

# Strategy Research Project

## The Army Conference Policy: Curing the Symptom Instead of the Disease

by

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United States Army War College  
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USAWC STRATEGY RESEARCH PROJECT

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## **Abstract**

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The negative publicity associated with excessive spending on government conferences resulted in sweeping changes to OMB, DoD, and Army conference policies. These changes, as well as the effects of sequestration and continued budget cuts, require the Army to rethink “business as usual” well beyond conference spending. Through a critique of the top-down method used by senior OMB, DoD, and Army civilians to enforce fiscal prudence for conference expenditures, this paper argues that a more comprehensive strategy is required to change the Army’s fiscal culture. An assessment of the inefficiency inherent in all government spending, and the negative tipping point it creates, is presented to highlight the need to change the basic assumptions that adversely affect the Army’s fiscal culture. Once identified, a methodology for changing these assumptions is presented based on the work of noted organizational psychologist Edgar Schein. Specific recommendations include mandatory fiscal training and changes to the officer and senior civilian evaluation system to mandate the inclusion of comments specifically evaluating fiscal prudence.



## **The Army Conference Policy: Curing the Symptom Instead of the Disease**

As we begin 2013, Congress and the Obama administration will renew their efforts to reach common ground on a comprehensive plan to address the nation's \$16 trillion national debt.<sup>1</sup> The consequences for the Department of Defense (DoD) if sequestration cannot be averted through a grand compromise are dire. In a recent letter to Senator John McCain of Arizona, former Secretary of Defense Leon Panetta stated that sequestration may result in an additional \$550 billion in cuts to DoD's budget over the next ten years. This is in addition to the currently forecasted \$450 billion cuts in the President's FY2012 budget.<sup>2</sup> Panetta further stated that such drastic cuts will result in the smallest United States military ground force since 1940, the smallest number of ships since 1915, and the smallest Air Force in its history.<sup>3</sup>

Former Secretary Panetta was not alone in predicting dire consequences if Congress does not take action soon to rectify longstanding budgetary issues. The Chairman and Vice-Chairman of the Joint Chiefs of Staff, joined by each of the service Chiefs, provided a somber assessment of the situation in a letter to Representative Howard McKean, Chairman of the Committee on Armed Services.<sup>4</sup> In the letter, the Chiefs highlighted the possibility of grounding aircraft, returning ships to port, stopping the use of vehicles in training, reducing training by half, and furloughing up to 800,000 essential defense civilians if the crisis is not averted.<sup>5</sup> This letter was followed two days later by a joint memorandum issued to all senior Army commanders by the Secretary of the Army, John McHugh, and the Chief of Staff of the Army, General Raymond Odierno.<sup>6</sup>

In their memorandum, Secretary McHugh and General Odierno move from the theoretical to the specific by addressing immediate steps that must be taken based on

budget concerns. They provide “command intent” focused on reducing expenditures through reversible actions so as to not affect readiness if the budgetary situation improves. Some of the actions directed in the memorandum include: 1) an Army-wide hiring freeze; 2) termination of temporary employees; 3) curtailing temporary duty and training; 4) limiting conferences; 5) limiting administrative expenses and supply purchases; and, 6) reviewing contracts for cost savings.

The grave predictions and draconian cost-saving measures presented above provide sobering clarity to the Army’s upcoming budgetary challenges. While sequestration is a worst-case scenario that may not come to pass, the fact remains that shrinking budgets, broad austerity measures, and closer scrutiny of spending can be expected for the foreseeable future. One ramification of this new reality is that all spending is now strategic. This extends well beyond the zero-sum nature of the budget allocation process. The strategic implications for the Army’s budget now includes the specter of a credibility gap if fiscal excesses negatively impact efforts by senior pentagon officials to ensure appropriate funding levels to maintain strategic capabilities.

It is against this backdrop of dwindling resources, greater scrutiny, and the strategic implications of budgetary decisions that this paper will address current Department of the Army (DA) efforts to ensure fiscal prudence in one sector of its discretionary spending – conference expenses. Through a review of the events that led to changes in the military’s conference policies, as well as Army-specific attempts to rein in conference spending, the efficacy of the Army’s current policies will be examined. Based on this examination, an argument will be made for a comprehensive framework

to ensure a change in the Army's fiscal culture that can be applied throughout DoD and the whole of government.

### Conference Spending Faces Scrutiny

On December 27, 2010, former Secretary of Defense Robert Gates issued a memorandum entitled, "Consideration of Costs in DoD Decision-Making."<sup>7</sup> Although focused on all types of DoD spending, the memorandum emphasized the particular need to provide transparency by calculating government costs associated with attending, sponsoring, or hosting conferences. To facilitate the new requirement, DoD created an on-line tool that quickly calculates the cost of conferences.<sup>8</sup> The tool was made accessible to all DoD employees through the Common Access Card to ensure the widest possible usage.

Less than four months after the Gates memorandum was issued, the Installation Management Command (IMCOM) hosted a conference so fundamentally flawed that it prompted senior Army officials to mandate a series of policy changes designed to reign in excessive conference expenditures and regulatory violations. IMCOM's four-day Commander's Conference was held in San Antonio, Texas, in April 2011. With over eighteen hundred attendees and costs exceeding \$4 million, the conference became the subject of an anonymous Inspector General complaint.<sup>9</sup> In addition to issues related to the cost and scope of the conference, it was determined that the conference failed to comply with defense travel and contracting regulations, as well as ethical guidelines.<sup>10</sup> Those violations specifically addressed included: 1) failure to use a warranted contracting officer; 2) failure to consider three geographic locations and three venues; 3) the use of a venue contracted for by a non-federal entity (The Association of the United States Army (AUSA)); 4) paying for attendees meals; and, 5) approving the payment of

\$500 to AUSA for each Army attendee to hear three speakers, all of whom were Army personnel.<sup>11</sup>

The reaction to the excesses of the IMCOM conference was swift. On April 20, 2011, Secretary McHugh issued Army Directive 2011-05.<sup>12</sup> The directive withheld approval authority for all conferences to Secretary McHugh, with the exception of approved conferences held before June 1, 2011. In addition to requiring every Army leader to contribute to cost savings and the elimination of waste, the directive provided criteria for the submission of all future conference requests.<sup>13</sup> Each request required the endorsement of a general officer or member of the Senior Executive Service (SES) charged with certifying the proposed conference is necessary for Army operations, includes the minimum number of conferees necessary, and will be conducted in the most cost-effective manner possible. The directive also required a fully documented, detailed, and credible cost-benefit analysis, to include a comprehensive legal review by the servicing legal advisor.<sup>14</sup>

Less than six months after issuing Army Directive 2011-05, Secretary McHugh superseded the directive with the implementation of Army Directive 2011-20.<sup>15</sup> The updated directive emphasizes the need to change “the ‘business as usual’ mindset” related to conferences and the need to “implement more cost-effective and efficient methods to train, plan, collaborate, and disseminate information.”<sup>16</sup> To this end, Directive 2011-20 establishes a comprehensive policy for all future DA conferences. In a thirteen-page enclosure, the directive provides detailed guidance on cost, contracting, and ethical considerations. It also clarifies terms, outlines command responsibilities, and

most importantly, establishes approval authorities for conferences based on total costs, among other criteria.<sup>17</sup>

Pursuant to the policy, for conferences with total costs greater than or equal to \$500,000, approval authority rests with the Administrative Assistant to the Secretary of the Army (AASA). For conferences costing less than \$500,000, approval authority rests with commanders of major Army commands, Army service component commands, and direct reporting units for conferences sponsored or funded by their respective commands. The policy also provides for delegation of this approval authority to a general officer or SES who is a principal deputy of the approval authority. And for those conferences greater than or equal to \$25,000, but less than \$100,000, delegation to the first general officer or SES in the chain of the command is authorized.<sup>18</sup>

With the implementation of Directive 2011-20, it appeared that senior level guidance to rein in Army conference spending was now complete; however, in less than six months the landscape again would change. This time, it was a conference outside the DoD that resulted in action by senior government officials.

In April of 2012, the Inspector General of the General Service Administration (GSA) issued a report on the organization's Western Regions Conference.<sup>19</sup> The November 2010 event, held in Las Vegas, immediately garnered wide-spread coverage by national media, to include Articles in *The Washington Post*,<sup>20</sup> *Government Executive*,<sup>21</sup> and *The New York Times*.<sup>22</sup> National interest in the taxpayer-funded conference grew more intense as reports surfaced that the "over-the-top" conference cost \$822,000 and featured a clown, a mind reader, a \$75,000 team-building exercise, and \$7,000 in sushi.<sup>23</sup> Congressional interest soon led to a hearing conducted by

Representative Darrell Issa, Chairman of the House Oversight and Government Reform Committee.<sup>24</sup> At the hearing, the organizer of the conference, Jeff Neely, invoked his Fifth Amendment right against self-incrimination. Moreover, the disgraced former head of the GSA, Martha Johnson, explained that she resigned following the scandal to “send a message to the American people that ‘this was unacceptable, it was appalling and not the norm.’”<sup>25</sup> With the excesses of the GSA conference taking center stage in Congress and the media, senior government officials introduced new policies to regulate and apply oversight to all government spending on conferences.

Approximately one month after the details of the GSA investigation were made public, the Office of Management and Budget (OMB) issued a memorandum entitled, “Promoting Efficient Spending to Support Agency Operations.”<sup>26</sup> Much like Secretary McHugh’s Directive 2011-20, the OMB policy relies on senior level review for all conferences. Specifically, the memorandum requires the Deputy Secretaries of all executive departments and agencies, or their equivalent, to review all planned and future conferences which exceed \$100,000 in net costs to ensure that “no funds are used for unnecessary or inappropriate purposes...”<sup>27</sup> In addition, the memorandum specially prohibits single conferences with costs in excess of \$500,000 unless the agency head requests a waiver. To obtain a waiver, the agency head must determine that, “exceptional circumstances exist whereby spending in excess of \$500,000 on a single conference is the most cost-effective option to achieve a compelling purpose.”<sup>28</sup> Of particular interest was the manner in which transparency was mandated in the new OMB policy.

Beginning in 2013, the OMB policy requires agency heads to publish reports on the prior fiscal year's conferences in excess of \$100,000. The policy requires that these reports be placed on a dedicated location on each agency's official website by January thirty-first of each year. Moreover, for all conferences in excess of \$500,000, agency heads also must include the waiver they submitted in order to obtain permission to conduct the conference.<sup>29</sup>

Department of Defense implementation guidance for the new OMB policy followed less than a month later. In a memorandum dated June 3, 2012, Deputy Secretary of Defense, Dr. Ashton B. Carter, reiterated the requirement for the head of each DoD component or service to conduct a review of upcoming conferences in which DoD total costs exceed \$100,000.<sup>30</sup> Dr. Carter also directed that all conferences with costs in excess of \$100,000 must be approved by DoD's Deputy Chief Management Officer (DCMO) and conferences above \$500,000 will be submitted through the DCMO for Dr. Carter's personal approval, if warranted.<sup>31</sup>

In the midst of these ongoing attempts to rein in government spending on conferences, two events provided even greater impetus for DoD leaders to change "business as usual." In the first instance, although not related to a conference, the Inspector General report on the travel expenses of Major General (MG) William E. Ward again cast a spotlight on Army spending excesses.<sup>32</sup> In a memorandum released on June 26, 2012, Deputy Inspector General Marguerite C. Garrison substantiated a number of allegations relating to MG Ward's tenure as the Commander of Africa Command (AFRICOM).<sup>33</sup> The report substantiated sixteen allegations against MG Ward. The most serious of these include: 1) extending the length of trips multiple times

for personal reasons while claiming and receiving reimbursement for official travel in violation of the Joint Travel Regulation; 2) permitting his spouse to accompany him on fifteen military air flights in violation of DoD Regulation and OMB guidance; 3) receiving reimbursement on nine occasions for expenses in excess of per diem rates in violation of the Joint Travel Regulation; 4) accepting complimentary meals and Broadway tickets for himself and his wife from a prohibited source in violation of the Joint Ethics Regulation; 5) wasting \$18,500 in government funds by authorizing the production of 1,000 booklets and 1,000 hardbound books in violation of the Joint Ethics Regulation; and, 6) conducting only three days of official business on an eleven-day trip to the national capital region that cost taxpayers \$129,000.<sup>34</sup> As a result of these findings, former Secretary Panetta determined that MG Ward must repay \$82,000 in improper expenses and retire at the reduced rank of Lieutenant General.<sup>35</sup>

The second significant event drawing attention to DoD spending was a request from Representative Issa relating to conferences conducted within DoD. In an August 22, 2012 memorandum to former Secretary Panetta, Representative Issa identified sixty-four conferences occurring from 2006 to 2011 which had per-person costs exceeding the now-infamous GSA Las Vegas conference. While Rep. Issa noted that he was not challenging the importance of the conferences in question, he explained that the committee's request for further information was, "to determine if expenditures were appropriate and taxpayer dollars were wasted."<sup>36</sup>

As former Secretary Panetta addressed both the fallout of the Ward investigation and the request of Representative Issa, DoD continued to refine its guidance regarding conferences. In memorandum dated September 29, 2012, Dr. Carter issued the most

comprehensive and detailed guidance to date.<sup>37</sup> In superseding the memorandum of June 3, 2012, the updated policy painstakingly addresses definitions, reporting requirements, cost calculations, and new conference approval levels. As for the Army, the updated policy requires the Secretary or Under Secretary of the Army to approve all conferences that exceed \$500,000, involve co-sponsorship with a non-Federal entity, or involve requests for spousal travel. For those conferences between \$100,000 and \$500,000, approval may be delegated by the Secretary or Under Secretary to a limited number of Assistant Secretaries or commanders of Major Army Commands. For conferences below \$100,000, approval authority may be delegated to the appropriate general officer or SES member in their organization.<sup>38</sup>

On the heels of DoD's comprehensive policy changes, Secretary McHugh issued interim guidance on October 17, 2012.<sup>39</sup> This was followed twelve days later by supplemental guidance from the AASA.<sup>40</sup> Together, these documents establish the current Army-specific approval authorities for each level of conference funding. As required by DoD policy, approval for conferences exceeding \$500,000 is retained by the Secretary or Under Secretary. For conferences between \$500,000 and \$100,000, approval authority is delegated to the Commanders of U.S. Army Forces Command, U.S. Training and Doctrine Command, and U.S. Army Material Command. Approval authority for conference costing less than \$100,000 is delegated to Commanders of Army Commands (ACOMs), Army Service Component Commands (ASCCs), Direct Reporting Units (DRUs) headed by a general officer or SES, and Headquarters, Department of the Army (HQDA) principal officials.<sup>41</sup>

To ensure senior Army civilian and military officials were able to carry out their responsibilities, the AASA memorandum also included a data call provision. The provision requires the commander of the appropriate ACOM, ASCC, or DRU, or HQDA principal official to endorse a spreadsheet indentifying planned Fiscal Year 2013 conferences. In addition to planning purposes, the endorsement serves as confirmation from the signee that the conferences listed are a necessary and cost-effective way to achieve a particular mission objective.<sup>42</sup>

One component of the latest DoD and Army guidance not addressed above are the stringent requirements placed on attendance of non-DoD conferences. In an attempt to further limit conference spending, Dr. Carter took the additional step of requiring service Secretary or Under Secretary approval for any non-DoD conferences where the total cost of attendance by the service's personnel exceeds \$20,000.<sup>43</sup> Of all the requirements included in the new DoD conference policy, this provision may prove to be the most onerous for two reasons. First, the low threshold amount requires senior level approval for conferences that have as few as five attendees.<sup>44</sup> Second, whereas DoD conference packets are produced by a single organization and move up through the supervisory approval process, this latest mandate requires each service to aggregate the cost of single attendees from across the entire service to determine if the total exceeds \$20,000. For this reason, the AASA policy memorandum requires commanders of ACOMs, ASCCs, DRUs, and HQDA Principal Officials to provide spreadsheets for Fiscal Year 2013 listing the number of personnel each propose to send to a conference and the estimated costs.<sup>45</sup>

The inclusion of non-DoD conferences as part of a comprehensive approach to reduce spending certainly was warranted. Not surprisingly, upon its release, it drew attention to high-profile conferences such as the annual AUSA conference held in Washington, DC. Just weeks after the new policy was announced, a Bloomberg report revealed the Army spent \$10.7 million on the conference in 2010 and \$37.7 million from 2008-2011.<sup>46</sup> Another report noted that the Army spent \$1.1 million to design a booth used at the 2008 AUSA conference and paid \$429,231 for a business to ship, set up, and break down another booth for an AUSA conference in Fort Lauderdale, Florida.<sup>47</sup> The effect of Congressional scrutiny and DoD policy changes was obvious for the 2012 iteration of the AUSA conference. In contrast to the average of 2,400 attendees and total expenses of \$9.45 million over the previous four years, the Army limited attendance to four hundred attendees and reduced total costs to \$1.3 million.<sup>48</sup>

With a flurry of policy changes over an eighteen-month period and an 88% reduction in the Army's price tag to attend one of its hallmark events, it is evident that recent policy changes have impacted "business as usual." But that begs the question, are the current policies regarding both DoD and non-DoD conferences enough to ensure a cultural change in the Army?

### Curing the Symptom Instead of the Disease

In *Leading Change*, John P. Kotter, Professor Emeritus at Harvard Business School, states that leaders often fail in their attempts to change organizational culture because they fail to instill a high enough sense of urgency in fellow managers and employees.<sup>49</sup> Louis Gerstner, another best-selling author and former Chief Executive Officer of IBM and RJR Nabisco, asserts that successful organizational change is the product of communicating crystal-clear messages to all employees.<sup>50</sup> John Baldoni, a

noted leadership consultant and author emphasizes that leaders establish credibility by speaking the truth and not hiding bad news.<sup>51</sup>

Judged against the foregoing criteria of urgency, clear messaging, and speaking the truth about bad news, the Army's initial efforts to set the stage for a change in its culture were successful. Following the IMCOM conference of 2011, while not specifically referencing IMCOM or any past practices, Secretary McHugh spoke honestly about the need to change Army culture as it relates to conferences. With his memoranda of April 20, 2011, and October 14, 2011, he established the requisite urgency through strong, clear language directed to senior leaders and their subordinate commands. With the promulgation of revised OMB and DoD policies, Secretary McHugh continued to refine guidance and establish Army-specific procedures to ensure conference oversight mandates are met. While it is clear that these actions by the Army established a basis for change, the policy changes alone are not enough to sustain cultural change.

As presented above, the DoD and DA framework for curtailing conference expenditures focuses on three major areas of emphasis: 1) detailed guidance on costs, contracting, and ethical considerations; 2) a graduated system of senior level review based on total conference expenses; and 3) the chilling effect transparency brings to excessive spending. The end result should be the elimination of unnecessary conferences, prudent spending on those conferences that remain, and increased confidence in DoD and DA as good stewards of taxpayer dollars. Although these goals may be achieved through directives and policies, is it correct to say that a cultural change toward fiscal prudence necessarily will follow? Or is it more likely that we will

see forced compliance based on fear of senior leader or public condemnation? If the directives and policies in question are revoked, how confident are we that similar excesses soon would not follow? If confidence is low, then actions beyond senior leader oversight and transparency are necessary, which again brings us to the leadership philosophies of Kotter and Gerstner.

In addition to the lack of urgency addressed above, Kotter lists additional factors that prevent leaders from achieving cultural change: 1) underestimating the power of vision; 2) under-communicating the vision; and, 3) neglecting to anchor changes firmly in the organization's culture.<sup>52</sup> Gerstner, while advocating crystal-clear messages, advises leaders that great execution is more than simply exhortation and message. He believes that it flows naturally from values and commitments instead of from procedures and rule books.<sup>53</sup> Based on these criteria for success, the Army falls short of the requisite elements necessary to bring about the cultural change it seeks. Instead of Kotter's oft-communicated vision that anchors a set of values firmly in the organization, the Army limited its approach to the very rules and procedures mentality Gerstner urges leaders to avoid.

While it is clear that the Army was required to take immediate prescriptive steps to prevent further abuses, nothing in the mandates of OMB or DoD prevent the Army from adopting a comprehensive approach to place the desired cultural change on a more sustainable footing. The first step in doing so requires a realistic assessment of the root of the problem instead of simply addressing its symptoms. Because the cultural change the Army seeks is based on curbing fiscal excess, a good starting point is an honest examination of the inefficiencies inherent in government spending.

## The Root of the Problem

In *Free To Choose: A Personal Statement*, economist and Nobel Laureate Milton Friedman, along with his wife Rose D. Friedman, addressed the four ways to spend money.<sup>54</sup> In a chapter broadly addressing social welfare programs, Friedman presented the four categories of spending, from the most to the least efficient.<sup>55</sup>

The most efficient way to spend money, according to Friedman, is to spend your money on yourself. This category, Category I, is efficient because “you clearly have a strong incentive both to economize and to get as much value as you can for each dollar you do spend.”<sup>56</sup> Spending your money on someone else encompasses the second category of spending. For this category, Friedman explains the drop in efficiency is due to the fact that, “you have the same incentive to economize as in Category I but not the same incentive to get full value for your money.”<sup>57</sup> Thus, in Friedman’s model, the two most efficient ways to spend money share one trait, the fact that you are spending your money and therefore have a strong incentive to economize. As presented below, this incentive is absent in the two least efficient spending categories.

Friedman’s third category involves spending someone else’s money on you. The decreased efficiency in Category III is due to the fact that while you have an incentive to get the most value for your money, you have no strong incentive to keep down costs.<sup>58</sup> As can logically be inferred, the least efficient way to spend money is spending someone else’s money on another person. For Friedman, Category IV, which comprises most government spending, is the least efficient way to spend money because you have little incentive to economize or obtain great value for what you spend.<sup>59</sup>

Figure 1 below is an illustration of Friedman’s model which appears in an interview in which he discussed this subject.<sup>60</sup>

|                      |               | On Whom Money is Spent                  |                                              |
|----------------------|---------------|-----------------------------------------|----------------------------------------------|
|                      |               | Yourself                                | Someone Else                                 |
| Whose Money is Spent | Yours         | Economize and Seek Highest Value        | Economize, but don't seek highest value      |
|                      | Somone Else's | Don't economize, but seek highest value | Don't Economize and Don't Seek Highest Value |

Figure 1. Illustration of Friedman's Model

We need only look to the excesses outlined earlier to see this model at work in the Army. General Ward's lavish vacations and gift-giving at government expense, IMCOM's \$4 million all-hands conference, and the Army spending over \$10 million on a single AUSA conference are all examples of spending as defined in categories III and IV of Friedman's model. Although, the Army is not alone in proving him correct as the GSA,<sup>61</sup> Veteran's Administration,<sup>62</sup> and the other services<sup>63</sup> have all been implicated in wasteful government spending on conferences.

If we are to limit such excesses, the ultimate value of Friedman's model lies in its ability to logically demonstrate why government profligacy can unfortunately be expected. In providing a simple explanation of the existence or absence of incentives inherent in every spending decision, the model is, in effect, the problem statement. Therefore, attempts to truly change "business as usual" must take into consideration the

direct implication of the model on conference spending. Once this is done, senior Army leaders can embark on a program that sets forth a vision that moves conference spending from a Category III and IV mentality to that of Category I. Although not stated in these exact terms by Secretary McHugh, this is the essence of what he means by changing “business as usual.”

While not a panacea, consistent reinforcement of a vision based on the belief that individuals can spend in Categories III and IV with a Category I mindset has the potential to yield impressive results. As highlighted below, focusing on what is perceived as mundane, trivial, or unimportant may be the best option for identifying a tipping point that brings the greatest impact.

#### Understanding Tipping Points

In his best-selling book *Tipping Point*, author Malcolm Gladwell uses the example of crime in the New York subway system to explain how little changes can have big effects.<sup>64</sup> In *Tipping Point*, Gladwell highlights the “Broken Windows” theory first espoused by criminologists James Q. Wilson and George Kelling. The theory asserts that crime is an inevitable result of disorder. Broken windows beget more broken windows, which leads to graffiti, an increase in small crime, then eventually more serious crime. Eventually a general malaise develops that culminates in an attitude that “anything goes.”<sup>65</sup> To counter the “epidemic theory of crime,” Gladwell argues that authorities need to alter the environment that makes illegal conduct acceptable. He then provides an example of the theory in action using the New York Transit Authority’s (NYTA) efforts to reduce crime over the ten-year period from 1984 to 1994.

In the mid-1980s, the NYTA hired George Kelling as a consultant and he immediately put his theory into practice. Working with the new subway director, David

Gunn, the two sought to reduce crime by systematically changing the environment instead of focusing solely on major crimes. Believing that, “graffiti was symbolic of the collapse of the system,” Gunn implemented a program to have cars on each subway line cleaned in a methodical fashion. If graffiti appeared on new cars or previously cleaned cars, they would be kept from use until they were cleaned. The message to the graffiti artists was clear; their work will never see the light of day and therefore they are wasting their time and money attempting to deface subway transit cars.<sup>66</sup> Once the NYTA cleaned up the appearance of subway cars, they went after the lowest level of crime in the subway system – fare-beating.

In the 1980s, it was estimated that 170,000 people a day were entering the NYTA system without paying. Like graffiti, it was considered another form of disorder that invited more serious crime. To combat the signal that lawlessness was permitted, the head of the transit police, William Bratton, instituted an aggressive policy of arresting fare-beaters. Officers began arresting fare-beaters and keeping them on the subway platform, handcuffed together, to create “daisy chains” of petty criminals. In addition to sending a clear message to the public, the arrests often had the additional benefit of apprehending more serious criminals. Officers who originally were reluctant to pursue such minor crimes found that one in seven arrestees had an outstanding warrant and one in twenty was carrying a concealed weapon.<sup>67</sup>

As Gladwell explains, the same reduction in serious crime witnessed by the NYTA when they addressed graffiti and fare-beating was present when New York City applied the “Broken Windows” theory to the entire city. In 1994, New York City Mayor Rudolph Giuliani appointed Bratton as Chief of Police. He immediately began

prosecuting the above-ground equivalents of graffiti and fare-beating with the same vigor as the NYTA. Public drunkenness, urinating in public, littering, and minor property crimes all resulted in arrest. The reduction in serious crime that followed led Bratton and Giuliani to draw the same conclusion; crime drops dramatically when minor quality-of-life crimes are aggressively prosecuted because turning a blind eye to such lesser violations of the law creates a tipping point for more violent offenses.<sup>68</sup>

In terms of tipping points, the graffiti, fare-beating, and quality-of-life crimes focused on by New York City authorities are similar to the waste inherent in Category III and IV spending. In the same way tolerating minor crimes creates a mindset that leads to more serious crime, the failure to address the realities of Category III and IV spending leads to a mindset that fiscal excesses are either permitted or excusable. Although the Army's new conference policies address this mindset, the manner in which they do is equivalent to a parent regulating every purchase of a spendthrift child instead of teaching him or her fiscal prudence. Senior leader oversight is necessary based on political realities, but mere oversight is not enough. For long-term success, the Army must implement a comprehensive strategy designed to change its culture by addressing the root of the problem and the tipping point it creates.

### Leading Cultural Change

In addition to the principles espoused above by Kotter, Gerstner, and Baldoni, another model for implementing sustainable culture change can be found in the writings of Edgar H. Schein. In one of his early books on the subject, Schein defined culture as:

A pattern of basic assumptions – invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.<sup>69</sup>

Over fifteen years and four editions of his book on culture and organizational leadership, Schein advanced specific principles for leading cultural change by influencing basic assumptions. In Schein's view, assumptions are deeply embedded, unconscious, non-negotiable, and taken-for-granted behaviors that constitute the essence of culture.<sup>70</sup> These assumptions are so well-ingrained in culture that they are not observable or subject to *direct* change; however, they are subject to *indirect* change. Schein states that *indirect* change is brought about by altering assumptions through influencing the organization's "Espoused Beliefs and Values" and "Artifacts." Unlike assumptions, Espoused Beliefs and Values and Artifacts are both observable and subject to *direct* change.<sup>71</sup>

Espoused Beliefs and Values are the ideals, goals, values, aspirations, and ideologies of the organization.<sup>72</sup> According to Schein, changing an organization's Espoused Beliefs and Values can be accomplished through the use of the following "Primary Embedding Mechanisms:"

- what leaders pay attention to, measure, and control on a regular basis
- how leaders react to critical incidents and organizational crises
- how leaders allocate resources
- deliberate role modeling, teaching, and coaching
- how leaders allocate rewards and status
- how leaders recruit, select, promote, and excommunicate<sup>73</sup>

Artifacts are the visible elements in a culture recognizable to those not part of the culture. They include: architecture, physical environment, language, technology, dress code, manners of address, and observable rituals and ceremonies.<sup>74</sup> Schein states that

changing an organization's Artifacts reinforces the effect of the Primary Embedding Mechanisms and can be accomplished by using the following "Secondary Articulation and Reinforcement Mechanisms:"

- organizational design and structure
- organizational systems and procedures
- rites and rituals of the organization
- design of physical space, facades, buildings
- stories about important events and people
- formal statements of organizational philosophy, creeds, and charters<sup>75</sup>

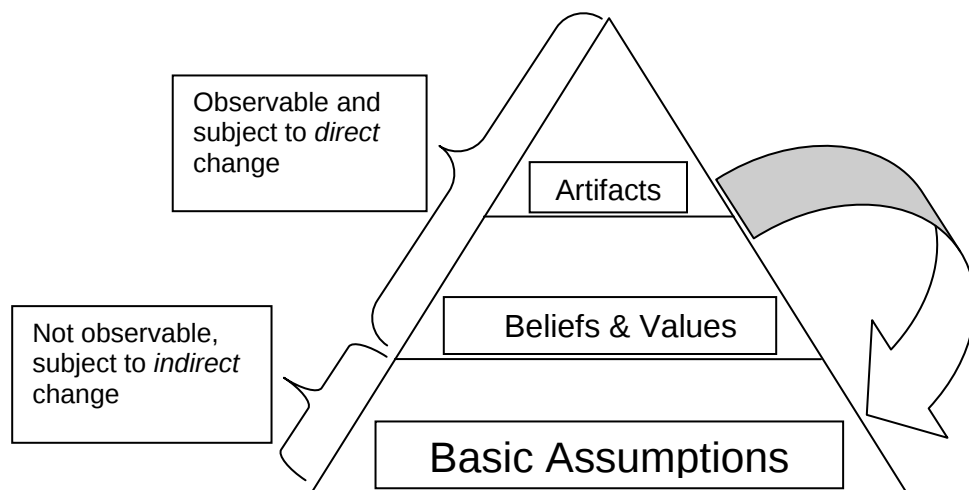


Figure 2. Illustration of Schein's Model

The efficacy of Schein's model (Figure 2 above) lies in its simplified method for implementing cultural change through the identification of assumptions that negatively impact the organization. Once identified, the primary and secondary mechanisms presented above can be implemented to alter Espoused Beliefs and Values and Artifacts, and therefore the underlying assumptions. For this reason, Schein's

methodology presents a logical starting point for a comprehensive plan to change the Army fiscal culture.

## Recommendations

### Broadly Implement Schein's Organizational Change Model

The Army should implement Schein's organizational change model focusing on those assumptions that present the most fertile ground for bringing about cultural change as it relates to fiscal prudence. This can be accomplished through applying the lessons learned from past conferences, the conclusions of Friedman's spending model, and the importance of indentifying tipping points. While not exhaustive, the following list represents a few of the major negative assumptions that can be inferred from these factors: 1) fiscal prudence education is not required for all personnel; 2) evaluation of fiscal prudence is not required for officers and senior civilians; 3) fiscal prudence is not rewarded; 4) efficiencies are less important for organizations with smaller budgets; 5) failure to exhaust an entire budget will result in a smaller budget the following fiscal year; 6) if an organization fails to exhaust its budget, another organization will benefit; and, 7) we have always spent money this way so it must be right.

Once a comprehensive list of negative assumptions is agreed upon, senior Army leaders can use the primary and secondary mechanisms identified by Schein to alter those assumptions. While it is clear that many of these mechanisms have been used to date, the focus has been on the first and second primary mechanisms of "attention, measure, control, and react to critical incidents." To be successful, a greater emphasis must be placed on primary mechanisms such as "deliberate role modeling, teaching, coaching, and allocating rewards." The belief that the emphasis must be at the user-

level provides the basis for the following specific recommendations geared toward embedding values and Artifacts that lead to fiscal prudence.

#### Teach and Coach Fiscal Prudence

Based on federal law, the Army has a comprehensive plan to ensure all of its personnel have ethics training.<sup>76</sup> Pursuant to DoD Directive 5500.7-R, the Secretary should expand the ethics program to include specific training on fiscal responsibility.<sup>77</sup> In addition to including fiscal training in the annual ethics program, the Secretary should expand this training to include all NCOs and civilians above the grade of GS-8, instead of limiting training to the most senior personnel. If the intent is to alter assumptions across the Army through embedding mechanisms, this authority presents the perfect vehicle to teach and coach the widest audience in the most effective manner possible.

#### Evaluate and Reward Fiscal Prudence

“People respect what you inspect,” is a quote from Gerstner’s book on leading change.<sup>78</sup> The OMB, DoD, and Secretary of the Army understand this truism. By elevating conference approval authority to the most senior members of the Army, they raised the level of the inspection and therefore respect for the process. But, it is equally true that people respect what you evaluate. In the same way that individuals pay close attention to what a superior will inspect, they will pay close attention to what a superior bases their evaluation upon.

Under the current evaluation systems in the Army, only non-commissioned officers (NCOs) and civilian employees below the grade of G-9 are evaluated on fiscal prudence.<sup>79</sup> Officer Evaluation Reports (OERs) and senior civilian evaluations are void of any mandate to provide comments evaluating fiscal responsibility.<sup>80</sup> Whether through actual changes to the OER and senior civilian evaluation forms, or a requirement to

address fiscal prudence in objectives and comments, the Army must change its culture by holding senior leaders accountable in the same way we hold our NCOs and junior civilians. By correcting the message this Artifact sends to the Army's most senior personnel, we reinforce the primary embedding mechanisms of teaching and coaching and enhance the most important embedding mechanisms – the ability to select, promote, and reward those who display fiscal prudence.

### Conclusion

The credibility of the Army and its leaders is at stake with every spending decision that is made. No longer can we justify platinum-plating gold bars by referring to the amount in questions as “Budget Dust.” In the zero-sum budgetary environment of decreasing appropriations, fiscal prudence entails maximizing the value derived from every dollar spent instead of minimizing its proportion to the overall budget. The steps taken by OMB, DoD, and the Secretary of the Army to limit conference spending attest to this fact. The policies now in place, while labor-intensive, will prevent future credibility-draining headlines. But as argued above, these policies alone are not enough to permanently change the Army's culture of fiscal profligacy. This can only be accomplished through a comprehensive plan dedicated to changing the organizational Artifacts, Espoused Beliefs and Values, and assumptions that lead to fiscal imprudence. If successfully implemented, the corresponding cultural change will influence spending across the Army and may serve as a model for other services and agencies throughout government.

## Endnotes

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