Change in Order to Stay "Army Strong"

Published April 18, 2014

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"The Army must change; this is a strategic and fiscal reality." *—Secretary of the Army Top Priorities, 15 Oct 2013*

The Army has entered a financial crisis, no less severe than the major recession that engulfed the United States from 2007-2010. Sequestration, as imposed by the Budget Control Act (BCA) of 2011, and modified by the Bipartisan Budget Act (BBA) of 2013 is anticipated to dramatically reduce our fiscal year (FY)14 expected funding down to $122 billion, down $7 billion dollars from our projections of only 18 months ago. While this may look like a modest drop, when you consider how much of the Army's budget is truly discretionary, (i.e. not part of military and civilian pay, utilities, and mandatory programs such as unemployment compensation), this 6 percent loss is much more significant. The future looks far bleaker, with projected reductions of up to $15 billion in FY16 and out from earlier projections. These cuts are amplified and exacerbated by the dramatic reduction in Overseas Contingency Operations (OCO) funding, shrinking from $67 billion in FY12 to $47.5 billion in FY14, and likely to very low levels in FY15 and beyond. Although much of OCO funding goes directly to the war effort, the Army received considerable collateral benefits from this funding. But let's be clear, even without sequestration and the loss of OCO, the Army was already on a downward fiscal slope, being squeezed by the rising costs of compensation, health care, and procurement. Fiscal predictions are risky, but the prospect of any of this significantly changing is unlikely. It is becoming increasingly clear that if we are to continue to field a ready and strong Army, change must come from within. We can reduce our spending through some targeted or even across-the-board cuts, but we cannot completely "cut our way out of this situation…" we must instead fundamentally change the way we operate, following the words of the Secretary of the Army: "…the broad outlines of the next few years are clear: we must adapt."[1]

The U.S. private sector found themselves in a similar situation in the 2007-2010 when faced with the deepest recession since World War II. Plummeting revenue pushed many corporations to the brink of, and in some cases into insolvency. Automobile production was cut nearly in half: GM/Ford/Chrysler laid off 144,600 workers from 2006-2009.

Housing starts dropped 73% in new construction from 2005-2009. The top three banks took a total "write down" or credit loss of $61.5 billion from 2007-2009. 10 of the 15 largest bankruptcies in history have taken place since 2001. Most of the companies that went through this experience were forced to change or they went under. These corporations reacted by ruthlessly cutting overhead costs, de-layering their headquarters, consolidating like functions, spinning off separate business units, and by paying great attention to cost-based performance metrics. The companies that took tough steps tended to survive, those that did not, have since gone by the wayside. The Department of Defense, and in particular the Army, was shielded from the effects of the recession because it was engaged

In December 2008, media reported the lack of buying customers for automobiles resulted in the lowest sales rate in 26 years.

in two wars, but those are now ending. While some of what takes place in the corporate world doesn't easily translate to the Army, there are lessons and best practices nonetheless that we must quickly draw from the commercial world in order to ensure our Army remains the preeminent army in the world and builds and maintains readiness at best value.

Many would argue that the Army is not a business, that we do not focus on profit or bottom line, and that we cannot go "bankrupt." And viewed from a narrow perspective they would be right; the Army's ultimate success is not measured in profit or loss, but rather in its forces' ability to dominate opponents in armed conflict on land. But no one can argue that in order to deliver the necessary ready land forces to combatant commanders inside a fixed or diminishing budget, the Army must employ sound business practices. The Army is a $122 billion per year operation, and would rank 14th on the Fortune 500 list if that funding was revenue. The overwhelming predominance of these resources are spent in accomplishing the eleven key Army business functions specified in Title 10 U.S. Code including: recruiting, organizing, training, mobilizing and supplying. For these key functions, the Army must ensure we get the best value and effectiveness from the dollars we are provided. Former White House Chief of Staff Rahm Emanuel once said, "You never let a serious crisis go to waste. And what I mean by that is, it's an opportunity to do things you think you could not do before." This opportunity is now upon us. To be sure, there are pockets of the Army, including elements in the Army Materiel Command, Medical Treatment Facilities in the Army Medical Command, and construction activities in the Corps of Engineers, whose operations are based largely on business-like models and by necessity, have adapted and become more efficient and in tune with their costs and performance, but the challenge is that the majority of the Army has not.

In embarking on this effort, the Army possesses some inherent advantages over private industry. These include a core of well-trained and dedicated civilian and military leaders; an ingrained ethos of integrity and honesty; and an attitude that values the surmounting of all obstacles. But with these advantages, the Army faces some serious disadvantages as well. Some of these disadvantages are the fact that we lack full control of our destiny. We are constrained by a myriad of laws and policies which have only thickened over time, and we receive our money in a "line-item" budget from Congress which severely restricts flexibility. With our 238 years of proud history, we have developed a great institutional set of ethics but also a healthy institutional resistance to organizational change. Finally, because we are such a large and complex organization, we lack agility and change is hard. But we can't allow ourselves to be deterred by these challenges—the stakes are too high. If we are unable to change the way we operate, then we fundamentally risk our soldiers lives by sending them to conflict unprepared due to a lack of basic resources to properly train and equip them.

To successfully adapt we must create and employ a new operating framework…a framework that will succeed only with the sustained and complete support of our leaders. First, we must deliberately change our Army culture, which undervalues the management of resources. Second, we must better understand our processes and the associated costs—how and where do we spend the money we are provided, and fix responsibility for the efficient operation of all Title 10 operations. Once these costs and processes are defined, we must set clear goals in our strategic plans and establish financially-based performance objectives that pull us to our goals and relentlessly and honestly measure ourselves against them. Finally we must continuously adjust our organizational structures to ensure we are optimized and weighting our main efforts.

Army medical treatment facilities operate using business-like models. Army depots and the Corps of Engineers also operate in this manner and are able to achieve related efficiencies.

First and foremost, among the changes needed is within our **culture**. It has been stated that culture is the hardest thing to change, but change it must. In the Army we have a culture that doesn't place great value on wisely managing resources. The function is often treated as beneath the attention and dignity of our leaders… a job best left to resource managers, or "bean counters" as we often disdainfully refer to them. Imagine if a senior Army leader disembarked from his aircraft at Fort Bragg, went to shake the XVIII Airborne Corps Commander's hand, and one of his first questions was "Hey, I sent you $140 million last year to train your Corps, but unfortunately this year is shaping up to be much worse. What have you done and what can you do to be more efficient, and train the same number of units with less?" That this would be a surprising exchange, hints at the cultural problem we have. Money, and how we spend it, is perhaps the key enabler of how many squads and platoons we can make ready, but we normally don't consider money "commander's business." Army leaders often advise their subordinates "let me worry about getting you the resources, you just focus on training your brigade/battalion/ company/platoon." On its surface, this may seem supportive guidance, but when issued, that guidance disenfranchises our brightest and best positioned leaders from the imperative to help the Army become more efficient. Can you imagine a (successful) corporation taking the junior and middle managers out of the mix to find ways to conserve resources? In their acclaimed "Kaizen process," Toyota passionately embraces the need for all employees to participate in devising new ways to become more efficient. Similarly we need Army leaders at all levels to be thinking about how to make the best use of resources and finding savings, and our culture must vigorously embrace this mindset. This function is just too important to leave solely in our resource manager's hands. And when our junior leaders and soldiers find new ways to save money, our culture must quickly and dynamically reward their work. To change our culture will take time and be difficult, but by constantly demonstrating the importance of managing resources, and by recognizing those that do it well, over time, it will happen. How do we get started? Perhaps the first target should be the "use it or use it" mentality. Pressured by the knowledge that our operating funds are only useable for one year, around the midyear point every year, the mantra begins that commanders and units "must spend your budget." The pressure increases with every passing week, until the start of September, when higher headquarters wants daily status reports, and that pressure is communicated downward to the lowest levels. Junior leaders who to that point in the year had been good stewards of funds, are now pressured to spend,

Army culture has naturally traditionally valued effectiveness over efficiency; the key is to successfully manage both.

often on items that fall into the "nice to have" category. This phenomena has a tremendous effect on our culture, and our junior NCOs and officers are watching how our actions don't match our words. Senior leaders must capitalize on every opportunity to reward those who do a good job of saving the Army resources and extol the importance of stewardship. Is there a danger that the pendulum will swing too far and we will sacrifice effectiveness in favor of efficiency? Absolutely, and we must guard against that trend.

Next, we must **better define and cost our key processes**. With some exceptions, we don't completely understand our own processes nor our fully burdened costs. For example, the U.S. Army Recruiting Command knows how much money they are given each year. But the Department of the Army does not routinely track the total burdened cost to recruit a soldier into the Army, including such items as the pay for the military recruiters, or the rent and utilities for the recruiting stations, or the Army-level incentive packages. In industry, companies strive to completely understand their "core process" and the associated costs. It could be the design and production of the Apple iPhone 5s, or the assembly of the Five Guys Hamburger, but everyone in successful companies aligns towards their base product and understands the processes that deliver them. In the Army, most would agree that our core process is the preparation of combat-ready units. Yet as an Army, we are hard-pressed to describe the complete process involved in producing readiness, nor able to express the total burdened cost. This is particularly topical as our leaders attempt to secure additional funding in order to increase readiness. Over 10 years ago, Mutual Benefit Life Insurance, a major life insurance carrier reengineered its insurance application process. Their previous typical processing time was 5-25 days, with most of the time spent transmitting information from department to department. The president demanded a 60 percent increase in productivity and by carefully analyzing their internal processes and using IT wisely; they were able to reduce the application time to four hours.[2] Similarly, Army Medical Command has applied this process to the system of the Integrated Disability Evaluation System (IDES), the process that seeks to evaluate and appropriately handle Soldier disability and has made great progress in understanding where the bottlenecks occur and in accelerating the overall process. This success can be seen at Irwin Army Community Hospital at Fort Riley, KS. The hospital was not meeting the DoD timeliness standards (100 days for active forces and 140 days for the Army National Guard and Army Reserve) to complete Medical Evaluation Boards and transmit it to the Physical Evaluation Board. Utilizing process improvements techniques the hospital reduced the process cycle time by at least 10% and increased the percentage of cases meeting timeliness standards from 2 percent to 30 percent which supports increased efficiency and readiness. Once the process is understood, leaders can use a variety of techniques, the Army's accepted solution being Lean Six Sigma, in order to optimize it. In many cases, responsibility for the complete operation for a process is spread across commands. Readiness for example is a shared responsibility among many. But for each of our processes, there must be a single empowered advocate who understands the entirety of the function and can see and influence all the associated costs. Only once we have that responsibility affixed, can we drive efficiencies.

We have all heard the saying "units do those things well that the commander checks." Unfortunately we generally do a poor job on **measuring our performance** in relation to our desired outcomes and the money we are provided. Measuring performance starts with a **good strategy**, which describes where the organization wants to go, in tangible, executable terms. Often Army strategies seem to direct the perpetuation of the status quo or opt instead to discuss the global strategic situation, and omit any discussion of how the Army will improve its ability to execute its core process such as providing ready units and hence are not useful in driving institutional change. Once developed, should be strategies are translated into supporting objectives and metrics. Successful corporations establish performance management systems to measure progress towards their objectives.

However in the Army, when we do measure performance, it is often in the form of **outputs**, with often little or no discernible link to our major objectives—examples of outputs being soldiers graduated from training, CTC rotations completed, soldiers recruited or retained, security clearances completed. But, there is a huge difference between an *output* which in many cases, is just a piece count, and an *outcome*, which conveys whether or not you are making progress towards your strategic goals. The Nature Conservancy, a

major charity, for the longest time measured themselves on how many of acres of land they acquired for preservation purposes. And by this measure they were very successful. Unfortunately, their strategic goal was not the acquisition of land; it was the preservation of biodiversity, which by that measure they were *failing*. Species were disappearing at an unchecked rate. Because their objectives and metrics were wrong, they had no way of knowing.[3] An Army example of an **output** would be a count of how many brigades passed through our training centers. A much more informative **outcome** however, would be the cost per brigade to bring them through

There are many ways to set goals and measure performance. Key is senior leader involvement and participation.

a force generation cycle and to a "fully ready" status. Now something **important** is being measured that can give us insight into how to become more efficient. Successful companies place paramount emphasis on performance assessments that include measurements of expected outcomes based on money. Ford Motor Company, the only large automobile manufacturer that did not take a government bailout, gathers their top executives every two weeks to review metrics, forms task forces to spin off and explore problem areas that come out of those reviews, and share information across the company on things they are trying to solve. Ford will tell you that using these metrics drove them to take tough actions and make many decisions related to downsizing helping them avoid going bankrupt.

Make no mistake; there are some strong performance assessment systems in parts of the Army today. In the Army, the Installation Management Command (IMCOM) Atlantic Region conducts periodic in-depth Performance Management Reviews (PMRs) which compare funding provided to levels of service delivered and ask tough questions when they do not favorably relate. The Army Medical Command compares medical care outcomes to the resources provided to each Medical Treatment Facility and holds commanders accountable when they are lagging. These are best practices, which must be propagated across the Army. As an Army, we must improve the design and use of our metrics—when appropriate linking them to our money and then ensuring they contribute to informed decision-making. The Army's four powerful new Enterprise Resourcing Programs or ERPs: General Fund Enterprise Business System (GFEBS), Global Combat Support System – Army (GCSS-A), Logistics Management Program (LMP), and the Integrated Personnel and Pay System- Army (IPPS-A) will give Army leaders an unprecedented capability to have situational awareness on the expenditure of our resources, of which we must take full advantage. Finally, the results of this performance data must be presented in an easily digestible format to our senior leaders in sessions where they can receive a comprehensive assessment of progress towards our objectives and that allows them the opportunity to make timely decisions. In some instances we have allowed performance information to be conveyed one statistic, one trend per meeting, and when this occurs we sub-optimize our leader's time. In addition, when we do not achieve our desired performance, just like in industry or especially in professional sports, we must hold our leaders accountable, and similarly reward those who get great results.

We also must change the way we view our organizations and continuously take action to re-shape them into high performing structures. This can be called "organizational acuity." Over time, we often become blind to our own organizations. *Organizations exist solely to produce outcomes*. We cannot consider our organizations as preordained, destined to live on in perpetuity. Newly assigned Army leaders, with all the best of intentions, quickly fall into the trap of protecting organization's status quo. In the commercial sector, organizational change is the norm; stability is the exception. Product lines come and go, opportunities arise or innovations fail, and organizations adjust accordingly. Corporations, when confronted with tough fiscal situations, consider downsizing and reducing management. The Army has rigorous processes for analyzing the design of engineer or signal battalions, but no similar process exists for the institutional army. Over time, many of our institutional Army organizations, especially our headquarters, have become excessively layered, i.e. too many levels in the hierarchy, with branches, divisions, deputies, directorates, all contributing crushing oversight and adding time to our processes. Simultaneously, spans of control have shrunk, with senior leaders routinely only supervising three to four people, while the current corporate experience suggests managers can capably supervise eight or more high performing direct reports.[4] Recent analysis of the Department of the Army headquarters staff reveals that the average span of control is four. Past DoD downsizing efforts have usually focused on lower grade personnel which contribute to a rank heavy organization. When information technology allowed cuts of clerks and accountants at the Defense Finance and Accounting System (DFAS) the lower grade personnel were cut, leaving excessive numbers of leaders to supervise an ever decreasing number of workers. Admittedly, government personnel rules constrain—but they do not stop—the reshaping of organizations and those systems which we cannot change, we must work within, in order to do what is necessary.

Part of this "acuity" is considering whether a function in the Army can be outsourced to another organization so that we can more narrowly focus on our core competencies. The Army currently operates railroads, prisons, entertainment shows, museums, recreation centers at resort destinations, major data centers, water purification plants and sports teams, to name just a few of our in-house operations. As money comes down, should we maintain all these functions? Lest you think the Army is incapable of hard change, recently the Army Financial Management community developed

a concept for a complete re-organization of the Financial Management enterprise, which is envisioned to save over $400 million a year and significantly alter current organization structures and processes; it can be done.

Private industry practices are not the panacea for all the Army's challenges. A single-minded focus on efficiency and costs will not produce the proud, trained, and resilient forces that our Nation needs. But, there are some techniques we can borrow and there are changes we can make that will allow us to better accomplish our critical missions.

One possible manifesto for those necessary changes includes:

- Changing our culture to better value the efficient use of resources…
- Define and understand our key title 10 processes and fix responsibility for their operation…
- Conduct relevant strategic planning and then ruthlessly measure our performance towards our goals, using a relatively small number of useful financially linked metrics…
- Constantly evaluate our organizations to ensure they best meet our needs…

We have the best Army in the world, but continued success is not assured. We must transform the way we operate in order to remain Army Strong.***MR***

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Notes

1. Secretary of the Army Top Priorities, October 15, 2013.
2. Michael Hammer, Reengineering Work: Don't Automate, Obliterate, Harvard Business Review, July 1990
3. John Sawhill and David Williamson, "Measuring What Matters in Nonprofits," The McKinsey Quarterly 2001, Number 2.
4. Meeting, Boston Consulting Group, 5 Sep 2013, LTG Spoehr and Mr. Nichol.

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