



## **TRANSITION TOPIC:**

# Decision Making in a Fiscally-Constrained Environment

**TASK:** Leadership recommendations to address the impact of fiscal constraints on decision-making.

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| Report Documentation Page                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                    |                                     |                                                           | Form Approved<br>OMB No. 0704-0188                  |                                 |
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# Defense Business Board

## ISSUE:

- All indications are the Department is entering a prolonged period of fiscal constraint in a tough economy with deficits increasing and competitive spending pressures. Actions related to the Wall-Street crisis will exacerbate the pressure. *Business as usual is no longer an option.* The current and future fiscal environments facing the Department demand bold action.

## IMPORTANCE:

- The Department's current long-term program is not sustainable without significantly more funds than projected.
- The growing gaps and mismatches between future budget-levels and acquisition programs/plans must be resolved; DoD personnel costs, health care costs and fringe benefits must be addressed.

### Augustine's Law Number 16:

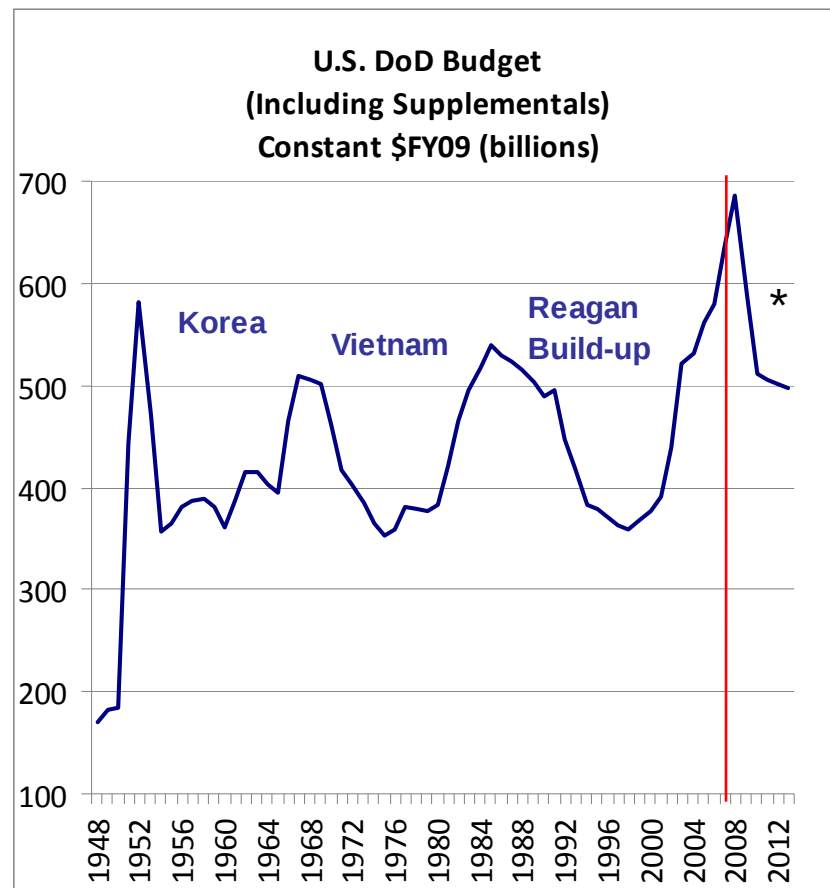
*In the year 2054, the entire defense budget will purchase just one aircraft. This aircraft will have to be shared by the Air Force and Navy 3 1/2 days each per week except for leap year, when it will be made available to the Marines for the extra day.*



# Defense Business Board

## CONTEXT:

- History suggests the Department is entering a period of fiscal constraint in a tough economy with deficit and competitive spending pressures
- Since 1947, there have been four periods of significant increases in budget authority. To date, each period has been followed by a period of **significant decreases**
- Current Departmental processes are structured for programmatic growth and the even distribution of increases and decreases
- Opportunities exist for redirecting funds, but culture, decision authority and management leadership challenges are significant
- The challenges are exacerbated by the increasing costs of what could be called “DoD Entitlements” – personnel, benefits, fringe, and overhead
- Defense is presented with opportunity to re-think the recapitalization strategy – e.g. preparing and equipping for the future threats vs. replacement of the combat worn resources

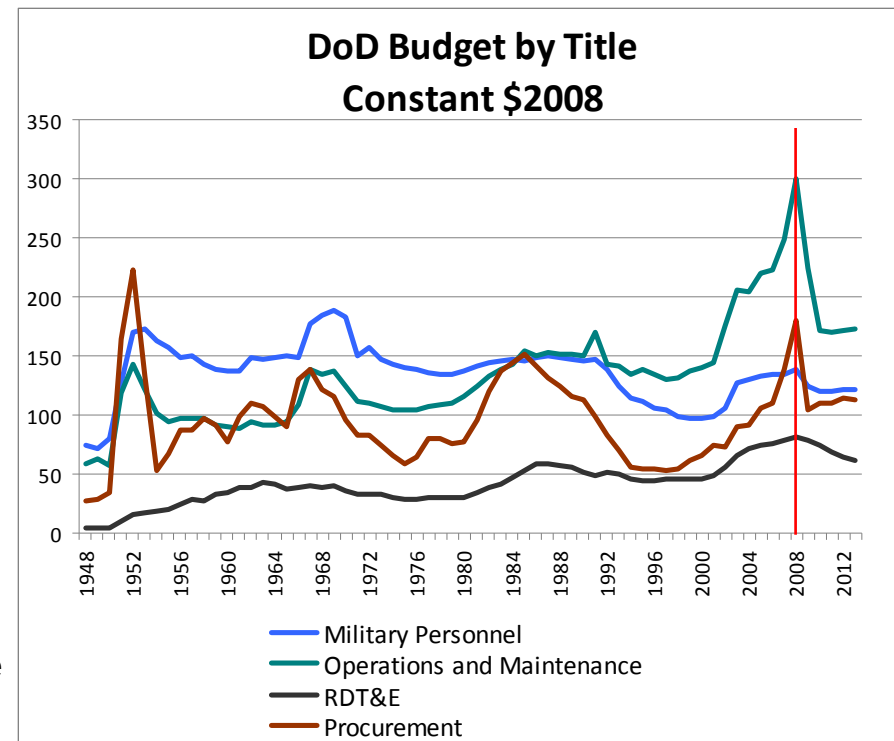


\* Future Year Defense Plan Projections,  
based on OMB and CBO data



## FIVE PRIMARY DEFENSE COST DRIVERS:

1. **Manpower & Entitlements:** Fully loaded, people costs over half of baseline budget. Current military manpower cost is over \$120,000/person/year and growing. Fully loaded health care costs approaching \$60B/year for current health care and future retirees. These costs are increasing as a percentage of available funding, and will increase at a faster rate in a constrained budget.
2. **Operations and Maintenance costs:** Growing at 2.5% real cost over time; opportunities exist to improve the \$100B/year supply chain; capital decisions over coming years will have long-term effect on O&M costs.
3. **Excessive Overhead (running at least 42%) severely limits the Department's ability to maneuver.** Over the past decades DoD overhead has remained at ~43% while in the global economy similar functions such as installations, management functions, personnel support, central training have dramatically reduced their burden on global enterprises; overhead is taxing combat capability
4. **Force Structure Levels/End-Strength:** Historical structure priorities need to be adjusted to strategic intent for the next generation for which there is no consensus. Current consensus is on raising force levels, reserve/active balance, U.S. alliances and partnerships
5. **Research & Development/Procurement:** Cannot reset current force, modernize and transform in all portfolios at the same time; Choices must be made across capabilities and within systems to deliver capability at a known price within a specific period of time.



\* Future Year Defense Plan Projections,  
based on OMB and CBO data



## **DISCUSSION:**

*(Components necessary for successful management in times of fiscal constraint)*

1. Get leadership in place early; aligned as a team and focused on managing to fiscal reality
  - a. Build allies in rest of executive branch and Hill
  - b. Build a culture of active debate prior to decisions and then team execution after decision-making with solid feedback of results to adjust as necessary
2. Make prioritization decisions early and tie them to strategic choices to maximize effectiveness and successful implementation
  - a. Take on enough to make a difference but not so much that you cannot manage to outcomes. Use data tools in place and in development but understand that perfect information and absolute clarity will not be there.
  - b. Set objectives and metrics; assign responsibilities; hold leadership accountable for results
  - c. Build incentives for the Defense community to become more focused on outcomes (not budget or input driven)



## RECOMMENDATIONS:

### 1. Identify the Trade-Space Early

- a. Items previously viewed as “non-discretionary,” e.g., pay, entitlements, and infrastructure costs, can no longer be sacrosanct. The uniformed military must tackle this too.
- b. Cuts should apply in an “all or nothing” tactic in conjunction with strategy and priorities
  - “Taking cuts at the margin” won’t work this time; nor will “pushing things off to the later years”
  - Across-the-board reductions can have high unintended consequences; it risks cutting the “wrong stuff” – leads to even more attrition of the very scarce capabilities, resources, and skill-sets that have been in critically short supply
  - Invest savings into unfunded priorities, offer back to Congress as goodwill, or combination of both
  - Focus on increased war fighting capability with lower cost



## RECOMMENDATIONS:

2. **Must move beyond just being fiscally prudent to creating a structure and responsibility for the Defense community to reduce costs and become more outcome focused**
  - a. Assign responsibility to the Chief Management Officer (CMO) with the support of the Business Transformation Office for implementing necessary cost reductions in the first year
  - b. Ensure the CMO is an experienced executive with prior government management experience
  - c. Eliminate programs and activities not vital to the mission
  - d. Utilize a bi-partisan commission (similar to the National Bi-partisan Commission on Healthcare) to address DoD's rapidly increasing healthcare expenditures



## **RECOMMENDATIONS:**

- 3. Recruit a Management team with the right Leadership Experience and “Turnaround” skills**
  - a. Select leaders, civilian and military who understand and have specific experience (and a reputation / track record) in right-sizing, redesigning, and realigning an organization for forward sustainable success
  - b. Develop the bench of future leaders and prepare succession plans early for sustained continuity
- 4. Set new expectations by setting benchmarks, and establish a New Culture by setting performance standards right up front that all must achieve**