Recommendations for the Department of Defense:

Improve Effectiveness and Reduce Costs of Defense Business Operations

To answer the Defense Department Comptroller's request that BENS review its past recommendations for improving and reducing the cost of defense business operations, we searched back to the first BENS Commission on Fundamental Defense Management Reform in 1992 and subsequent efforts, including BENS 2001 Tail-to-Tooth Commission and last year's Task Force on Defense Acquisition Law & Oversight. Then, we went further, asking the BENS membership to identify the areas of their companies that they would look at to identify potential cost savings and efficiencies. The top lists were remarkably similar: Eliminate redundant capabilities, get financial management visibility, reduce layers of oversight, outsource non-core functions, and get rid of excess real estate and real property through leases and sales.

What follows are the consolidated recommendations of the BENS membership on what the Defense Department ("DOD" or "the Department") might do to improve and reduce the costs of defense business operations in six areas: civilian workforce, acquisition leadership, the procurement process, information technology, the management and use of facilities, and strategic planning and continuous improvement.

I. *Improve the Civilian Workforce*

A strong civilian workforce will enable DOD's business operations to function with greater efficiency while maximizing resources and decreasing costs overall. DOD should work to ensure the workforce is properly trained and motivated to perform effectively. Additionally, DOD should work to retain the best acquisition employees, while eliminating weak and redundant staff.

Get More from the Workforce

- *Invest in the Workforce* – Invest in the civilian workforce and engage in meaningful succession planning. Providing employees with the proper education, training, and career path development will create a more highly skilled civilian workforce, likely decrease employee turnover, and garner efficiencies and cost savings overall.   Personnel involved in the contracting/procurement process lack the requisite industry knowledge of how commercial companies operate. RFPs are often released without a clear understanding of the overall objectives. The workforce needs to become more business savvy on how contractors operate.

- *Implement Pay for Performance* – Implement a pay for performance employee compensation structure.   Increasing individual employee accountability through pay for performance employee compensation has proven to be an effective tool for driving results and ensuring efficiency in the private sector.

- *Create an Improvement and Innovation Incentive Program* – Emphasize formal programs whereby employees are encouraged and rewarded for suggestions that directly

improve efficiencies and reduce costs, capitalizing on the likelihood that lower level employees will spot cost saving and efficiency enhancing opportunities. This process, in turn, will enable lower level employees to have a stake in the Department as a whole, leading to greater commitment to defense business operations overall.

- *Retain the Best Employees* – Provide appropriate compensation and other incentives to retain the Department's best employees. Employee turnover is significant in DOD, and in many instances, the best employees leave the government for the private sector in order to sell their services back to the government for a significantly higher price. Increasing retention of strong employees will also reduce DOD recruitment costs.

- *Technical Representatives* – Train not only the contracting officers but the COTRs so that they can ensure that the provisions of the contract are properly met and that incentives are properly distributed.

Evaluate and Reduce Workforce

- *Re-Visit the Role of Contractors* – Eliminate the use of contractors for inherently governmental functions and maintain the use of contractors for non-core services. Contractors should be utilized to fill skill gaps and to staff short-term projects, not to fulfill core missions. The size of DOD's workforce, and its associated costs, can be reduced by outsourcing non-mission critical, non-core services.

- *Reduce Staff* – Eliminate lower quality workers to reduce cost and inefficiencies. Cut redundant operational support staff and their associated contractors, especially support staff for projects eliminated or delayed. For example, consider cutting the DOD civilian workforce by approximately thirty percent and eliminating thirty percent of the general officer, colonel officer, and Senior Executive Service billets. These large reductions in staff, if done carefully, are one of the most effective ways to reduce costs.

- *Reign in Growing Healthcare Costs* – Reign in growing healthcare costs for DOD personnel. The Defense Business Board's Efficiency Initiative (July 22, 2010) concluded that the recently rising costs of health benefits are the result of Congressionally-mandated expanded benefits, not from growth in the cost of basic medical services. DOD must work with Congress and the Military Services to reign in unnecessary and expensive healthcare expansion.

II. *Strengthen Leadership*

DOD needs talented, experienced, and dedicated leaders to increase efficiency and reduce spending. In order to attract top leadership, service in the acquisition process must not negatively impact a military career.

Reduce Management Layers

Streamline decision making in the procurement process by reducing management layers. De-layer middle management overhead and functions, and reduce the number of senior managers to only the number needed to perform effectively.

- *Implement Leadership Pilot Program* – Implement a pilot program to build a more effective leadership and management culture in a few modestly-sized DOD entities or programs. The "Rules of Engagement" for such a program should include:
    - obtaining appropriate congressional authorization to liberate the pilot programs from prior legislation and regulatory constraints;
    - defining very ambitious expected changes and outcomes from the pilot programs, and putting into place clear and appropriate, short-interval financial reporting systems to regularly display progress and accomplishments versus the goals; and
    - designating an empowered, accountable leader for each pilot program.

III. *Improve the Procurement Process*

DOD should evaluate the entire procurement process in order to implement necessary reforms, incorporating standard planning tools such as rationalization, simplification, consolidation, and incentives for achievement of goals. DOD should look for opportunities to eliminative redundancy and reduce overhead. Potential opportunities for consolidation and redundancy elimination exist in back-office services, including accounting, payroll, and human resources, as well as research and development, and purchasing and supplier rationalization.

Re-Evaluate and Articulate Requirements

Real savings will come from managing requirements. Reduce or eliminate programs that are not relevant to future security threats. In addition, clearly define requirements for contractors from the start in order to ensure transparency and streamline the procurement process. The current lack of clearly articulated requirements might be a contributing factor to the large number of contract protests.

- *Establish Metrics for Requirement Evaluation* – For instance, the metric might evaluate requirements based on the extent to which they meet the well-stated needs of the user, make it easier to bid (thus reducing costs), make it easier to evaluate and award, and reduce opportunities for protest.

Improve Contract Execution

- *Reduce Paperwork and Contract Timelines* – Implement procedures to reduce contracting paperwork and enforce decision timelines. Reduce the time from the start of a project to the end of a project.

- *Determine Contract Type on a Case-by-Case Basis* – Utilize fixed cost contracting, rather than cost plus contracting, for adequately specified contracts. Cost plus contracting provides incentives for contractors to perform inefficiently because they have built-in margins regardless

of their operational expenses. In contrast, fixed cost contracting often forces service providers to be more efficient as cost over-runs directly impact their profitability. However, fixed cost contracting may have unintended consequences, such as price escalation, if used inappropriately. Use cost plus contracting when either government requirements or industry processes cannot be adequately specified to support pricing.

- *Eliminate Prime Contractor Skimming* – Eliminate the practice of prime contractors taking a margin on sub-contractor revenues. Often when a prime contractor is directed by DOD to use a particular sub-contractor, the prime contractor will take a margin on sub-contractor revenues. By eliminating this "skimming," significant cost savings could be maintained.

- *Set Contract Price* – Perform cost estimates and name the price for goods and services contracts. If no service provider or supplier "hits the bid," the project will not move forward. Naming the price for goods and services forces service providers and suppliers to be more creative in limiting their costs. Establish fact-based, true-cost baselines to ensure budget stability.

- *Utilize Competitive Prototyping* – Experience shows that funded, competitive prototyping leads to more robust competition, better prices, and higher customer satisfaction. Begin by deploying competitive prototyping in the Air Force's refueling tanker procurement.

- *Maintain Strict Oversight of Organization Conflict of Interest (OCI)* – Maintain strict oversight of OCI to encourage free and open competition, which will drive costs down over time.

- *Utilize the "PACE" Method for Improving Projects* – One method for increasing contract execution effectiveness is through the "PACE" (Product And Cycle Time Excellence) program developed by Michael E. McGrath of the Thomas Group (*Setting PACE in Product Development*, edited by McGrath).

Incentivize Contractors

Provide incentives for contractors to meet DOD's defense acquisition needs. To incentivize contractors, DOD must recognize contractors as profit maximizing entities, eliminate weighted guidelines and the practice of treating "excessive profits" as improper, and allow contractors to earn and keep significant profits. Encourage competitive sourcing in the procurement process in order to ensure DOD receives the best prices for products and services. Expand the use of multi-year contracts to further incentivize contractors. In addition, seek to improve cash flow for contractors. For example, offer twice monthly payments in exchange for a reduced price.

- *Institute Continuous Competition* – On all major acquisition programs, institute continuous competition. Take steps to minimize the current practice of one-time competitions that produce a sole source winner with a very strong monopolistic power. Instead, institute competition throughout the acquisition process. For example, in the design phase, fund a viable second source at a lower level to provide a "Plan B" if the lead contractor falters. In the production phase, utilize leader-follower approaches (common with missiles) or split buys. In addition,

requirements could be scaled to match what the commercial marketplace currently provides (and the marketplace by definition is competitive).

- *Utilize "Super-Sized" Incentives* – On the most important acquisition programs, utilize super-sized fees or bonuses that are strongly linked to one or two critical variables, such as a schedule or a key technical variable. It is important to be bold, offering unusually large incentives to solicit the contractors' best efforts. In most cases, the cost of the incentives will pay for themselves, as they will amount to less than the cost of the typical program over run. It is important to note that these incentives should be used only for the most critical jobs because they can be construed by oversight or the media as wasteful kickbacks on a typical contract.

Implement Contractor Evaluation

Evaluate the performance of each program and each supplier on a regular basis. Eliminate or reduce funding for those programs and/or suppliers ranked in the bottom decile each year. To facilitate supplier evaluation, establish performance metrics for translating defined requirements into effective contracts.

Reform Contract Protest Processes

Streamline or eliminate contract protests. The time, intellectual capital, and money spent on protest processes is significant and occurs on several high visibility contracts. In addition to the cost associated with the program, protests lead to significant product and program delays. Finding a streamlined way of reviewing protests or eliminating them completely could lead to material cost savings and increased operational efficiency.

IV. *Improve Information Technology*

Improving DOD's information technology (IT) systems and infrastructure can both increase security and significantly reduce operation costs.

Maximize IT Operational Efficiency

- *Build System Interoperability* – Create systems for the armed services that tie into one another so that processes can be streamlined, costs minimized, and information flow maximized.

- *Purchase (Rather Than Develop) Products* – Consolidate purchasing and licensing and buy commercial off-the-shelf products that pass software assurance requirements. Stop developing what can be purchased. Review existing procedures for potential changes to better integrate DOD programs with existing products, rather than urging industry to develop products to fit the needs of the Department. This approach will lower development costs, maintenance support, and training for users.

- *Increase Portability* – Increase employee use of mobile devices as well as intranets and off-site log-ins (Cloud Computing) to maximize efficiency and ultimately reduce costs.

Modernize and Create IT Infrastructure Now

Build infrastructure now to capitalize on the potential savings of new IT systems. Although the Service Oriented Architecture (Cloud Computing and Virtual Secure Environments) promises reduced maintenance costs over the life of new large scale systems, this payoff will not be realized unless accreditation time and cost is reduced. Build the proper infrastructure now to assure the planned billions of savings in the future.

- *Invest in Solid State Drives* – Investment in Solid State Drives (SSDs), as a replacement to traditional hard drives, presents an opportunity for reducing energy consumption and increasing network security. SSDs require significantly less electrical power, and generate far less heat than traditional hard drives. In addition, SSDs are safer locations to store data, because they are less vulnerable to crashes than traditional hard drives.

- *Increase Bandwidth to Lower Communications Costs* – DOD is the largest user of communications services in the world. If DOD was more aggressive in its purchase of Dark Fiber network capacity instead of the older, more expensive TDM circuits, DOD could significantly lower its communications costs. By changing the network interfaces to the Global Information Grid (GIG) from 10 Gigabits to 100 Gigabits per section, the GIG will have ten times the current IP backbone capacity at a lower cost per bit. Faster communication will facilitate the increased use of teleconferencing, thus eliminating unnecessary travel, resulting in an additional cost savings.

Address the Lack of IT Personnel in DOD

To address DOD's continuous and growing difficulties recruiting and retaining IT experts and support personnel, there are the following options:

- *Remote Unattended IT Support* – Provide distributed tools and technologies that can expand the role of fewer IT experts to provide the basics of IT and information assurance (IA) support over larger areas of connected facilities. These tools decrease the costs associated with the difficulty of hiring, training, and retaining IT personnel.

- *Insource Core Technology Functions* – Instead of outsourcing core technology functions, grow the technology talent pool within DOD to build DOD's capacity in the future.

- *Expand IA Training* – Expand information assurance education to warfighters to reduce outages and exposures to costly emerging threats. This training can be as simple as the cyber security card game provided free from Microsoft based training tutorials.

V. Improve the Management and Use of Facilities

In addition to excessing unneeded and underutilized real estate and facilities through sales, leasing, consolidation and Public-Private Partnerships, DOD can save money by modernizing construction oversight and continuing to improve energy efficiency.

Modernize Construction Oversight

Modernize engineering and construction processes, leveraging acceleration modular construction techniques that are cost effective and timely. On the whole, DOD uses an outdated, process oriented, construction procedure with excessive layers of echeloned oversight and approvals. Analyze the cost per square foot on DOD projects versus commercial alternatives to determine the effectiveness of this approach. The new FORSCOM headquarters being built at Fort Bragg under BRAC may be a particularly good case to examine. DOD should also develop processes to provide more flexibility to lease building space outside of the MILCON process.

Improve Energy Efficiency

Improve energy efficiency by making near-team investments, including investing in more energy efficient facilities, better and more efficient construction techniques, and smarter thermostats and controls, and by developing policies that measure and provide incentives to improve energy efficiency. This is a classic case of focusing on "low hanging fruit," in that with little effort, savings can be achieved. Importantly, the focus of energy efficiency should not be spending billions on a complex smart grid system, although the smart grid may also be a compelling investment. In the major private sector renewables portfolios in the corporate world, including global giants like Wal-Mart, demand management, or consumption reduction energy efficiency techniques, actually drive most of the major savings success stories to date.

- *Implement Automated Energy Management Systems* – The IT infrastructure, such as copiers, personal computers, printers, routers, switches, access points, IP phones, servers, and data centers, runs continuously. By implementing automated energy management systems that work across the entire IT infrastructure, DOD could save millions of dollars. Commercial companies are starting to save billions of dollars just by turning off unutilized IT equipment on nights and weekends. There are many companies pioneering automated energy management systems, including JouleX (www.joulex.net) and EnergyWare (www.energyware.com). These systems work around the clock, year in and year out, to reduce operating costs and carbon emissions.

- *Research Opportunities for Nuclear Power Use on Military Bases* – DOD should investigate the potential long-term savings to be garnered from investment in the use of nuclear power on U.S. military bases. "MicroNuclear Power" presents an opportunity for smaller nuclear powered reactors that are scalable systems, and may be strung together in a MicroGrid arrangement to meet the specific electrical loads of an individual military base. Investment in nuclear power will lower the total cost of electricity across the Department, and will eliminate peak load charges.

- *Delay Investing in Major Solar Power Projects for the Short-Term* – Solar panel technology is improving so rapidly that solar panels in 2013 could be as much as 66% more efficient than today's technology. A two or three year delay in purchasing large quantities of solar panels will result in an increase in DOD's return on investment and overall savings.

VI. Make Continuous Improvements to Defense Business Operations

To ensure that savings and efficiencies in defense spending become permanent, DOD should strive to make continuous improvements to defense acquisition by implementing real time financial management and operational dashboards, building trust between the interested parties, determining priorities, and establishing public/private and cross-agency forums for exchange of ideas and best practices.

Implement Real Time Financial Management & Operational Dashboards

Use metrics and an information management system to aid managers and supervisors in monitoring the effectiveness of their employees and programs. To increase manager accountability, determine metrics (such as cost, timing, and quality) for each program, setting goals in advance. Then, track the metrics and goals through an information management system. Real-time data should be provided so that any issues are found and rectified quickly. This data can then be rolled up into summaries for each relevant individual up the chain of command. This, in turn, keeps employees more accountable, thus increasing the efficiency of the Department overall.

Build Trust

Trust between parties affects the speed and cost of transactions. When trust between parties increases, the speed of the transaction also increases, and consequently cost decreases. Trust requires the alignment of values and a clear understanding of expectations. Trust can be lost when poor execution and inadequate communication create bad results (*The Speed of Trust*, by Stephen Covey).

Effective defense acquisition must be trust-based and founded upon ethical comportment by all parties. Today, a lack of trust interferes with the relationships between Congress, DOD, and the defense industry. While the causes are varied, predominant among them is the adversarial nature of the government-industry relationship that has evolved over the past several decades. The result is a damaging increase in expensive legal wrangling, protests concerning contract awards, and lack of candor between the government and the private sector (BENS Report, *Getting to Best: Reforming the Defense Acquisition Enterprise*, July 2009, p. 1).

- *Communicate and Establish a Transparent System* – Ensure that the interests and incentives of all enterprise stakeholders are communicated and understood. Establish a transparent system for setting common goals, communicate all necessary information, and agree in advance on metrics for gauging success.

- *Enhance Trust By Changing Behavior* – Demonstrate that DOD is serious about changing its behavior. For example, start by using competitive prototyping for a high profile project, such as tanker procurement.

- *Implement Transformational Change* – Explicitly make the case for the benefits of change and action while emphasizing the Department's mission. Engage senior stakeholders in the process and enable them to take ownership of the change. Apply the correct resources to obtain achievable results. Ensure that all stakeholders understand that the changes in the organization are a means to achieving the Department's fundamental mission. In addition, pursue a partnership between DOD and all stakeholders outside of the Department.

Determine Priorities

Determine priorities and present a consistent message. For example, "increasing efficiencies and reducing cost" conflicts with the goal of "involving dynamic small businesses" in the defense acquisition process. Devoting acquisition resources to regulating, training, implementing, and litigating issues related to wealth distribution, such as what percentage of the pie goes to small firms, women-owned firms, and the firms of service-disabled veterans, also conflicts with the DOD's cost-saving goal.

Insourcing

Failed outsourcing strategies have prompted the "need" for in-sourcing. Without the appropriate training and industry knowledge, in-sourcing jobs will decrease productivity while increasing operational costs. In-sourcing still creates a need for greater oversight and accountability.

Establish Public/Private and Cross-Agency Idea Exchanges

Establish a continuous dialogue between government agencies and the private sector to enable the government to stay current in terms of innovations and other efficiency tools. The Institute of Defense and Business (at the University of North Carolina) is one example in the transportation and logistics sector where this currently takes place.

Form cross-functional and cross-agency initiatives within the Government to provide a forum to exchange ideas, discuss best practices, and eliminate duplicative costs and efforts. For example, DOD can improve communication between DOD and the private sector through quarterly meetings with industry CEOs. To increase contact with the private sector, DOD should move more DOD and active-duty military personnel into private sector interfacing roles. For long-term improvements, DOD can convene a joint Industry/DOD team to identify and eliminate redundant processes and procedures in defense acquisition.