

CHAPTER 12

DEFENSE REFORM INITIATIVE

The Department of Defense is changing the way it does business. Just as private industry changes its practices to be competitive, DoD is making significant effort and progress bringing competitive and best commercial practices into the business of defense. Taking advantage of lessons learned in private industry is facilitating the Department's ability to lay out a sensible road map for improving efficiency and reducing costs.

Although applying these lessons from private industry is not always easy, the urgency to do so is highlighted by DoD's aging equipment and the availability of new technology. The Defense Reform Initiative (DRI) continues its efforts to build a new and more flexible Department to address the challenges of the future. It is a long-term and comprehensive initiative designed to incorporate fundamentally new approaches to conducting business and transforming one of the world's largest organizations into a world-class operation.

BEST BUSINESS PRACTICES

DoD recognizes the advantages of adapting the best of private sector practices to its business transformation strategy. The strength of the U.S. economy lies in the flexibility of the commercial sector—in its ability to reorganize, restructure, and innovate. The Department is working to adapt the same revolutionary business and management practices that helped the commercial sector gain a competitive edge in a rapidly changing global marketplace. Examples, detailed below, include performance measures, performance contracts, financial management reform, and electronic business.

PERFORMANCE MEASURES

Results-driven performance management allows managers to track progress toward their goals, flag possible problems, and continuously improve. It also allows managers to identify priorities and allocate limited financial resources. Over the past year, the Defense Reform Office worked with DoD components to create performance measures for the various reform efforts. This effort resulted in 41 performance measures that focused on cost savings, process efficiencies, and improved customer service.

PERFORMANCE CONTRACTS

Ten DoD organizations currently are required to develop annual performance contracts outlining performance requirements and new initiatives agreed to by the organization, its customers, the Defense Management Council, and the Office of the Secretary of Defense. During January 1998, four organizations completed one-year performance contracts that covered FY 1999. These organizations, the Defense Finance and Accounting Service, the Defense Contract Audit Agency, the Defense Logistics Agency, and the Defense Health Program worked very closely with their customers and the OSD staff to

identify critical management metrics for use in the contracts. These organizations have achieved important things by using performance contracts. First, the level of communications between the organizations and their customers has improved dramatically. Second, these organizations had to carefully articulate what their business areas were, who their customers were, and assign resources to each business area.

During FY 2000, significantly improved performance contracts were developed for a total of seven organizations using lessons learned from the FY 1999 contract process. Currently, performance contracts for nine organizations have been approved by the Defense Management Council for FY 2001. For FY 2002 and beyond, all ten of the organizations will submit performance contracts with improved performance measures, building on lessons learned from reviews of previous contracts. These contracts will coincide with long range planning documents submitted by each organization in May of every year and will be a linking tool between those long-term plans and the annual budget submission.

FINANCIAL MANAGEMENT REFORM

The Department continues to transform its financial management and business practices to save money, strengthen accountability, fulfill statutory requirements, and provide superb service to DoD personnel and organizations. Financial systems are being consolidated and upgraded, controls and safeguards are being strengthened, processes are becoming increasingly electronic and paperless, and new federal accounting standards are being implemented to enable DoD to earn favorable audit opinions of its financial statements.

ELECTRONIC BUSINESS

The Department continues to advance the Revolution in Business Affairs through the application of Electronic Business (EB) strategies and initiatives. These efforts are designed to insert new management approaches and information technologies into the core processes of the Department in order to dramatically advance mission capabilities. An integral part of the Defense Reform Initiative, EB represents the new approach to streamlining and restructuring processes to meet the global and competitive challenges of the future.

The Department has a three-pronged approach to institutionalizing Electronic Business. First, DoD is completing an EB governance framework to coordinate Department-wide EB implementation and execution activities. Second, DoD is prescribing the essential policy, including roles and responsibilities, for EB via the formal DoD regulatory process. Third, DoD is maintaining the DoD Electronic Business/Electronic Commerce Strategic Plan under the leadership of the DoD CIO that sets forth the EB vision, principles, goals and objectives. These efforts provide a sound foundation and framework that will permit effective execution of EB initiatives.

QUALITY OF LIFE INITIATIVES

Quality of life for DoD personnel is a priority. It's easier to attract well-trained personnel if good work environments are offered. It's also easier to retain employees under these conditions, and more importantly, DoD personnel deserve a high quality of life. Many of the reform efforts, therefore, are intended to increase the quality of life for DoD's most valuable resource—its people.

TEMPORARY DUTY TRAVEL

Temporary duty travel is undergoing significant changes. The old process of obtaining orders, initiating advances, and settling travel will soon be replaced by the Defense Travel System (DTS). DTS seeks to simplify and automate the DoD Temporary Duty (TDY) travel process, improve customer service levels, and reduce the associated administrative costs. The current travel process is predominately paper-based and lacks a customer focus. DTS will use leading-edge technologies to automate the TDY travel process in an electronic environment. By streamlining the travel management function, DTS is expected to provide DoD with significant annual cost savings after full implementation.

HOUSEHOLD GOODS TRANSPORTATION

The Department is working hard to improve the way in which it contracts for the movement of household goods and related services. DoD improvements include: selecting vendors based on best value rather than lowest cost; commercial-sourcing the entire household goods shipment process to a commercial relocation company; and insuring prompt and easy payment. Pilot programs have identified core improvements, which will significantly improve quality of service, reduce damage and claims, ease dealing with carriers, and directly impact morale. DoD is also working with the transportation industry and Congress to seek support.

LOGISTICS TRANSFORMATION

The commercial marketplace demonstrates that product support can be optimized and strategic advantage created by focusing on customer service, integrating supply chains, capitalizing on rapid transportation, and exploiting electronic commerce. When applied to Defense, this equates to integrated logistics chains focused on readiness and rapid service to the warfighter customer. To accomplish this fundamental transformation, the Department has developed a long-term logistics reform strategic plan, established a logistics architect to help guide the transformation effort, and started to implement new business strategies. Logistics transformation efforts include trying to satisfy customer requirements at the point of need, reducing cycle times to meet dynamic warfighting requirements, replacing large investments in infrastructure with information visibility, agility, and rapid transportation, creating robust partnerships with the commercial sector, and reducing organizational echelons. To focus Defense-wide efforts, the Department requires annual transformation plans to be submitted from the Services, Defense Logistics Agency, and U.S. Transportation Command. The Department has also identified 30 pilot programs (ten per Service) on which it is testing its initiatives to reduce total ownership cost. See Chapter 14 for more details about logistics transformation.

COMPETITIVE AND STRATEGIC SOURCING

Competition is the driving force in the American economy. It forces organizations to improve quality, reduce costs, and focus on customers' needs. The Defense Reform Initiative calls for the Department of Defense to rely increasingly on the competitive power of the marketplace to generate efficiency. Experience within DoD reveals that competition between the public and private sector to perform commercial activities consistently produces savings of at least 20 percent, regardless of who wins. Like private industry, DoD has embarked on a systematic and vigorous effort to reduce the cost and improve the performance of its support activities. Support activities will be considered for outsourcing, privatization and competition when they are appropriate for the private sector to perform. The Department plans to

study 279,600 positions between FY 1997 and 2005, with an expectation the process will save approximately \$12.4 billion dollars. The Department's commitment to achieving this goal is so strong that these projected savings have already been reallocated to other future defense priorities, including force modernization.

Examples of successful public-private competition occurred at the Sacramento, CA, Air Logistics Center and San Antonio, TX, Air Logistics Center as the result of Base Realignment and Closure, implemented in 1995. The Air Force awarded depot maintenance work from Sacramento, CA, to Ogden Air Logistics Center at Hill Air Force Base, UT. The competition combined the workload requirements for maintenance on A-10 and KC-135 aircraft and aeronautical products, including hydraulics, electrical accessories and instruments/electronics for a savings of about \$638 million over nine years. The Air Force also awarded the C-5 depot maintenance work from San Antonio to Warner Robins Air Logistics Center at Robins Air Force Base, GA, with a savings of about \$190 million over seven years. Finally, the Air Force awarded engine, module and associated fuel accessory depot maintenance work from San Antonio to Oklahoma City Air Logistics Center at Tinker Air Force Base, OK, resulting in savings of approximately \$1.8 billion over fifteen years. The end result of these initiatives is that the resulting savings were applied to other Air Force requirements.

INSTITUTIONALIZING REFORM

The Department strongly supports the Defense Reform Initiative and has established an organizational framework to give additional structure and guidance to the effort. This framework consists of a Defense Management Council to advise on reform opportunities, a coordinating group to support the council, and a DRI Office to provide oversight of the process. Using special directives, performance contracts, and other planning guidance, DoD has sought to institutionalize and provide a sustained emphasis for defense reform. This framework has helped create a Defense-wide focus on reform efforts and provides a way to address problems caused by cultural barriers and parochial interests.

CONCLUSION

While the scope of the DRI has broadened over time, the priority and need for reform is unchanged in its importance. The DRI report released in 1997 identified four pillars of defense reform: reengineer, consolidate, compete, and eliminate. Over time these four pillars have evolved and are now organized around the business processes of the Department, which include quality of life, financial management, competition, savings, infrastructure, acquisition, logistics, and cyberspace. As some reform initiatives reach their goal and other, new initiatives begin, the structure of the DRI will continue to evolve. However, the purpose and underlying principles remain the same—provide a consistent point on the horizon toward which the DoD leadership can steer as they move on the road to reform. DoD continues to meet reform challenges and make meaningful change that focuses on adopting 21st century business practices to meet the future needs of the warfighter.