
Promoting Efficiency in the
Department of Defense:
Keep Trying, But Be
Realistic



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by

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The Center for Strategic and Budgetary Assessments is an independent public policy research institute established to promote innovative thinking about defense planning and investment strategies for the 21st century. CSBA's analytic-based research makes clear the inextricable link between defense strategies and budgets in fostering a more effective and efficient defense, and the need to transform the US military in light of the emerging military revolution.

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PREFACE

For decades, every incoming presidential administration has sought to improve the efficiency with which the Department of Defense (DoD) conducts its business-like activities and support functions. Such efforts are important not only because they offer a means of reducing costs, but because they can lead to improvements in the way services are provided.

The Center for Strategic and Budgetary Assessments (CSBA) commissioned this monograph on DoD efficiency initiatives in order to accomplish three goals: first, to provide the reader with a concise description of recent efforts in this area; second, to identify the main barriers that hinder efficiency improvements; and third, to offer recommendations about how these barriers might be overcome to achieve more significant levels of savings in the future. The monograph is particularly timely because the Bush Administration has placed considerable emphasis on achieving efficiencies throughout government.

The author of the report, Robert F. Hale, has spent much of his career evaluating DoD programs and activities, and participating in efforts to improve the efficiency of those activities. Mr. Hale is currently a Senior Fellow at the Logistics Management Institute. From 1994 until 2001 he served as Assistant Secretary of the Air Force (Financial Management and Comptroller), a position that put him in charge of the accurate and efficient execution of annual budgets of more than \$70 billion. Mr. Hale also spent many years with the Congressional Budget Office, including eleven years as head of the group responsible for providing Congress and the public with analyses of major defense issues. He served in the U.S. Navy from 1969 until 1972 and remained in the Navy reserves until 1977. Mr. Hale is a fellow in the National Academy of Public Administration, a life member and former national president of the American Society of Military Comptrollers, and a Certified Defense Financial Manager (CDFM).

With regard to efficiencies, Mr. Hale urges that DoD be realistic, but keep trying. He suggests modifying traditional approaches to reforming the Defense Department by focusing more on incentives, increasing the role of senior managers, drawing from experience in the field, and establishing better metrics for measuring progress toward achieving savings. Such efforts are not likely to yield *dramatic* savings, but in the context of an annual defense budget exceeding \$300 billion, even savings that are small in percentage terms can amount to billions of dollars a year. The events of September 11th make it only more clear that the Defense Department cannot afford to waste any of its resources on unnecessary or inefficient programs and activities. It is CSBA's hope that this monograph will stimulate further debate and discussion about this important subject.

EXECUTIVE SUMMARY

Secretary of Defense Donald Rumsfeld has suggested that his department could save \$15 billion a year through efficiencies if given the freedom to do so. Numerous studies have also asserted the potential for efficiencies in the Department of Defense (DoD), some arguing that savings could total \$30 billion a year or more. Actual savings, however, appear much more modest. Why is it hard for DoD to achieve efficiency savings? How can the department promote efficiencies more effectively?

PAST SAVINGS APPEAR RELATIVELY MODEST

In recent years the Defense Department has achieved efficiency savings that are significant in absolute dollars. (In this study efficiencies are defined as initiatives that reduce costs while providing the same or better levels of capability.) Base realignments and closures appear to have cut costs by at least \$5.6 billion a year, though some of those savings are associated with force cuts that reflect changes in national security threats rather than efficiencies. Permitting private companies to compete for jobs currently performed by government employees, known as competitive sourcing, may yield savings of \$1 to \$2 billion a year if all current plans are carried out. Savings from acquisition reform and better business practices have added to the total, though by amounts that are difficult to quantify.

Despite these successes, the efficiency savings achieved in recent years appear to be modest compared with the size of the defense budget and fall well short of the tens of billions of dollars in savings some past studies have suggested might be possible. Nor have efficiencies halted the growth in operating costs. After adjusting for changes in force size and inflation, day-to-day operating costs have consistently and persistently increased for decades. Some of this growth reflects new missions such as peacekeeping operations and in health care costs. But in recent years much of the growth in operating costs has occurred in accounts related to infrastructure, which should be prime candidates for efficiencies. These aggregate budget trends make it more difficult to conclude that large efficiency savings have been realized.

BARRIERS TO ACHIEVING EFFICIENCIES

Resistance to change is part of the reason efficiencies are hard to achieve. But there are also more fundamental barriers.

- **Nature of Military Mission:** The department's primary and overriding mission is to deter wars and if necessary, fight and win them. Neither profit nor efficiency appear in this statement of mission, in contrast to most private firms where profit represents a key goal. Not surprisingly, DoD commanders and managers focus on making planes fly and tanks run rather than on efficiency, a focus that will be heightened by the events of September 11. This is the most important barrier to achieving efficiencies in the Department of Defense.
- **Pressure to Spend Budgets:** Most commanders and managers believe that they must spend all their current budget or face cuts in future years, an attitude that does not promote

efficiency. The author's experience on a government aircraft, which slowed down in flight in order to use all its budgeted flying hours during the year's final mission, highlights this problem in a tiny but telling way.

- **Lack of Incentives:** DoD's field-level managers have little incentive to spend the time and make the hard choices necessary to achieve efficiencies because their units usually do not benefit from the effort. By contrast, in both the private sector and at least some foreign militaries (Australia for example), managers have stronger incentives to promote efficiency.
- **Congress Factor:** While it does many things well with regard to national security, Congress sometimes blocks or hampers DoD's effort to improve efficiency. Pork-barrel spending and reluctance to permit changes, such as base closures, do not promote efficiency.

BE REALISTIC, BUT KEEP TRYING

These barriers suggest that DoD should be realistic in assessing the prospects for future efficiency savings. The idea that multiple tens of billions of dollars a year can be saved through efficiencies over the next few years—and used to pay for new programs—is almost certainly unrealistic. Because of DoD's mission focus, managers tend to translate efficiencies into improvements in performance rather than savings, making it even less likely that large sums will be freed up to pay for new initiatives. Because it is hard to achieve efficiencies, another lesson is clear: DoD should avoid using efficiency savings to fill budget shortfalls until the savings are actually realized.

While formidable, barriers to efficiencies should not be an excuse to stop seeking them. In an organization as vast in size as the Department of Defense, even modest percentage reductions in costs can result in large savings for the taxpayer. Moreover, while it is hard to identify past initiatives that have saved tens of billions a year, history suggests that efficiency savings could total multiple billions of dollars a year—surely a goal worth pursuing.

What initiatives should the department pursue? Based on the judgment of defense secretaries over three decades and recent studies, several categories stand out as worthy of continued or expanded effort.

- **Base Closures:** DoD estimates that another round of base closures could ultimately yield savings of some \$3.5 billion a year. Closing unneeded bases probably constitutes the single largest source of potential efficiency savings. Congress recently granted the needed authority, but not until 2005.
- **Competitive Sourcing:** The President's Management Agenda calls for competing 5 percent of eligible jobs by 2002 and more beyond, efforts that could save a billion dollars a year or more.
- **Acquisition Reform:** Recent efforts to improve the way DoD develops and produces new weapon systems have yielded savings, and further dividends should be possible.

- **Best Business Practices:** Continued efforts to implement electronic commerce, paperless contracting and automation should yield additional savings. In addition, exploiting web-based learning might reduce training costs. Also promising are public-private partnerships – that is, initiatives that enlist private expertise to solve problems not currently being adequately addressed by the public sector.

WAYS TO PROMOTE EFFICIENCIES

The specifics of new initiatives should be left to DoD's current managers. But they will be more successful in promoting efficiency if they adhere to several broad principles.

- **Focus on Incentives:** The department should focus on creating incentives so that commanders and managers seek efficiencies. For example, in addition to its existing incentive programs, DoD could institute a matching program that provides funds to commanders and managers who bring about efficiencies, including competitive sourcing initiatives that are hard to implement. These matching funds should be available to meet all legitimate needs at their bases or in their programs.
- **Pursue a Top-Down Approach:** If efforts to improve the efficiency of DoD's programs and activities are to be successful, DoD's senior management will have to be actively involved. DoD's top managers should focus on initiatives that require their personal attention but can yield large efficiency savings—such as base closures and competitive outsourcing. The current administration appears to be pursuing this top-down approach aggressively.
- **Listen to the Field:** Senior DoD and Service officials need to listen to field personnel, who often know of many smaller changes that can save money. If they institutionalize efforts to gather up ideas from the field, and find ways to nurture the promising ones with funding and support, these ideas could lead to substantial efficiencies.
- **Establish Metrics:** Metrics are required by law for major initiatives. They might also prompt the Defense Department to make regular estimates of savings, which will help in future years when defense managers are called upon to assess their efficiency efforts.

Following these approaches will not eliminate the barriers to improving efficiency that exist in DoD and throughout government. However, following them should improve the prospects for succeeding at this important but daunting task.

I. INTRODUCTION—PROMISES, PROMISES

I have never seen an organization, in the private or public sector, that could not, by better management, operate at least 5% more efficiently if given the freedom to do so.

With these words, expressed during testimony before Congress in June 2001, Secretary of Defense Donald Rumsfeld declared that he felt substantial efficiencies were possible in the Department of Defense (DoD).¹ Secretary Rumsfeld went on to assert that annual savings of \$15 billion or more could be achieved. The new Secretary's first major defense report, issued in September 2001, continued this theme. The *Quadrennial Defense Review Report*, the "*QDR Report*," devoted a chapter to transforming what it termed "DoD's outdated support structure" and suggested that, in the wake of the September 11 attacks, internal efficiencies are urgently needed to help pay for new defense requirements.²

Secretary Rumsfeld is by no means the first secretary of defense to assert that the department can achieve efficiencies. On November 10, 1997, former Secretary of Defense William Cohen announced the Defense Reform Initiative, a "sweeping program to reform the business of the Department of Defense".³ Former Secretary William Perry focused on improving the efficiency of acquisition, publishing a paper in February 1994 entitled "Acquisition Reform: A Mandate for Change".⁴ Former Secretary Dick Cheney sought to implement the Defense Management Report.⁵

Nor are all the initiatives recent. Former Secretary of Defense Caspar Weinberger, best known for presiding over sharp increases in defense spending in the 1980s, also pursued what he termed "a comprehensive effort ... to identify savings and efficiencies" in the Department of Defense.⁶ Former secretaries not only shared a commitment to improving defense management, they also focused on many of the same initiatives (see Box 1).

¹ Statement of U.S. Secretary of Defense Donald H. Rumsfeld, "2002 Defense Department Amended Budget," before House Armed Services Committee, June 28, 2001, pp. 7-8.

² DoD, *Quadrennial Defense Review Report* (Washington, DC: DoD, September 30, 2001), Chapter VI, pp. 48-49.

³ William S. Cohen (Secretary of Defense), *Annual Report to the President and the Congress* (Washington, DC: 1998), Chapter 16.

⁴ William J. Perry (Secretary of Defense), *Annual Report to the President and the Congress* (Washington, DC: February 1995), Part IV.

⁵ Dick Cheney (Secretary of Defense), *Annual Report to the President and the Congress* (Washington, DC: January 1991), pp. 28-35.

⁶ "FY 1983 Department of Defense Budget", News Release from Office of Assistant Secretary of Defense (Public Affairs), February 8, 1982.

Box 1: Management Initiatives Through the Years

Each year the current Secretary of Defense issues a report to the President and the Congress. These annual reports review all key aspects of Defense Department activities, including management initiatives. A review of the reports issued by nine former secretaries (the Cohen report issued in calendar 2000, Perry in 1996, Aspin in 1994, Cheney in 1991, Carlucci in 1989, Weinberger in 1985, Brown in 1978, Rumsfeld in 1976, and Schlesinger in 1974) indicates that certain initiatives have been pursued for decades.

Acquisition reform, though accorded different names, appears as an initiative in every report. The specifics cited in the reports vary and include better requirements determination, improved contract administration, reorganization to better manage acquisition activities, purchase of commercial off-the-shelf items, and program stability.

Base closure and realignment appears as an initiative in many reports, but the topic gets greater attention in more recent years. Reports in the 1970s and early 1980s mention base realignment and closure briefly if at all. In the report for 2000, however, former Secretary Cohen calls base realignment and closure “absolutely critical,” and Secretary Rumsfeld clearly agrees.

Financial management reform and competitive sourcing are children of the 1990s. Reports in the 1970s and 1980s do not identify financial reform as a specific initiative, though some of them do discuss changes in one key aspect of defense financial management—the department’s planning, programming and budgeting system. Nor do the early reports devote much attention to competitive sourcing. Spurred by passage of the Chief Financial Officers Act in 1990, reports issued during the past decade devote considerable attention to efforts to make financial information more relevant and timely. This emphasis will surely continue under Secretary Rumsfeld, who has put great emphasis on financial reform. Similarly, reports by recent secretaries have emphasized competitive sourcing, as has President Bush in his management agenda.

Certain initiatives only appear occasionally. Staff reorganization appears as a key initiative in the report by former Secretary Brown while former Secretary Weinberger focused on eliminating waste, fraud and abuse. Instituting best business practices receives emphasis in reports issued by former Secretary Cohen. Still other initiatives reflect the issues of the day. Annual reports during the 1970s dwell, not surprisingly, on energy conservation. Annual reports issued during the 1990s highlight environmental reform, a topic that receives no attention in the early reports.

Numerous studies have also concluded that substantial efficiencies can be achieved. A 1996 study by the prestigious Defense Science Board concluded that DoD could eventually save about

\$30 billion a year by outsourcing its logistics functions.⁷ A recent report by the Business Executives for National Security (BENS) identified 18 studies performed since 1986 that highlighted the potential for savings in the department.⁸ These studies endorsed a wide range of initiatives including closing unnecessary bases, reforming defense acquisition, outsourcing of public jobs that can be performed by the private sector, and implementing activity-based costing throughout the Defense Department. BENS concluded that annual savings of at least \$15 billion to \$30 billion can be achieved.

While significant efficiencies have been achieved in recent years, savings appear modest compared with the size of the defense budget and fall well short of the levels of savings some past studies suggest might be possible. Indeed, in the same Congressional testimony where he asserted that much could be saved, Secretary Rumsfeld suggested that little had been achieved to date through initiatives such as acquisition reform and manpower efficiency, notwithstanding efforts by many former defense secretaries and their senior managers. The Comptroller General of the United States, Mr. David Walker, summed up the attitude of many toward the Department of Defense by saying that, in terms of business efficiency, he would give the department a grade of “D.”⁹

Why is it hard to save money in DoD through efficiencies? Is the problem simply resistance to change or are there more fundamental problems? What can be done to promote efficiencies?

These are the central questions addressed in this study. The study begins by identifying the successes that have been achieved in recent years. It then identifies the barriers to efficiency that make it hard to achieve dramatic savings. The study concludes by urging that defense managers keep trying to identify efficiencies, as this administration is clearly attempting to do, and offers general suggestions about how to approach this daunting task.

The discussions in this study focus on efficiency savings—that is, savings that can be achieved by reorganizing business practices to provide the same or better levels of service at lower cost. Much larger changes in DoD budgets can and have been achieved by reducing the number of military units or slowing the modernization of those units to reflect changes in threats to national security. For example, between 1989 and 1995, as the Cold War ended and the threats to national security subsided, the United States reduced the real level of its defense budget by about \$100 billion. This type of action, while a very important public policy issue, represents a balancing of risk and budget that is beyond the scope of this study.

⁷ For a discussion of this study, see United States General Accounting Office (GAO), “Outsourcing DoD Logistics: Savings Achievable But Defense Science Board’s Projections Are Overstated” (Washington, DC: GAO, NSIAD-98-48, December 1997).

⁸ Business Executives for National Security, “Call to Action: Tail-to-Tooth Commission,” February 2001, p. 10 and associated charts.

⁹ Speech at the Professional Development Institute of the American Society of Military Comptrollers, May 31, 2001.

II. PAST SAVINGS APPEAR RELATIVELY MODEST

Estimating past efficiency savings is difficult. Separating changes that represent efficiencies from those associated with changes in threats to national security is even harder. The Department of Defense generally does not keep detailed records that identify the results of specific initiatives, and even these records would not automatically identify efficiencies as opposed to changes precipitated by altered threats. Policy changes also alter efficiency savings. For example, the end of the Cold War led to a large reduction of forces in the early 1990s. This cut in forces reduced savings associated with more efficient operation of military bases because there are fewer of them.¹⁰ Taken together these factors mean that, without an enormous effort by DoD, there can be no definitive accounting of savings associated with past efficiencies.

Critics complain, with some justification, that the Defense Department does not have accounting systems that produce estimates of efficiency savings. Better accounting systems would help, and efforts to improve this capability should continue. However, even with better accounting systems, estimating past savings would remain an inherently difficult and uncertain task.

RECENT EFFICIENCY INITIATIVES

While precise cost savings do not exist, evidence suggests that in recent years a variety of initiatives, often collectively described as the Revolution in Business Affairs, contributed to making the Defense Department more efficient. The key campaigns in this revolution are discussed briefly below with a focus on providing estimates of savings where available. Other sources provide more detail on the initiatives.¹¹

Closing Bases. Beginning in 1988, the Department of Defense conducted four rounds of base realignment and closure (commonly known as BRAC). DoD reports that BRAC rounds led to closing 97 major bases or facilities, in addition to hundreds of smaller closures and realignments.¹² The first round in 1988 was the smallest, resulting in 16 major closures, but after that the pace quickened. BRAC rounds in 1990, 1993 and 1995 each resulted in 26 to 28 major closures. By 2001 all the closures had been completed.

According to the department, BRAC saves money primarily because it reduces or eliminates the need to maintain bases. After closing a base, DoD no longer needs to pay for physical security, fire protection, utilities, property maintenance, accounting, payroll, and a variety of other costs.

¹⁰ A hypothetical example may help illuminate this point. Prior to the force cuts, assume that DoD had achieved efficiencies of \$5 million at each of 10 bases, for a total of \$50 million. If one of those 10 bases is closed, then the total savings fall to \$45 million in absolute terms (though they may remain similar or the same as a percentage of total base operating costs).

¹¹ For example, see Lippitz, O'Keefe, White, and Brown, "Advancing the Revolution in Business Affairs," *Keeping the Edge: Managing Defense for the Future*, ed. Ashton Carter and John White, (Puritan Press, September 2000).

¹² DoD, *The Report of the Department of Defense on Base Realignment and Closure* (Washington, DC: April 1998), pp. 2, 30-31, 37, 45-52.

Closing and realigning bases also tends to save money by permitting increases in efficiency. For example, if two bases perform similar functions, and each installation has excess capacity, then BRAC allows the department to consolidate the functions and realize efficiency savings.

BRAC also costs money. Bases assuming new functions incur substantial one-time costs associated with military construction and family housing construction. Closing bases also results in expenditures for severance pay, moving costs, transportation, and program management. Environmental restoration at closing facilities can be expensive, though these costs would eventually have been incurred regardless of BRAC. Agencies other than defense, such as the Departments of Labor and Commerce, incur relatively small costs for activities such as job retraining and community revitalization.

DoD figures show that, by 1998, the four BRAC rounds began to realize net savings, as annual savings more than offset the one-time costs. Beginning in 2002 and for the years beyond, the Department of Defense estimates that real recurring savings will amount to at least \$5.6 billion a year. Most of the savings stem from reduced needs for support personnel. The four rounds of BRAC eliminated requirements for about 71,000 civilian and 40,000 military personnel.

These savings represent estimates that are inevitably uncertain in part because they must take into account changes in mission and levels of activity that occurred throughout the BRAC rounds. Nevertheless, the estimates have been extensively reviewed by defense auditors and outside groups and, while they do not always concur with the exact figures, most reviewers support the contention that substantial savings have been achieved. For example, the General Accounting Office (GAO) reviewed selected savings estimates associated with BRAC and reached this conclusion.¹³

Not all of these BRAC savings reflect efficiencies, an important distinction in this study. The estimate of \$5.6 billion in annual savings correctly excludes savings associated with disestablishing military units, since these savings clearly relate to reductions in threats to national security. Even some of the remaining savings, stemming mostly from reduction in base operating costs, may reflect threat changes that permitted a base to be closed. Nonetheless, most of these annual BRAC savings of \$5.6 billion probably do reflect realignment and reorganization and so should qualify as efficiency savings.

Competitive Sourcing. Competitive sourcing has contributed to efficiency savings in the Department of Defense. Competitive sourcing seeks to identify federal jobs that can be performed by private-sector firms and then puts these jobs up for bid. Public sector employees are allowed to submit a bid after restructuring their activities into what is termed the Most Efficient Organization (MEO). After a lengthy process of study and competition, governed by Office of Management and Budget (OMB) Circular A-76, private firms take over these jobs or they are awarded to the public MEO.

¹³ GAO, "Military Bases: Closure and Realignment Savings Are Significant, But Not Easily Quantified," NSIAD-96-67, April 1996.

The annual report issued by the Secretary of Defense in 2000 states that—as of fiscal year 2000—181,000 DoD jobs had either completed the competitive sourcing process or were under study.¹⁴ The studies covered many types of jobs such as base operations, aircraft maintenance, child care, missile maintenance, and paying defense department vendors.

The Department of Defense estimates that, regardless of who wins, outsourcing saves at least 20 percent.¹⁵ Most of the savings occur because the winner, whether a private contractor or the public MEO, uses fewer people to perform the same services. This 20-percent factor and the number of jobs under study suggest that, if all the studies are completed, outsourcing savings of \$1 billion to \$2 billion a year will be realized by actions already in place.

Acquisition Reform. Today the Department of Defense spends about \$100 billion a year developing and buying weapons and equipment, a figure that is likely to rise sharply in coming years. Therefore reforming acquisition remains key to achieving efficiencies in the Department of Defense.

Acquisition reform encompasses a wide variety of initiatives. Reformers seek to change processes by using commercial items rather than military-unique ones, reducing detailed specifications for new weapons, cutting the time required to buy new weapons and equipment, and assisting contractors in replacing government-unique business and manufacturing processes with commercial equivalents. DoD strives to hold cost growth in its major weapons to no more than one percent a year while meeting key acquisition milestones. The Department of Defense also seeks to enhance the education and training of its acquisition workforce, for example by requiring that key personnel complete 80 hours of continuing professional education every two years.

Every secretary of defense for the past three decades has sought to reform acquisition. The most recent set of far-reaching changes occurred in 1994 when former Secretary Perry directed the military Services to use performance and commercial specifications and standards instead of military ones, unless no practical alternative exists. Perry also directed that military programs reduce their oversight and employ process controls rather than extensive testing and inspection.¹⁶

Process changes appear to be achieving savings. The Secretary of Defense's *Annual Report* for 2001 identifies five major weapon systems that claim savings of as much as 50 percent. Three of these weapon systems appear on a list of acquisition reform success stories maintained by the Air Force on its acquisition home page (www.safaq.hq.af.mil). The Joint Direct Attack Munition (JDAM), a kit program that transforms older, "dumb" bombs into precision munitions, claims savings of \$2.9 billion over the multi-year life of the program compared with official cost estimates made prior to purchase of the weapon. According to the website, savings occurred because the JDAM program office forged an alliance between the government and contractor

¹⁴ Cohen, *Annual Report to the President and the Congress*, 2000, chapter 12.

¹⁵ Cohen, *Annual Report to the President and the Congress*, 2001, p. 197.

¹⁶ Lippitz et al., "Advancing the Revolution in Business Affairs," p. 172.

that produced results. The C-17 airlift aircraft program asserts savings and cost avoidance totaling \$5.4 billion over the life of the program due to reduction of government-unique requirements, long-term contracts, replacement of traditional progress payments with performance-based payments, and incentives to encourage the contractor to achieve additional savings. The Joint Primary Aircraft Training System (JPATS), which produces a new aircraft to train pilots in the various Services, did not quantify savings. However, JPATS claims efficiencies because the new plane, a derivative of a current production aircraft, has kept military-unique requirements to a minimum.

The weapon systems represented by these success stories could by themselves have reduced DoD costs by a billion dollars a year or more in recent years, and there are other successes. Unfortunately, it is devilishly difficult to produce an overall savings figure for acquisition reform in part because the savings are not easily separated from other factors that influence acquisition costs. Moreover, savings achieved in some programs may have been offset, at least in part, by cost growth in others.

Public-Private Partnerships. Public-private partnerships, which often include elements of competitive sourcing, enlist private expertise in solving a problem not currently being adequately addressed by the public sector. Military family housing is a good example. DoD owns 282,000 houses that provide residences for military personnel and their families. These homes average 35 years of age, and DoD estimates that two thirds of them need extensive repair or replacement. If it were to fix this problem with its own funds, the department says it would cost \$16 billion.

To minimize the funds that must be devoted to this support function, DoD intends to enter into agreements with private builders to repair or replace the houses at their expense. The Defense Department agrees to arrange for military personnel to occupy the houses over a long period of time and pay rent that is offset by their basic allowance for housing. The builders may also receive free land and other subsidies. The initiative should spread out the costs of repairing DoD's housing stock over many years, converting them from lump-sum costs for construction to long-term increases in government costs for basic allowance for housing. The department also hopes that this approach will harness private expertise, which may reduce overall costs by an amount yet to be determined. To date, however, only a small percentage of houses have been subject to this initiative, known as the military housing privatization initiative, which suggests that savings have so far been modest.

The Navy Marine Corps Intranet is another example of a public-private partnership. In October 2000, the Department of the Navy signed a contract with Electronic Data Systems Corporation to build and maintain a department-wide intranet system. The new system will give sailors and marines secure and universal access to integrated voice, video and data communications. The contract represents a major example of an effort to harness private expertise in ways that should improve service. It may also save money, though the project is relatively new and therefore data on actual savings are not yet available.

Best Business Practices. While the US military is the world's best at fighting wars, it can learn much from private businesses about supporting its warfighters. Instituting best business practices

represents another source of efficiencies that the Department of Defense has pursued. Below are examples selected from the many DoD efforts to adopt best business practices.

Electronic commerce represents a best business practice that DoD strives to master. The Central Contractor Registration system permits vendors who want to do business with the department to register over the internet and supply all pertinent information. A web site (www.DoDBusOpps.com) offers contractors a single point of entry to search for business opportunities within the department. DoD has created an electronic mall so that its employees can find and acquire off-the-shelf, finished goods from the commercial marketplace. A new system, known as Wide Area Workflow, will automate the process of receiving and accepting goods. In May 1998 DoD established a program office, known now as the Defense Electronic Business Program Office, to coordinate and facilitate electronic commerce.

The Department of Defense has also moved aggressively toward the use of commercial credit cards for smaller purchases, thereby eliminating the extensive paperwork associated with the previous purchasing approach. Almost 92 percent of all micro-purchases (those under \$2,500) were made using purchases cards, representing some \$4.6 billion in sales.

Automation of particular business processes represents another best business practice. As of the end of 1999, DoD performed almost 80 percent of all its contracting using electronic means, substantially reducing paperwork. Several portions of the contracting process—contract requirements, solicitations and awards/modifications—had met the department’s overall goal by performing 90 percent or more of actions without resorting to paper. DoD has installed a system—using commercial software known as PowerTrack—that automates documentation required by vendors that provide transportation services to the Defense Department. The software also automates the financial aspects of DoD’s transportation services including billing, collecting and payment. The Defense Department anticipates that, once fully implemented, the PowerTrack system will save about \$11 million a year. Finally, DoD has developed a system that will automate the process of approving, reserving, and paying for business travel (known as temporary duty travel) and eventually change-of-station moves. This new travel system, which the department hopes will eventually save about \$400 million a year, has incurred testing problems and frequent delays but is now beginning to be deployed.¹⁷

Logistics often determines the outcome of battles, and reform of logistics is therefore important to warfighting as well as to efficiency. The department has sought to improve equipment reliability, reduce logistic cycle time, reduce inventory levels, and ship items directly from the vendor to the end user. Many of these initiatives have resulted in improved capability, and some may also have reduced costs.

As has been noted, savings estimates are available for a few of these initiatives. It is impossible, however, to estimate the total savings associated with best business practices. Moreover, in many

¹⁷ GAO, “Defense Management: Actions Needed to Sustain Reform Initiatives and Achieve Greater Results”, NSIAD-00-72, July 2000, pp. 38-49.

cases the new initiatives may improve service but may not reduce the cost associated with providing that service.

MODEST SAVINGS

Clearly, there have been significant efforts to improve the efficiency of support activities within the Department of Defense. While there is no way to sum the potential savings with confidence, savings associated with certain major initiatives can be identified and put in context.

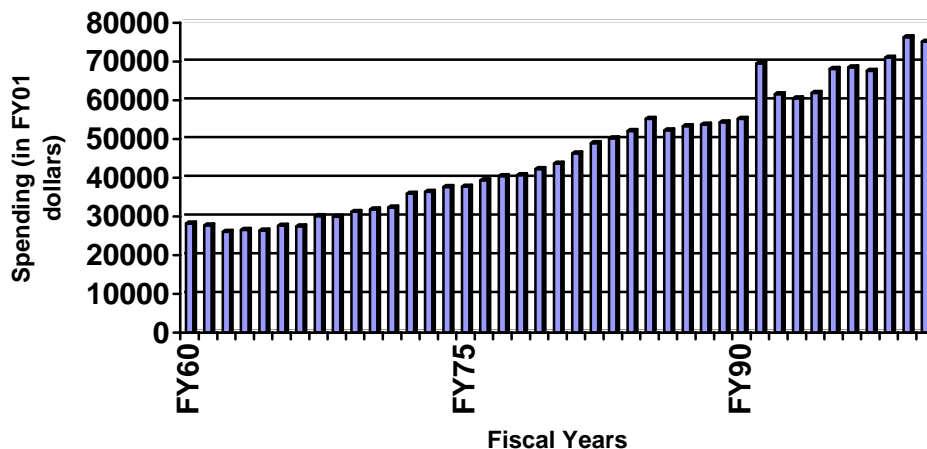
Savings from Identifiable Initiatives. Base closures and realignments represent the initiative with the largest quantified savings, totaling more than \$5 billion a year. Some of those savings, however, reflect force cuts related to reductions in threats to national security rather than efficiencies. Competitive sourcing initiatives set in motion in recent years could save \$1 to \$2 billion dollars a year, if all the ongoing studies are completed. Acquisition reform may have produced substantial savings, perhaps multiple billions of dollars a year. But estimates are difficult to verify and savings on some programs may have been offset by cost overruns on others. Other efficiency savings, such as those associated with implementing best business practices, may also have been substantial.

Even being generous in our estimates, however, these initiatives do not appear to have produced the multiple tens of billions in annual savings that some past studies have suggested might be achieved. Actual savings are also modest compared with the size of the defense budget, which today exceeds \$300 billion a year.

Trends in Aggregate Operating Costs. Aggregate budget trends also make it difficult to conclude that DoD has achieved large efficiency savings. One of DoD's appropriations, the operation and maintenance (O&M) appropriation, pays for many of the department's day-to-day operating costs including fuel costs, repair costs, administrative expenses, and pay and allowances for civilian personnel. The O&M appropriation should be a prime beneficiary of efficiency savings, many of which affect operating costs.

The Defense Department's O&M costs, however, appear to be rising rather than falling. After factoring out inflation and adjusting roughly for changes in force size by dividing O&M by the number of active-duty military personnel, O&M costs on this per-troop basis have risen by about 2.5 percent a year over the past four decades (see Figure 1). During the past decade growth averaged 3.1 percent a year, suggesting that growth is accelerating rather than declining.

Figure 1: Per-Troop O&M Funding



Growth in per-troop O&M is *not* conclusive evidence that efficiency savings have been modest. As a recent analysis by the Center for Strategic and Budgetary Assessments makes clear, many factors affect trends in O&M spending.¹⁸ Medical care costs have driven up O&M spending, as have expenditures for military operations in Bosnia, Kosovo, Iraq, and elsewhere. According to the military Services, aging fleets of weapons contributed to rising O&M costs, especially in the 1990s. Accounting practices may also have contributed to O&M increases because certain categories of costs (for example, expenses for replenishments spares) migrated from other accounts such as procurement into the O&M appropriation. Finally, as forces declined in size, diseconomies of scale might have driven up per-troop costs.

Studies of the trends in defense O&M spending have helped disentangle this web of changes. Some studies have called into question the causes of cost growth frequently cited by DoD officials. For example, a recent analysis by the Congressional Budget Office (CBO) examined trends in total dollars spent on O&M and found no evidence that aging weapons have driven up total O&M costs.¹⁹ CBO notes that expenditures on equipment consume only about 20 percent of total O&M spending and thus have a limited effect on overall trends. Also, with the notable exception of military aircraft, weapons in broad categories (Navy ships, Army tanks) have not aged substantially over the past two decades. Nor do trends in workload indicators explain the growth in O&M. Another CBO analysis examined workload indicators including numbers of military units, training levels (e.g. Army tank miles and Air Force flying hours), numbers of

¹⁸ Steven M. Kosiak, "Analysis of the FY2002 Defense Budget Request" (Washington, DC: CSBA, August 2001), pp. 7-10.

¹⁹ CBO, "The Effects of Aging on the Costs of Operating and Maintaining Military Equipment," August 2001, pp. 4-5, 12-13.

personnel, and real estate holdings as measured by floor space.²⁰ In virtually every case the workload indicator declined between 1981 and 1996, often by 30 percent to 50 percent. Yet inflation-adjusted levels of O&M spending increased by 7 percent during this period. It does not appear that workload indicators, at least those used in the CBO study, explain the increases in O&M.

According to CBO, growth in infrastructure does explain increases in O&M spending from 1981 to 1996. In CBO's analysis, infrastructure-related activities include training and recruiting, security programs, logistics operations, communications, Service-wide support, and base support. The remainder of O&M, defined as mission related, pays for costs of supporting, mobilizing, and deploying active and reserve military units. Between 1981 and 1996 total O&M dollars grew by 7 percent after adjustment for inflation. Infrastructure-related O&M increased by 17 percent, while mission-related O&M actually declined by 5 percent because of reductions in military units associated with the end of the Cold War. As a result of these trends, the proportion of total O&M consumed by infrastructure rose from 54 percent in 1981 to 59 percent in 1996.²¹

Infrastructure growth does not prove inefficiency. Notwithstanding some rhetoric, infrastructure and inefficiency are not synonymous. Nevertheless, business-type efficiencies in the Department of Defense often focus on support activities and so should have helped to reduce spending on infrastructure. The sharp increases in infrastructure costs during the past two decades, coupled with the persistent and consistent growth in per-troop O&M spending over four decades, make it more difficult to conclude that efficiency savings have been substantial.

²⁰ CBO, "Paying for Military Readiness and Upkeep: Trends in Operation and Maintenance Spending," September 1997, Chapter 1, pp. 6-10.

²¹ CBO, "Paying for Military Readiness and Upkeep," Chapter 1, Table 3.

III. BARRIERS TO EFFICIENCY

Why is it hard to achieve efficiency savings in the Department of Defense? It is arguably not the skills of the people who are managing the Defense Department. In the same speech in which Comptroller General Walker assigned DoD a grade of “D” for business efficiency, he also gave the department a grade of “A” for military efficiency. Mr. Walker is not alone; almost all observers would agree that the U.S. military is the best in the world. Yet the same leaders who fight so well also run the business side of DoD.

While managers arguably do not prevent DoD from achieving large efficiency savings, there are other important barriers.

SAVINGS NOT FUNDAMENTAL TO MISSION

The primary mission of the Department of Defense is to deter wars and, if necessary, fight and win them.²² Contrast this mission with that of a typical private-sector business. The mission of a generic business is to meet customer needs and make a profit. The presence of the word “profit” in the mission of a business implies a strong interest in efficiency, since cutting costs while still meeting customer needs should lead to greater profit. Neither profit, nor any kind of financial measure, appears in DoD’s mission statement.

This difference in mission is the most important reason why it is hard to achieve efficiency savings in DoD. Commanders of a base or installation know that they will be judged primarily based on how well the planes fly or the tanks run, not on whether they reorganize the motor pool to achieve a more cost-effective operation. An acquisition manager often perceives similar incentives (i.e. he or she is likely to be judged more on the effectiveness of the weapon system produced than on its cost). In contrast, a business manager who boosts profits by achieving efficiencies will likely be rewarded with praise or cash or both. It is not surprising that commanders and managers in the Department of Defense do not focus heavily on finding efficiencies. This point is reinforced in a small but interesting way when one examines the attention paid to management initiatives in the annual reports of former secretaries of defense (see Box 2).

²² These words represent a generic mission statement for DoD. According to the 2001 *Annual Report* of the Secretary of Defense, the official mission statement is: “The mission of the Department of Defense is to support and defend the Constitution of the United States; to provide for the common defense of the nation, its citizens, and its allies; and to protect and advance U.S. interests around the world.”

Box 2: How Much Emphasis on Management Initiatives?

The annual reports issued by each Secretary of Defense review the threats to national security and describe the initiatives, including management initiatives, undertaken by the department to defend the nation. To keep the document to a manageable size, only key initiatives qualify for the Secretary's annual report.

How much attention do management initiatives receive? A review of the reports issued by nine different secretaries of defense showed that the chapter or section on management initiatives occupied an average of only eight percent of the total pages in the main reports.

In fairness, portions of the reports other than the chapter on management sometimes discuss issues related to efficiency. Nor do pages in the annual report necessarily equate to management attention. Nevertheless, it appears that at least in the annual reports, mission dominates, not management.

Because reducing cost is not fundamental to DoD's mission, the terrorist attacks of September 11 will likely work against initiatives to improve efficiency. The administration has stated that, despite the war on terrorism, efforts to achieve internal efficiencies should not be relaxed because they can help pay for new defense needs. However, DoD's senior managers will be consumed (as they should be) by efforts to win the war and improve homeland defense, leaving less time to pursue internal efficiencies. Defense budgets may also grow sharply as a result of the terrorist attacks, reducing pressure to identify savings. DoD's *Quadrennial Defense Review Report* implicitly acknowledges this latter point. The *QDR Report*—issued on September 30, 2001—noted that prior to the attacks DoD had planned for gradual increases in spending on defense missions accompanied by roughly equal savings in support activities achieved through internal efficiencies. After the attacks, however, the report indicates that the department is “developing new estimates of needed funding.”²³

DoD's mission also propels commanders and managers to translate efficiencies into better performance rather than savings. If a commander can reorganize an activity—perhaps maintenance—to reduce the time required to provide the current level of service, then that commander faces a choice. The newly found efficiency can be used to reduce costs by cutting the number of personnel, or it can be used to improve service by, say, maintaining equipment at a higher level of readiness. Frequently, defense managers choose to improve service because lowering cost is not an explicit factor in DoD's mission. The achievement is no less of an efficiency, but it does not produce savings. Moreover, if the efficiency is relatively small and is identified at a low level in the organization, then performance at that level may be improved without considering where the savings would best serve the organization as a whole. This

²³ DoD, *QDR Report*, p. 48.

tendency to translate efficiencies into better performance at low levels of the organization makes it particularly hard to use efficiencies to pay for new budgetary initiatives.

A manager in a private business would be more inclined to translate an efficiency into savings that produce higher profit. Senior managers could then use the profit however it best met the needs of the organization and its owners. Mission does matter when it comes to achieving efficiency savings.

PRESSURE TO SPEND BUDGETS

Pressure to spend budgets sets up another barrier to efficiency. DoD manages based on its annual budget. Most defense commanders and managers believe that failure to spend one's entire annual budget reduces the chance of maintaining that budget in future years. This conviction is well founded since failure to spend one's budget always raises a nagging question: does your organization need all of its funds?

Those in charge of managing budgets go to great lengths to spend all their funds. At the end of the fiscal year, commands form special teams to scour contracts that will not obligate all their funds and "sweep up" those dollars into other projects. Most commands obligate all but a tiny fraction of their annual budgets.

This pressure to spend budgets does not necessarily mean that money is wasted. Commands always have many projects that, if funded at the end of the year, permit them to perform their mission more effectively. As has been noted, however, DoD's mission does not include any specific reference to efficiency. Therefore, these year-end exercises generally do not focus on holding down costs.

A personal story illustrates this point in a way that is tiny but telling. On a September 30 in the late 1990s, I was serving as Comptroller of the Air Force. I had traveled to an Air Force base in Texas for a conference and was returning to Washington, DC, in the evening on a military aircraft. As was customary, the plane's co-pilot came back before takeoff to provide a safety briefing. But that day—the final day of the government's fiscal year—the co-pilot added another piece of information. He noted that the flying time from Texas to Washington was 2 hours and 45 minutes but added that this was his unit's last flight for the fiscal year. The unit had three hours left in their flying hour budget and, at the request of his commander, they planned to slow down in route so as to use all their budgeted flying hours.

At first I was aghast that the co-pilot would make a statement like this to the Air Force Comptroller. (I was also grateful they didn't have four or five hours left in their budget!) After reflection, though, I realized that they were just doing what many defense activities do—albeit a bit more openly. Pressure to spend budgets does not promote efficiency.

LACK OF INCENTIVES

Even if they are inclined to search for efficiencies, managers have little financial incentive to achieve them because those who save the money generally do not benefit from the savings.

Consider the case of a base or installation commander who decides that a reorganized motor pool can save dollars. Efficiency savings require changes in business practices and, more often than not, laying off people. The commander must therefore spend time and may need to take painful steps in order to achieve the savings. However, that commander rarely gets to use the savings for something that directly benefits the base. The savings may be used to meet higher priority needs—for example, buying more spare parts to improve the operation of weapon systems. Even if the savings remain at the installation, savings often take several years to materialize, and commanders usually change assignments every couple of years. The leader who labored to achieve the savings has probably departed the base before the benefits appear.

Acquisition managers may have greater incentives to seek efficiencies. They can use savings to offset other cost increases or to increase the number of weapons they buy, and acquisition reform has been a major initiative in the Defense Department for many years. However, in the author's experience, even acquisition managers focus most heavily on performance. They understand that the Defense Department occasionally terminates weapon programs for lack of performance but almost never for cost problems alone.

Defense commanders and managers do not ignore opportunities for efficiencies entirely. They are interested in them because they know they are the right thing to do. Smaller efficiencies that can be implemented quickly may be particularly attractive because they allow commanders to reduce overtime and so improve the quality of life of their employees, a key goal. However, there are few incentives in the Department of Defense to make the difficult changes that are necessary to achieve large efficiency savings.

The situation in the Australian military provides an informative contrast that emphasizes the importance of incentives. In December 2000 the Australian government published a White Paper that outlined its defense objectives.²⁴ That White Paper commits the military to seek efficiency savings of \$200 million a year (a little less than 2 percent of the budget) within three years. The Australian approaches to fostering efficiency mirror those discussed in the United States—contracting out, more use of information technology, reduced personnel overhead, and property disposal.

What is different is the approach to defense budgeting. The White Paper commits the government to provide its military with a budget that grows at 3 percent a year in real terms for the next ten years. The Australian military will get no more than this level of funding, absent major changes in threats to that nation's national security. Nor will it get any less. The planned budgets assume some efficiency initiatives that have already been put in place; the military retains savings from any additional efficiencies that they achieve.

Contrast this approach with US budget procedures. The United States does have a long-range budget plan for defense, both in the administration and Congress, and in many cases organizations are permitted to retain efficiency savings. However, both the administration and

²⁴ *Defence 2000: Our Future Defence Force*, (White Paper from Australian Department of Defence, December 6, 2000), Chapter 11.

Congress revisit their budget plan each year depending on threats, public attitudes and available funds. As a result, there is a strong incentive to spend one's entire budget and focus on building a case for more funds, rather than spending time searching for ways to achieve efficient use of existing funds.

Not so in Australia. In a speech in May 2001, Mr. Ken Moore—First Assistant Secretary for the Australian Department of Defence's Business Strategy Division—described the effects of the Australian policy of 3 percent growth no matter what.²⁵ He stated that senior military officers were focused on understanding and reducing costs because, in the face of fixed budgets, cutting costs permitted them to free up funds for new initiatives. Mr. Moore noted strong interest among military leaders in tools such as cost accounting systems.

In the author's experience, such interest is not widespread in the US military. Some DoD activities do focus on costs. For example, the military's revolving funds produce goods and services and sell them to internal customers. These activities must break even and so have an incentive to focus on costs, as do acquisition managers who want to meet goals for acquisition reform. But these activities are the exception rather than the rule in the Department of Defense.

We are not likely to institute the Australian method of defense budgeting here in the United States. However, the Australian approach does make clear the important role of incentives in the search for efficiencies.

THE CONGRESS FACTOR

The US Congress plays a fundamental role in national security policy, and in many respects it plays that role effectively. Empowered by the Constitution with sole authority to raise armies and navies, Congress ensures widespread debate on key defense policies ranging from waging war to creating an all-volunteer military. Congress also brings public opinion to bear on the difficult issue of how much to spend on defense.

However, the nature of the Congressional system does not favor efficiency. Congress sometimes appropriates funds for projects not requested by the Department of Defense. In some instances there is a legitimate difference of opinion between the executive and legislative branches about the importance of the project. In other cases the project clearly meets local rather than national needs. This so-called pork-barrel spending creates inefficiency.

How much inefficiency? Senator John McCain, a strident opponent of what he characterizes as pork barrel spending, argues that recent defense bills contain anywhere from \$2 billion to \$7 billion in added programs not requested by the administration, earmarks that identify funds for particular businesses or institutions, and increases for what McCain terms low-priority

²⁵ Speech at the Professional Development Institute of the American Society of Military Comptrollers, May 31, 2001.

programs.²⁶ While there would no doubt be much debate about the specific items on McCain's lists, his figures—amounting to between 1 and 3 percent of total defense spending—do provide some general notion of the level of this type of spending.

The pace of Congressional action also sometimes thwarts efficiency and may pose a greater roadblock to efficiency than pork-barrel spending. Closing and realigning bases provide a good example of this problem. Experience suggests that closing and realigning bases creates significant efficiencies and may be the largest single source of potential savings in DoD. But base closures and realignments also affect large numbers of jobs in Congressional districts, making Congress highly wary of this approach to efficiency. In its 2001 report the Senate Armed Services Committee notes that the administration has been requesting additional base closure authority from Congress for five consecutive years.²⁷ At the end of 2001 Congress finally granted the needed authority but delayed the next round of base closures until 2005. These long delays have prevented DoD from achieving billions in efficiency savings.

There are many advantages to representative democracy, but speed and efficiency are not always among them.

²⁶ Press release by Senator McCain on H.R. 4205: The National Defense Authorization Act for Fiscal Year 2001, October 12, 2000. The press release discusses both the authorization and appropriation acts for 2001.

²⁷ Senate Committee on Armed Services, "National Defense Authorization for Fiscal Year 2002", Senate Report 107-62, September 12, 2001, p. 405.

IV. RECOMMENDATIONS FOR PROMOTING EFFICIENCY

Many of these barriers to efficiency savings—nature of missions, budget pressures, the Congress factor—are fundamental to our system of government and will not change. Managers must therefore be realistic about efficiency savings. Even with a sustained effort, the Department of Defense will almost certainly not realize efficiency savings that total tens of billions of dollars a year over the next several years.

The formidable nature of these roadblocks also suggests caution in the use of projected savings. Plans that assume unrealistic savings can end up providing insufficient funds to carry out missions. In the 1990s, for example, the Air Force and the Defense Finance and Accounting Service reduced personnel levels in anticipation of automating DoD's travel process. Long delays in fielding the new travel system required emergency changes in manning so that manual procedures could be sustained. In acquisition programs, optimism regarding efficiencies can force managers to slow production to live within budgets. This action creates inefficiencies of its own because production rates that fall below the levels assumed when the production facility was constructed and the workforce assembled lead to higher unit procurement costs. Because they are hard to achieve, defense managers should avoid counting on projected savings to make up budget shortfalls (advice that, I confess, I have ignored at times during my government service). "Save 'em before you spend 'em" should be their motto.

Barriers to efficiency should not, however, be used as an excuse to stop seeking them. In an organization as vast in size as the Department of Defense, even small initiatives can lead to significant savings for the taxpayer or to important improvements in government service. If, for example, the Department of Defense is able to reduce annual growth in per-troop O&M spending to 2 percent over the next five years, rather than annual growth of almost 3 percent that has been common for years, it would avoid costs of more than \$5 billion annually by the fifth year.

CHOOSING INITIATIVES

What initiatives should be pursued to achieve efficiencies? Reports by former secretaries of defense contain numerous suggestions (see Box 1) as do any number of past studies. One recent review describes key initiatives—competitive sourcing, infrastructure initiatives (to include base closures), changes in system acquisition—and recommends specific new procedures to bring them about.²⁸ Based on history and various studies, a list of broad initiatives emerges:

- **Base Closures:** Though politically difficult, closing and realigning bases may represent the single largest reservoir that can be tapped to produce efficiency savings in the Department of Defense. Perhaps for this reason, the current administration has pressed its case for additional Congressional authority to facilitate conducting another round of base closures and

²⁸ Lippitz et al., "Advancing the Revolution in Business Affairs," pp. 176-202.

realignments, and Congress recently granted the authority starting in 2005. The administration argues that the Department of Defense still has 20 to 25 percent more facility structure than it needs. According to the administration, this new initiative to close bases—which it calls the Efficient Facilities Initiative—will eventually save \$3.5 billion a year.²⁹

- **Competitive Sourcing:** The President’s Management Agenda calls for competitive sourcing, by 2002, of at least 5 percent of jobs that have been identified by federal agencies as being eligible for this approach. The goal increases to 10 percent in 2003. Depending on the eligible population and the amount of competitive sourcing that is actually completed, this initiative could eventually save DoD a billion dollars a year or more beyond what existing initiatives are projected to save.
- **Acquisition Reform:** Every secretary of defense for the past three decades has recommended reforming acquisition. The new administration should continue some of the reforms already started, such as minimizing military specifications. They might also focus attention on smaller weapon systems and support equipment, especially those where fostering competition could lower costs.
- **Best Business Practices:** Electronic commerce, paperless contracting, automation of processes such as travel and transportation, and other best practices deserve continued support and can no doubt produce additional efficiencies. The administration should also seek new ideas from the private sector and its own people, perhaps using some of the approaches noted below.

PROMOTING EFFICIENCIES

The specific nature of future initiatives should be left to current DoD managers, since they are the ones who must be responsible for putting them in place. However, some general guidelines may improve the chances of actually achieving efficiencies.

Focus on Incentives. Efficiency requires change, and change is difficult to implement in any organization—public or private. To have any chance of success, there must be an incentive to change.

Incentives start with the climate created by top leaders. There is a reason that many secretaries of defense have, to varying degrees, declared war on inefficiency. Without senior-level commitment, nothing happens. It is clear from his Congressional testimony, and from his *Quadrennial Defense Review Report*, that Secretary Rumsfeld intends to emphasize initiatives to achieve efficiencies and reform DoD’s business environment.³⁰ If anything, he intends to be more aggressive than many of his predecessors in seeking internal efficiencies, and his boss clearly supports such efforts. President Bush, the first President with an MBA, has initiated the

²⁹ DoD, *QDR Report*, pp. 55-56.

³⁰ *Ibid.*, Chapter VI.

President's Management Agenda, which he described in his introductory message as a "bold strategy for improving the management and performance of the federal government."³¹

But commitment must extend beyond the senior leadership to the Defense Department's field commanders and managers. Efficiencies achieved at base or installation level could add up to substantial savings, and the individuals running these bases will be more likely to implement changes if they have incentives to do so. The Department of Defense already has some programs in place. For example, the Productivity Enhancing Capital Investment program provides funds for initiatives that promise efficiencies, and there are suggestion programs to reward individuals who improve organizational performance.

The Defense Department might consider a broader approach to strengthening incentives by providing the commander or manager who implements an efficiency with a check equal to the first-year savings. Matching funds would only be provided if there are verifiable efficiency savings, but the base or program could use the matching funds to improve living or working conditions in any fashion consistent with fiscal law. Most DoD installations today have unmet needs that would improve the quality of life of base personnel, and improving quality of life is a high priority. Such a matching program might therefore provide tangible incentives to commanders and managers to make the difficult changes necessary to achieve base-level efficiencies. It might be of particular help in promoting competitive sourcing. This approach requires considerable effort on the part of local commanders, and today many of these leaders prefer to devote their efforts to mission activities.

A matching program offers other advantages as well. It might focus commanders and managers on identifying efficiency savings rather than channeling any improvement into performance, thereby helping senior managers cover budget shortfalls. Matching programs could also aid with the problem of propagation. Sometimes a base comes up with a better way of doing business, but it is difficult to get other bases to adopt the idea. They do not have the pride of ownership connected with having invented the idea and have little incentive to make the difficult changes necessary to implement someone else's brainchild. If commanders and managers knew that their base would benefit from efforts to propagate good ideas, efficiency savings might grow.

Pursue a Top-Down Approach. Significant efficiencies often require nurturing at the most senior levels. The politics and other challenges associated with base closures demand attention from the secretary of defense himself and his senior aides. The same goes for competitive sourcing of federal jobs. An administration intent on improving defense efficiency would be well advised to channel some of their senior managers' precious time into these high-payoff initiatives.

The current defense secretary has indicated that he intends to pursue base closures, competitive sourcing and financial reform. To that list he might add exploiting the business benefits of computer automation. DoD has already realized some benefits of automation—for example,

³¹ OMB, "The President's Management Agenda for Fiscal Year 2002", the President's message.

through use of electronic commerce. But many other Defense Department activities might also benefit. For example, DoD spends many billions a year on training. A portion of that training, particularly professional development and training in specific skills, could be accomplished in whole or part through web-based courses that the student pursues at his or her own location and pace. The transition to web-based courses does not have to be all or nothing. Professional development courses, for example, could be shortened in length and augmented by web-based modules that teach more routine aspects of the course. Some specific skills might be taught entirely through web-based training. Reliance on web-based courses reduces the time spent on training and cuts travel costs. It also minimizes time away from home, always an important factor in the minds of DoD students.

Listen to the Field. In my experience, some of the best ideas for improving efficiency—especially ideas for smaller improvements—came from people working at DoD’s bases and installations. Their ideas sometimes had to be refined so that they met the needs of the entire organization and not just their unit. However, when the idea became operational, it was more likely to be widely accepted because it met a real need in a manner that was familiar and useful at the working level.

During my tenure as Air Force Comptroller, listening to the field helped me identify several good ideas. Field-level personnel within the Air Force financial management community created systems to handle commitment documents (the Automated Business Services System) and purchase card processing (the Automated Purchase Card System). We refined the field versions of these systems so that they met Air Force-wide needs and deployed them throughout the Air Force with good success. Another idea for improving processing of leave documents (LeaveWeb) also came from an Air Force field location and appears to hold great promise for increasing efficiency.

Listening to field-level personnel can be done on an ad hoc basis—for example, during trips and conferences. Senior managers could also be more systematic. For example, they could task an organization within DoD to be the “hotline” for ideas and to perform initial analyses to ascertain which deserve more scrutiny.

Funding of initiatives is always a problem, particularly new initiatives at the base and installation level. Bases and installations generally have limited discretionary resources, and because efficiency is not a fundamental part of the DoD mission, commanders tend to spend those limited funds to make improvements they view as more directly related to the mission. If the Defense Department decides to listen to the field as a source of new ideas, it will have to establish a source of funding to nurture those ideas that seem promising.

Establish Metrics. The Defense Department needs to establish specific measures and goals both for its overall efforts to achieve efficiencies and for specific initiatives. Establishing goals and measures fits nicely into the requirements of the Government Performance and Results Act of 1993, which requires that the government do just that.

Goals and measures will also help the department keep track of what it has saved. Five years from now, it will be difficult to tease out savings from initiatives because factors that affect

savings (such as personnel levels and tempo of operations) will have changed, and the key people who knew the details will have moved on to other jobs. However, if efforts are made to tabulate and record savings each year, then the chances of later toting up the total savings accurately will be much improved. Annual records will carry more weight in future assessments if they are documented and, for important initiatives, subjected to internal audit.

V. CONCLUSION: KEEP TRYING, BUT BE REALISTIC

These recommended approaches can help create a climate that fosters initiatives that result in efficiencies. However, they will not remove the fundamental barriers to efficiencies that exist in DoD and throughout government. Nor will they substitute for the management attention and long hours of work necessary to translate ideas into reality. As the President said in introducing his management agenda, we need performance and results: “not just making promises, but making good on promises.”

In the wake of the horrific events of September 11, the ability of the Department of Defense to provide homeland defense must be improved substantially. Because DoD will need money to help pay for new initiatives, and because pursuing better ways of doing business is the right thing to do, the Defense Department must continue to search for efficiencies and must continue to work to put them in place. If history is any guide, annual savings from such initiatives will not total multiple tens of billions of dollars over the next few years. But they could total multiple billions of dollars, surely an outcome worth pursuing.

In this important effort to achieve efficiencies, the Department of Defense should be guided by a simple thought: keep trying, but be realistic.