

## DEFENSE BUSINESS BOARD



# An Assessment on the Creation of an Under Secretary of Defense for Business Management & Information

April 21, 2016

# Task Group

## The Members

- Mr. Mark Ronald (Chair)
- Ms. Cynthia Trudell
- Mr. Howard Cox
- Capt James D'Itri, Jr., USMC (DBB staff)

## The Task

“...establishing a Task Group under the DBB to study and provide recommendations on **whether the position should be consolidated and elevated, assess the advantages and disadvantages of doing so, and such other matters as the DBB determines relevant.**”

- USD(BM&I) TOR, signed 10 Aug 15

The driver behind this exploration was §901(a) of the National Defense Authorization Act for Fiscal Year 2015 (Public Law 113-291)

# Background

- **The issue surrounding performance management and business transformation within the Department of Defense is not new – various internal and external reviews (i.e. DBB, GAO, IDA, etc.) and prior attempts at legislation date back over a decade**
- **The current iteration is Public Law 113-291:**

“...combine the Deputy Chief Management Officer and the Chief Information Officer positions into a new Under Secretary of Defense position placed in the order of precedence before the Under Secretary for Acquisition, Technology and Logistics.”

*- Joint Explanatory Statement, Public Law 113-291*

- **The legislation directs implementation effective February 1, 2017**
  - Beginning of a new administration
  - Explicitly allows for leadership continuity
  - Implicitly allows DoD enough time to “get it right”

# Origins

## DoD is responsible for 17 of 32 items on GAO's High Risk List:

	HIGH RISK AREA	DESIGNATED
SOLE RESPONSIBILITY	DoD Approach to Business Transformation	2005
	DoD Support Infrastructure Management	1997
	DoD Business System Modernization	1995
	DoD Financial Management	1995
	DoD Contract Chain Management	1992
	DoD Supply Chain Management	1990
	DoD Weapon Systems Acquisition	1990
SHARED RESPONSIBILITY	Improving the Management of IT Acquisition and Operations	2015
	Managing Risks and Improving VA Health Care	2015
	Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change	2013
	Mitigating Gaps in Weather Satellite Data	2013
	Ensuring the Effective Protection of Technologies Critical to U.S. National Security	2007
	Establishing Effective Mechanisms for Sharing and Managing Terrorism-Related Information to Protect the Homeland	2005
	Improving and Modernizing Federal Disability Programs	2003
	Managing Federal Real Property	2003
	Strategic Human Capital Management	2001
	Ensuring the Security of Federal Information Systems and Cyber Critical Infrastructure and Protecting the Privacy of Personally Identifiable Information	1997

Source: GAO-15-290, February 2015

**The accumulation of these concerns has created the motivation to streamline, execute and manage the transformation initiatives.**

# Design Principles

**Modifying the leadership structure of an organization as complex and multidimensional as the DoD is challenging, and should strive to:**

- Align with the Department's current drive for efficiency and effectiveness by ***reducing the overall size and number of layers*** within the bureaucracy
- Enable ***tighter alignment and greater responsiveness*** with other government agencies and institutions
- Achieve the right ***balance between leverage and agility***

# Approach

## **To fully explore the advantages and disadvantages of the legislation, the Task Group worked to:**

- Understand the existing DoD structure, and how it evolved to-date
- Understand private sector best-practices/schools of thought relating to organizational management and business transformation
- Analyze applicability to the DoD model
- Formulate findings and recommendations

# Interviews + Research

- **Professor Ethan Bernstein**, Harvard Business School
- **Lt. Gen. Charles Croom, AF (ret.)**, former DISA Director / VP Cyber Security Solutions, Lockheed Martin
- **Hon. Rudy deLeon**, 27<sup>th</sup> U.S. Deputy Secretary of Defense
- **Hon. Eugene Dodaro**, U.S. Comptroller General
- **Hon. Gordon England**, 25<sup>th</sup> U.S. Deputy Secretary of Defense
- **Hon. Michèle Flournoy**, CEO, Center for a New American Security / former U.S. Under Secretary of Defense for Policy
- **Hon. Robert Gates**, 22<sup>nd</sup> U.S. Secretary of Defense / former President, Texas A&M University
- **Mr. Terry Halvorsen**, Chief Information Officer, U.S. Department of Defense
- **Hon. John Hamre**, President & CEO, Center for Strategic and International Studies / 26<sup>th</sup> U.S. Deputy Secretary of Defense
- **Ms. Amy Kates**, Managing Partner, KatesKesler Organizational Consulting

- **Hon. Kenneth Krieg**, former U.S. Under Secretary of Defense for Acquisition, Technology, and Logistics
- **Hon. Peter Levine**, Deputy Chief Management Officer, U.S. Department of Defense  
*\*recused himself due to former position as SASC Staff Director at the time this legislation was developed*
- **Hon. William Lynn III**, Chairman & CEO, DRS Technologies / 29<sup>th</sup> U.S. Deputy Secretary of Defense
- **Ms. Indra Nooyi**, Chairman & CEO, PepsiCo
- **Ms. Phebe Novakovic**, President & CEO, General Dynamics
- **Hon. William Perry**, 19<sup>th</sup> U.S. Secretary of Defense
- **Mr. Robert Rangel**, Senior Vice President of Washington Operations, Lockheed Martin
- **Mr. David Tillotson**, Assistant Deputy Chief Management Officer, U.S. Department of Defense
- **Hon. David Walker**, former U.S. Comptroller General
- **Hon. Robert Work**, 32<sup>nd</sup> U.S. Deputy Secretary of Defense

# Findings: Current Organization

## Key Role Highlights

- ***Though not specified in statute, many of those interviewed suggested the ideal model is that in which the Secretary is focused externally, primarily on policy, while the Deputy Secretary is tasked with focusing on their role as Chief Management Officer***
- ***The scope of both the Secretary and Deputy Secretary roles are increasingly more complex:***
  - The threats to national security have become increasingly variable
  - Emerging social issues challenge current administrative policy
  - International and interagency coordination are much more complex
  - Rapidly developing technology further complicates the operating environment
  - The number of direct reports to the Secretary/Deputy Secretary has significantly increased
- ***This has resulted in the Deputy Secretary role having multiple competing demands both internal and external to the building, thereby compromising their ability to be effective as the Chief Management Officer***
- ***Significant variability has existed in management focus from Deputy to Deputy; largely driven by personal interests and skill sets versus the enduring management needs of the Department***

**The Deputy Secretary's management time as Chief Management Officer is adversely impacted by all of the other responsibilities and demands of the office.**

# Findings: Current Organization

## Key Role Highlights (continued)

### ■ **DCMO:**

- The current DCMO office is largely a support function to the Deputy Secretary in his/her role as Chief Management Officer
- DCMO office has five discrete directorates: Planning Performance & Assessment; Defense Business Management, Analysis, & Optimization; Oversight & Compliance; Administration; Organizational Policy & Decision Support
- DCMO is the principal office for the Deputy Secretary to optimize the business environment across the Defense enterprise

### ■ **DoD CIO:**

- The current DoD CIO is a unique position comprised of both policy and operational responsibilities: information technology; communications; spectrum management; cyber; positioning, navigation, & timing; and nuclear command & control
- Has a critical direct reporting relationship to the Secretary and Deputy Secretary
- 30% of the role is IT processes systems and applications
- 70% of the role focuses on mission and warfare
- \$38.2 billion in budget responsibility

**Only 30% of DoD CIO's accountabilities are synergistic with those of the DCMO.**

# Findings: Current Organization

***Upon examination, the roles of the DCMO and DoD CIO are distinctly different:***

## DCMO

- DoD business strategic planning, performance management, and oversight
- Successful implementation and oversight of defense business system
- Effective business portfolio and investment management
- Rapid and agile business solutions provided for the warfighter
- Delivering the business enterprise architecture, standards, and technology innovation
- End-to-end business process optimization, integration, and alignment
- Business intelligence for effective decision-making

Source:

<http://dcmo.defense.gov/About/CoreServiceOfferings.aspx>

## DoD CIO

- Modernizing the networks
- Sharing with mission partners by establishing the Mission Partner Environment
- Reducing the cost of DoD IT through a review directed by the Deputy Secretary of Defense
- Managing DoD's data by partnering with industry to migrate data to the cloud
- Defending against cyber attack
- Empowering mobile data access through people and information across the Department
- Maximize Spectrum Access to Enhance Operational Effectiveness in an increasingly congested and contested environment
- Nuclear Command and Control

Source:

<http://dodcio.defense.gov>

**The skillset requirements of the DCMO and DoD CIO roles require vastly differing education and career experiences.**

# Findings: Current Organization

## Current Hierarchy (Prior to Legislation Effectivity Date)

- USD(AT&L) is 3<sup>rd</sup> in precedence within OSD (7<sup>th</sup> in DoD), as prescribed by the Packard Commission
- Remaining four USD roles have unique and defined authority, responsibility, and accountability
- DCMO is 8<sup>th</sup> in precedence within OSD (12<sup>th</sup> in DoD)
- DoD CIO is 22<sup>nd</sup> in precedence within OSD (~107<sup>th</sup> in DoD)

## Legislative Impact

- “The Under Secretary of Defense for Business Management & Information takes precedence in the Department of Defense after the Secretary of Defense and the Deputy Secretary of Defense.”  
- Public Law 113-291
- Elevates the position to an ***Executive Senior Level II***
- ***USD(BM&I) will outrank:*** Chairman/Vice Chairman of the Joint Chiefs of Staff, Service Secretaries/Under Secretaries, Service Chiefs/Vice Chiefs, and the USD(AT&L)

**The legislation will result in a major structural change to the DoD hierarchy, and will impact both the formal and informal structure of the Department.**

# Findings: Current Organization

## Talent Highlights

- Frequently, the DoD, often directed by Congress, adds structure without addressing other pertinent organizational issues
- The current ethics laws, financial requirements, and confirmation process regarding DoD appointments makes it extremely difficult to attract the ***most qualified and experienced*** candidates
- The DoD experiences a high rate of turnover (short tenure) with political appointees
  - The average tenure of an appointed senior executive is approximately two years, whereas the private sector experiences much longer tenure

**DoD faces talent issues that are more challenging than those found in the private sector.**

# Findings: The Legislation

## Claimed Advantages of the USD(BM&I) Role:

- Creation of the USD(BM&I) role *may enable the DoD to recruit a talent of 'higher caliber'* because of the position elevation
- Sends a *strong public message* that the management function is important within DoD
- Sends a *strong internal message* that increased focus and resources will be applied toward business management throughout the Department
- The **GAO** views the legislation as a step in the right direction

The legislation reflects Congress' view of insufficient attention at the OSD-level for supervising business issues and the internal management function. There is no explicit reference regarding Congress' satisfaction with the DoD CIO function.

# Findings: The Legislation

## Perceived Disadvantages: (slide 1 of 3)

### ■ *Talent Considerations*

- There is a very low probability of finding a single individual with the experiences and talents necessary for both the DCMO and CIO roles
- Finding a DoD CIO to work under the USD(BM&I) will make the current CIO talent challenge untenable
- While the consolidated USD(BM&I) role may attract a talent of higher caliber, attraction of other USDs could become more challenging due to the hierarchy shift the role creates
- The current ethics laws, financial requirements, and confirmation process regarding DoD appointments will make attraction of the right talent for the role very difficult
- With the intended purpose of the legislation being to improve supervision of business issues within the Department, a candidate with strong business experience will most likely not possess adequate technical skills to lead the as critical 'Information' part of the BM&I role

# Findings: The Legislation

## Perceived Disadvantages: (slide 2 of 3)

### ■ *Hierarchy Considerations*

- Elevating the USD(BM&I) **materially changes the authority and responsibility** of the other USDs
  - The new position fundamentally changes the role to one of increased responsibility with little additional authority – the role basically serves as a **'span breaker'** to the Deputy Secretary
  - With the USD(BM&I) as 3<sup>rd</sup> in precedence, the authority and decision-making of the other USDs is diminished
- Placing the DoD CIO function within the USD(BM&I) effectively removes the critical direct reporting relationship between the DoD CIO and the Secretary / Deputy Secretary for mission and warfare accountabilities
- Micromanagement at OSD-level staff organizations (i.e. USD(BM&I) new staff organization) presents the **strong probability of slowing and confusing activity and decision-making** throughout the DoD hierarchy
- From interviews, a broad concern emerged that the creation of another USD would result in **more distributed decision-making**, adversely impacting speed and clarity

# Findings: The Legislation

## Perceived Disadvantages: (slide 3 of 3)

### ■ *Scope of Role Considerations*

- USD(BM&I) role combines ***two dissimilar functions*** that have ***limited overlap*** or operational synergies
  - Will most likely result in ***additional bureaucratic layers, headcount, separate budgets and technical personnel***, thereby making the organization larger than the sum of its separate parts
  - Time management and focus for the USD(BM&I) will be very difficult to affect the changes and performance expectations that Congress is expecting of the role

# Findings Conclusions

- We ***do not believe*** solving the business management issues within the DoD through the creation of the USD(BM&I) role will deliver the changes the legislation intended
- The vast majority of very senior business executives and government officials with experience at the highest levels interviewed believed that the creation of the USD(BM&I) role ***will not produce the intended results***
- The creation of USD(BM&I) ***will not improve*** the management of DoD, and ***will most likely make matters worse*** through added complexity and bureaucracy
- The legislation ***may harm the effectiveness*** of the Chairman/Vice Chairman of the Joint Chiefs of Staff, Service Secretaries/Under Secretaries, and the Service Chiefs/Vice Chiefs
- The new organizational structure runs the ***strong risk of adversely impacting*** the effectiveness of the DoD CIO function in its operational mission
- Other ***alternative solutions should be seriously considered*** before implementing the USD(BM&I) role

# Recommendation #1

**Request that Congress remove the USD (BM&I) role from Title 10 and provide flexibility for alternative solutions for the implementation aim of §901(a) of Public Law 113-291.**

- **The rationale for creating this position was to improve business management and transformation, but there are better ways to accomplish this objective (as described in the forthcoming recommendations)**
- **Focus on integrating functions and operations, not creating new offices**
- **What the Department needs is a mandate to get smaller – and OSD should lead this effort from the front**
- **Return the DCMO position to Executive Senior Level III**

# Recommendation #2

## Explicitly indicate the Deputy Secretary of Defense's role as the Department's **Chief Management Officer**.

- **Congress should change the title of the Deputy Secretary to Chief Management Officer / Deputy Secretary of Defense (CMO / DepSecDef) in order to publically emphasize the significance of the role**
- **The CMO / DepSecDef should strive to minimize commitments outside of the Pentagon**
  - Deputy should continue with their role on Deputy's Council
- **CMO / DepSecDef should delegate to USD Policy, and USD P&R (and others where feasible), the role of interagency coordination\*:**
  - USD(Policy) for external coordination whenever feasible
  - USD(P&R) to coordinate with the Department of Veterans Affairs
  - USD(Comptroller) to OMB and GAO

**\*Matching titles with the DoD is not realistic**

**The CMO / DepSecDef should spend the vast majority of their time on management issues, and be present in the Pentagon.**

# Recommendation #3

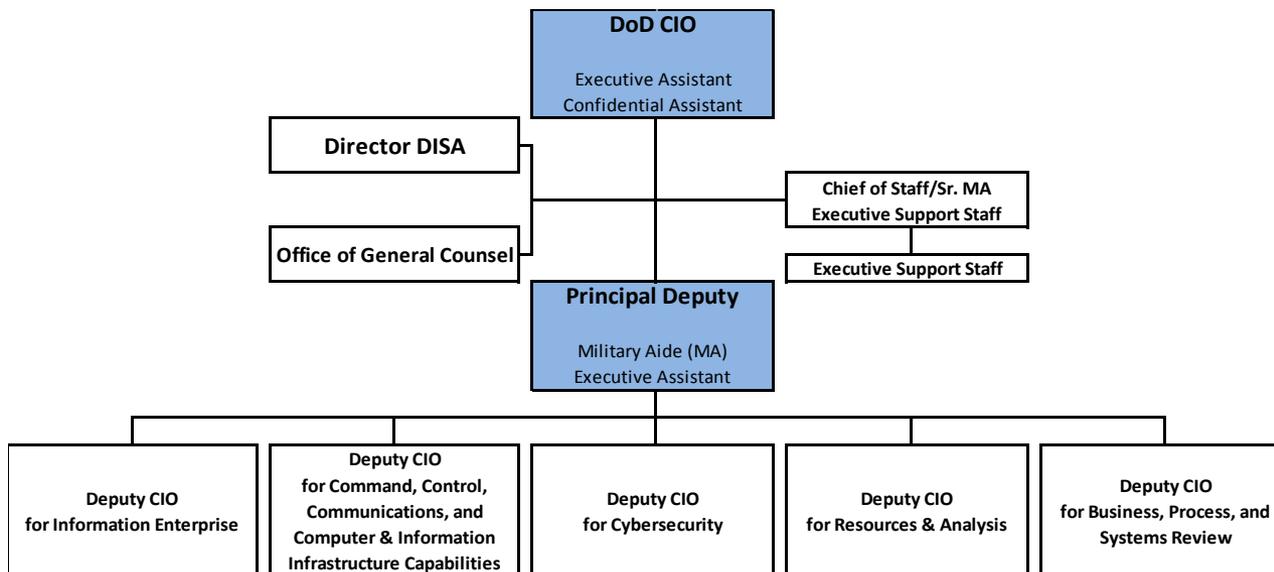
## **Affirm and Emphasize** that the DCMO is the Deputy to the Chief Management Officer.

- **DCMO should continue in the current structure as a support role for business management and transformational efforts – with a primary focus on instituting rigorous and effective management systems and processes, including streamlining and delayering of the OSD**
- **Non-political appointment for DCMO, with a 5-7 year term to facilitate attracting and retaining the necessary talent and affect transformational change**
- **Place under the CMO / DepSecDef on the Department's wire diagram, and physically locate the DCMO in close proximity to the CMO**

# Recommendation #4

**Maintain DoD CIO's current functional structure and direct reporting relationship to the Secretary / Deputy Secretary.**

- **Maintain the DoD CIO's organizational structure and location as it currently exists:**



- **The DoD CIO position does not require a mandated longer tenure – which would run the risk of diminishing technological relevancy**

# Recommendation #5

## Support critical talent attraction through **simplified ethics rules and confirmation process** for DoD appointed positions.

- **The current process requires a total divestiture with no continuing financial interest in anything related to the Department – eliminating any perception of a conflict of interest**
- **More restrictive than what is required under Title 18, U.S. Code**
- **Allow for:**
  - Blind trusts
  - Longer divestiture times
  - More favorable tax treatments
- **Easing financial restrictions and ethics rules will likely increase candidates' willingness to stay in the position longer**
- **Obtain a commitment from senior DoD appointments to stay for a full term**

# Study Conclusions

The USD(BM&I) role will not increase the management effectiveness of the Department, and will most likely have a harmful impact. As such, the DBB believes the aforementioned recommendations are in the Department's best interest.

1. Request that Congress **remove the USD(BM&I)** role from Title 10.
2. Explicitly indicate the Deputy Secretary of Defense's role as the Department's **Chief Management Officer**.
3. Affirm and emphasize that the **DCMO is the Deputy to the Chief Management Officer**.
4. Maintain DoD CIO's **current structure and direct reporting relationship**.
5. Support **critical talent attraction** through simplified ethics rules and confirmation process.