectively resource the business operations of the Department with reference to the principles of a well-run organization.

In the intervening years since the BENS Tail-to-Tooth report, much change has occurred in the security challenges facing the nation. Without judging either extent or impact, the observable security landscape includes:

- new threats, both internal and foreign

- a reduced force structure and the advent of cyber and asymmetric forms of warfare

- fiscal constraints; the need to consider enduring efficiencies

- changes in means and tactics as the technology gap narrows

- a different calculus of what it means to deter

- an executive preference to favor diplomatic and economic tools in lieu of military actionThe evolving threat is polfical, economic, and demographic. In the Middle East, the adversary is ideological, and, made up of proto-state, non-state, and sub-state enties. Think ISIS/SIL, Hezbollah, Hamas. Internationally, China and Russia seek ascendancy; in what specific dimensions are uncertain. Across the developing world, nearly 40 percent of the population is under the age of 15, creating a huge demand on future resources and governing institutions. Climate change suggests complex consequences. Maintaining national security in this environment will require the Department of Defense demands levied on their security forces and programs.

-and other federal agencies to adapt their business operations to the reality of

More narrowy, the National Military Strategy of the United States of America, 2015, assumes a consistent commitment to "projecting global influence, supporting allies and partners, and maintaining the All-Volunteer Force." This level of support requires investment in capacity, capabilities, and readiness, but the strategy stops short of defining how this sufficiency will be achieved under fiscal and political constraint.

At this point, it appears much of the Pentagon's attention is on people: did we cut the active duty component too far? How will changes to the retirement system and other benefits affect recruitment and retention? Before these questions can be answered, however, there's a fundamental management decision that awaits. Given the long term budget trajectory, which rises only moderately in the face of projected costs, how should the Department allocate resources between operations and support to sustain a smaller, yet still formidable, military force?

The issue is the venerable infrastructure versus force structure, or tail-to-tooth, conundrum that BENS began to address many years ago.

DoD officials can look to the private sector, which faces the same decisions in responding to market downturns, industry innovation, and technological disruption. In anticipation of tighter markets, DoD's own defense industry suppliers have acted to restructure as they have in past downturns. According to Politico.com, the Pentagon's five largest suppliers- Lockheed, Boeing's defense unit, Raytheon, General Dynamics and Northrop-have in total eliminated 70 thousand jobs since 2008, "largely through layoffs, buyouts, attrition or, in the case of Boeing, moving employees to the commercial side of the business."

The list of best practices the Defense Department should investigate runs long. They include management actions to:

- eliminate duplication /redundancy while maintaining "surge" capacity

- consolidate and appropriately rationalize functionally-related activities

- eliminate excess real property

- make an accountable reduction in overhead and management staff

- reduce duplicative procurement of commercial services, especially professional services

- streamline levels of management review

- reduce inventory to demand levels plus a safety buffer

- determine most efficient and effective source for maintenance, repair, and overhaul

- intensely manage real property maintenance/establish a capital budget

- modernize compensation, pay, and benefits

- determine most efficient and effective source for logistics, transportation, and sustainment

- rationalize and consolidate IT platforms and services

Not to say the Defense Department has not attempted management reforms. The sequestration-related budget law that capped military spending through 2021 compelled the Army to shed more than 100 thousand troops since the 2010 peak. In addition to troop cuts, the Department says it will reduce all headquarters' staffs 20 percent by 2017. But defense companies have also taken further steps, rationalizing capacity by both consolidating, e.g., Harris buying Exelis or Orbital Sciences merging with Alliant Techsystems; and, divesting non-core assets, e.., Lockheed Martin parting with its Information Systems and Global Solutions business unit, BAE Systems contemplating sale of its U.S. service subsidiaries, Computer Sciences Corporation separating from its federal IT business. Note that these last few entities are mostly providers of services, which, significantly, consume more than half of the Pentagon's annual contract dollars.

To improve the way it buys goods and services, the Pentagon embarked on an array of programs Better Buying Power 3.0, employing more commercial applications in satisfying requirements, and looking to Silicon Valley with a Defense Innovation Initiative to attract more non-traditional suppliers to the defense marketplace. But these efforts affect only its external business policies. What it has avoided, abetted by the unwillingness of its 535-member board of directors in Congress, is thorough examination of its internal operating environment and its aging and obsolete physical infrastructure. Such neglect misses the opportunity to realign DoD's business model to the reality of available resources.

Where should the Defense Department initially focus? Here's a seven-point blueprint that the current DoD leadership should leave for its

First, know what things actually cost. The Department needs to deploy a full cost accounting structure across all its entities. It is already. aiming (actually, being directed) to be "audit ready" by September 2017. That should be just the initial step. The current goal the ability to account for what has been spent-is insufficient for making managerial decisions. That ability requires knowing and allocating true costs before making operational and support trade-offs.

Second, with regard to containing cost, expense management should be considered a long-term fitness goal rather than a crash diet. Expenses need to be reviewed frequently and procedures for managing expense need yearly refinement. Find ways to reward innovation in managing expenses efficiently.

Third, invest on tooling for the future. Innovate, think outside the box, and slay sacred cows. Reconsider the Department's position on Research and Development dollars. Defense R&D spending dropped about seven percent a year from 2009-2012 and remains relatively flat through 2015. At the same time corporate

R&D spending at the top U.S. defense firms dropped from 3.5 percent to about 2 percent of sales, according to Capital Alpha Partners. The Pentagon response has been to tum to commercial technology for solutions. But reliance on commercial technology is only going to get you the same state-of-the-art that avails itself to everyone else in the global marketplace, not necessarily leading -edge applications of military value. DoD needs to incentivize its defense suppliers by focusing its R&D spending on militarily relevant technologies. Independent, company-sponsored R&D needs to be informed by better communication from the Department on its technology needs.

Fourth, shed non-productive assets. DoD needs to reduce excess real property and obsolete capital goods. Much of the defense industrial complex has done so by consolidating suppliers and internally merging its business units. For DoD, the base closure and realignment process-BRAC—is the preferred solution. After stonewalling the Pentagon's request for the past three years, Congress now appears more amenable and will be, perhaps; more so following next year's elections: However, the Department should not delay. It can pursue its own interal consolidation, pull in the fence posts where necessary, and make greater use of its authorities to enter into community partnerships for shared services and enhanced use leasing agreements for non-performing assets. These measures apply equally to the Department of Homeland Security.

Fifth, reform acquisition. Complexities and encumbrances in today's buying process increase the time it takes to field new systems and push up cost. Thinking in business terms, the Defense Department has to get better at innovation, the root of productivity. Structurally it needs to align responsibility and accountability within the organization. It must rout out internal process encumbrances by rationalizing bureaucracy (the antithesis of creativity), while also addressing encumbrances laid on by Congress and regulatory agencies. It must establish metrics to measure key performance parameters and employ methodologies to drive change in behavior. Enabling innovative thinking and risk taking needs to extend beyond the fighting forces to include the support infrastructure where a growing percentage of the resources are being spent.

Sixth, become a smart buyer. DoD needs to approach its supplier base not as a defense-focused industrial base but as an interconnected marketplace made up of traditional suppliers, commercial firms, and foreign companies— a truly global marketplace. Competition, not price alone, should be the objective function that drives defense acquisition. While there are some niche technologies and capabilities that only a dedicated defense industry infrastructure can provide, focusing on sustaining only a traditional marketplace precludes access to the wide range of offerings, particularly business services, which exist in the broader marketplace.

Finally, and not the least important, shine a spotlight on the most valuable national security asset: our service men and women-active, reserve, and when they retum to civilian life. While voices are raised to bend the trajectories of future personnel-related costs, it must be remembered that the men and women who gallantly serve do so at risks greater than most of their fellow countryman and with the expectation that they and their families will receive not only the respect but earnest support for what they do. This support must include encouraging the Veteran's Administration to change. A surge in VA cases, in part caused by an aging Vietnam-era population, calls into question both the capacity and geographical availability of VA services. Open the VA to vast numbers of private suppliers with an aim to redistribute care where they can be most effective. The VA needs to change from a service provider to an administration that provides cess to the national healthcare marketplace. It should not offer services that the domestic market can provide with greater proficiency and improved access.

Of the four pillars of national security-the quility of government, or, more precisely, the rule of law, stable foreign relations, a robust national economy, and a strong military military power is the most likely for political leaders to misjudge. The reasons are varied, but they center on the inability to correctiy assess true threats to the nation's basic security. On this count, we have consistently come up short, and when we do make an accurate assessment, it's at the eleventh hour.

Much discussion occurs over whether our military forces should be threat or capabilities-based. It depends on our ability to see the threats contecty. In projecting its future force, today's Pentagon must get better at matching its capabilities in structure, equipment, and people to a realistic assessment of likely threats. It requires certain preconditions to exist the quality of military intelligence, leadership foresight and intellectual effort, and a mechanism to transform identified threats into fielded capabilities. Further, the force of the future must be tuned to the threats of the future, which means that our military strategists must improve their ability to anticipate change in the nation's security challenges and read evolving threats correctly. All of these goals can be facilitated by attending to the business of defense by ensuring that resources flow to the operational side of the Department and not excessively to redundant or inefficient governing infrastructure and legacy processes. Enlightened defense infrastructure management can free up necessary resources if best business practices are studied carefully and implemented wherever possible.

General Schwartz is President and CEO of Business Executives for National Security (BENS) and former Chief of Staff of the United States Air Force.

Raphael Benaroya, chairman and CEO of Rochelle Park-based United Retail Group Inc., is a member of the Executive Committee of Business Executives for National Security and the BENS Tail-to-Tooth Commission. The Washington D.C.-based BENS is an organization that applies successful business models to national security issues.