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Exploring a New Defense Resource Management System

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Table of Contents

List of Figures

List of Tables

Executive Summary

This paper offers defense leaders choices for changing the Defense Department's Planning, Programming, and Budgeting System (PPBS) to meet the new needs of national security. Secretary of Defense Donald Rumsfeld has vigorously criticized the current system for being unwieldy in today's less-predictable defense environment. The Secretary has offered the corporate financial management model as a guiding paradigm for upgrading the PPBS. Yet many knowledgeable observers believe the business approach doesn't fit. The qualitative differences between corporate and national security institutions are simply too large for the direct application of the business paradigm. Still, there is much in business practice that should arguably be applied.

The PPBS Secretary Rumsfeld critiqued is not the same system implemented in 1962. Since the 1970s, when PPBS was de-centralized, the military departments have annually drafted and balanced a program of capabilities and investment. These draft programs are sent to the Secretary for review and modification. Subsequently, the military services submit, and the Secretary again reviews a budget that supports their amended programs. These dual processes, which are repeated annually and sometimes revisit a given issue multiple times, have been criticized as being wasteful and inefficient. As a result, Secretary Rumsfeld combined the program review and budget review into a single process.

The ideas developed in this paper build on the Secretary's merger of the two reviews and on his broader criticisms of the PPBS. A key idea is the development of an integrated review structure. Despite the Secretary's merger of the two reviews, the evaluation of military capabilities and investment programs remain largely independent. Transforming defense capabilities to exploit new technology, strengthen joint operations, and experiment with new ideas requires an integrated review process that examines the elements of the military force structure in the context of joint warfighting. An emphasis on joint warfighting should underpin all programming and budgeting decisions in the future.

The essence of the alternative approach described in this paper lies in three areas built around a 4-year cycle:

1. A comprehensive set of decisions by the Secretary on capability, policy, and investment—most likely at the beginning of a Presidential term—that becomes directive on the military departments for the remainder of the administration's term;

2. A resource-constrained, Department-wide program planning process, headed by an expanded Senior Executive Council, that develops the alternatives for these one-time decisions on capability, policy, and investment; and

3. A Department-wide implementation review process, headed by the expanded Senior Executive Council, which monitors implementation of the Secretary's decisions over the next 3 years.

Overall, this alternative approach should increase program stability by shifting the annual PPBS focus to implementing the Secretary's decisions and monitoring the progress of that implementation. It envisions that annual budgets will fund those decisions and that the program and budget will be adjusted for fact-of-life changes. As a result, major acquisition programs coming to production over this period could expect to be validated for procurement only after considering how well they fit with existing or planned joint capabilities. Proposed acquisition new starts would be evaluated in the same context prior to continuing their development. This institutionalized emphasis on joint warfighting should underpin virtually all programming and budgeting decisions in the future.

This alternative approach requires the development of two new Department-wide processes. The first is a formalized implementation review process (see area 3, above), a process that has not been explicitly organized in the past. The second is a new program planning process, which revitalizes the existing planning process (see area 2, above). This new program planning process, beyond addressing other policy matters, has the following tasks:

- measure the important capabilities of today's force,
- define the capability changes from this baseline that are necessary to attain the desired future capabilities,
- develop resource impacts for the defined capability changes, and
- validate each capability change package prior to presentation to the Senior Executive Council.

In this way, transformation from current defense capabilities to the new set of capabilities the Secretary envisions can be achieved in an orderly, comprehensive process.

This alternative approach is a synthesis of Secretary Rumsfeld's call for defense transformation and his concerns about the ability of the Department's current resource allocation processes to make transformation a reality. Our approach is the product of a process of inquiry that sought to understand the effects of Secretary Rumsfeld's call for change—change not only in the Department's resource allocation processes, but also in its military capabilities.

This paper roughly follows the course of that inquiry and documents the thinking behind each facet of the approach. It reviews Secretary Rumsfeld's vision for a transformed PPBS and the historical practice of the PPBS. It also explores the Secretary's criticisms, defines his statutory tasks, and investigates the applicability of the business paradigm. Finally, it explains the various elements of our alternative approach and illustrates how the sequence of events in the alternative process could work.

In sum, our alternative offers choices for changing the existing PPBS process. It is a starting point for consideration and discussion of the many practical details yet to be defined, and for pondering the larger question of how effectively it would deal with the problems confronting today's PPBS.

I. Introduction

Secretary of Defense Donald Rumsfeld has made it clear that he wants the Planning, Programming, and Budgeting System (PPBS) to be more responsive and flexible and to involve less work for the military services and the Office of the Secretary of Defense (OSD).[1] He envisions a system that will consider people risk, modernization risk, transformation risk, and war risk in developing the Defense Program.[2]

The Quadrennial Defense Review (QDR) spells out a sweeping transformation of the Department of Defense (DoD) that is needed to meet emerging threats around the world.[3] Secretary Rumsfeld envisions the transformation as a continuing process. There are six operational goals for this transformation (e.g., protecting critical bases of operations) and four fundamental approaches for achieving them (e.g., strengthening joint operations). The QDR also lists five infrastructure improvement goals (e.g., modernize DoD's financial systems) and establishes a new risk framework for managing risk within prudent levels.

As part of this transformation, Secretary Rumsfeld intends to change the way the Department plans, programs, and budgets. The following quote is from his September 10, 2001, speech at the DoD Acquisition and Logistics Excellence Week Kickoff—Bureaucracy to Battlefield:

> Because the Department must respond quickly to changing threats, we're overhauling the 40-year-old Planning, Programming, and Budgeting System, or PPBS, the annual process of forecasting threats for the next several years, matching threats to programs and programs to budgets. It's

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[1] Donald H. Rumsfeld, remarks delivered at the DoD Acquisition and Logistics Excellence Week Kickoff—Bureaucracy to Battlefield, Pentagon, Washington, DC, September 10, 2001.

[2] Donald H. Rumsfeld, remarks delivered at the National Defense University, Fort McNair, Washington, DC, January 31, 2002.

[3] See the Quadrennial Defense Report, September 30, 2001, particularly sections IV (Reorienting the U.S. Military Global Posture), V (Creating the U.S. Military of the 21st Century), and VI (Revitalizing the DoD Establishment).

really a relic of the Cold War, a holdover from the days when it was possible to forecast threats for the next several years because we knew who would be threatening us for the next several decades. It's also a relic of the Cold War in another regard. PPBS is, I suppose, one of the last vestiges of central planning on Earth. We've combined the programming and budgeting phases to reduce duplicative work and speed decision-making. The streamlined process that should result will be quicker and cheaper and more flexible.

Secretary Rumsfeld is serious about making sweeping management changes in the Pentagon. Later in the same speech, he said:

President Bush recently released a management agenda that says that performance, not promises, will count. He is personally engaged and aware of the effort that all of you are engaged in. The battle against a stifling bureaucracy is also a personal priority for me and for the Service Secretaries, one that will, through the Senior Executive Council, receive the sustained attention at the highest levels of this Department. We have brought people on board who have driven similar change in the private sector. We intend to do so here. We will report publicly on our progress. The old adage that you get what you inspect, not what you expect, or put differently, that what you measure improves, is true. It is powerful, and we will be measuring.

This paper examines some of Secretary Rumsfeld's proposals, appraising them for feasibility and exploring what DoD management processes might be like if they were altered along the lines the Secretary envisions. Much has changed since the current management regimen was established in the early 1960s. Even without strong direction from Secretary Rumsfeld, a good case can be made that it is time to review the current resource allocation and management system, update it with new management ideas, institute management accounting practices, and investigate other proven business practices that may help the DoD. On the other hand, the DoD is different from private corporations in some significant ways, and what works in the business world may not work in the DoD.

We propose a new resource management system that we call PDIMS (for Program Development and Implementation Management System). This system is intended to address Secretary Rumsfeld's concerns about the current system and, in so doing, lay out the blueprint for a simpler, faster, and easier process. In developing PDIMS, we've modified the Secretary's ideas in areas where we believe the standard business approach won't work well.

This system cannot reduce the management and reporting requirements placed on the DoD by the Congress and other external entities. The administration must address legislative micromanagement directly with the Congress.[4] While Secretary Rumsfeld wants to shorten the time between identification of a funding need and the appropriation of funds to satisfy that need, he acknowledges that the Congress uses part of the time the process currently takes, and that "you can't mess much with that."[5]

In order to explore the changes necessary to address Secretary Rumsfeld's concerns, we need to review the current process and touch on its history where that is relevant.

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[4] Secretary of Defense Donald H. Rumsfeld, remarks before the Old Government Operations Committee, August 25, 1995.

[5] Secretary of Defense Donald H. Rumsfeld, remarks delivered at the National Defense University, Fort McNair, Washington, DC, January 31, 2002.

II. Current PPBS

The PPBS was originally designed and is generally practiced as a serial, three-phase process:

1. *Planning*—a fiscally unconstrained process to review policy issues that produces guidance for program development.

2. *Programming*—a resource-constrained, multi-year, output-oriented program review process based on a DoD program structure that produces an approved defense program on which to base a budget.

3. *Budgeting*—a resource-constrained, 2-year, execution-oriented budget review process based on the congressional appropriation structure that produces the defense portion of the President's budget submission to Congress.

Each phase contains an internal review process culminating in authoritative decisions intended to shape the next phase.

A. Planning Phase

The planning phase produces the Defense Planning Guidance (DPG), which is signed by the Secretary or Deputy Secretary of Defense. Typically, this phase is conducted as a fiscally unconstrained process that develops a series of goals, priorities, and strategies that are subsequently published in the DPG. During the planning phase, the Office of the Under Secretary of Defense for Policy consults with the other OSD offices and the Joint Chiefs of Staff (JCS). From these consultations comes a DPG that implements the National Security Strategy in the DoD and, at the same time, takes into account the provisions of the National Military Strategy and the recommendations of the Chairman of the JCS. Creating the DPG is a complex undertaking that historically produces a final document that is often too late to influence fully the development of the Program Objective Memorandums (POMs) but, in theory, still provides the basis for evaluating the results of the programming and budgeting phases.

B. Programming Phase

The second phase of the PPBS, the programming phase, produces an approved defense program. POMs submitted by the military services and

defense agencies are evaluated during a program review and then amended by Program Decision Memorandums (PDMs) signed by the Deputy Secretary of Defense. The service and agency POMs are constructed within the constraints of fiscal guidance (issued to each service/agency before POM submission) and by the goals, priorities, and strategies the Defense Planning Guidance provides. The POMs reflect the result of each service and agency's internal trade-offs and priorities.

The program review process evaluates the POM submissions. It is orchestrated by the Office of the Director, Program Analysis and Evaluation, and focuses on specific POM issues nominated by OSD offices and the Joint Staff. Issues are tracked in the form of "issue papers" that define the nature of the issues, provide background information, identify the baseline program submitted by the service, and evaluate alternative programs in detail. Review activities are coordinated by the Program Review Group (PRG), which sets schedules, focuses analyses, and evaluates results. The PRG brings each issue to the Defense Resources Board, which acts as a senior-level council to the Deputy Secretary as he considers the issues and makes his decisions. The decisions are published in one or more PDMs that amend and approve the POMs as the basis for budget preparation.

C. Budgeting Phase

The third phase of the PPBS, the budgeting phase, produces an approved defense budget. This phase begins when the services and agencies provide OSD with a Budget Estimate Submission (BES) based on the defense program just approved in the program review. The BES is submitted in response to a budget call issued by the OSD Comptroller, specifically, the Deputy Comptroller for Program/Budget. The budget review process is orchestrated by the OSD Comptroller and is organized around major budget titles such as Operations and Maintenance, Military Personnel, and Procurement. This phase is conducted as a concurrent review by the OSD Comptroller and the staff of the Office of Management and Budget (OMB). This simultaneous review is unique in the Executive Branch. The OSD Comptroller, with the help of the other OSD Offices and the OMB, evaluates the budget and produces a series of draft Program Budget Decisions (PBDs). PBDs are rapidly coordinated (24 to 48 hours per PBD) for comment within the Joint Staff, the OSD staff, and the military services. The fully staffed decision package is then presented to the Deputy Secretary for decision. The services then implement those decisions and prepare the set of materials needed to present the budget to the Congress.

D. Combining the Programming and Budgeting Phases

The serial, three-stage process just described has been the general model for the DoD's PPBS since Secretary of Defense Melvin Laird instituted changes to the process over 30 years ago. However, the PPBS process that developed the FY2003 budget, and the process envisioned for producing the FY2004 budget, combined the programming and budgeting phases. This development is one of the most substantive changes in the PPBS process in many decades. Combined reviews have been executed in the past, but they were viewed as temporary, and the process always returned to the serial, three-step process in subsequent years. The most recent use of a combined program/budget review was after the 1997 QDR.

The schedule for a combined program/budget review generally delivers POMs to OSD several months later than the historical pattern. In the past, when separate program and budget reviews were held, POMs typically were required in May with a summer program review, culminating with a PDM in July or August.[6] The combined program/budget review in 2001 for the FY2003 POM/BES (before the 9/11/01 attacks) envisioned POM submission in September. For the FY2004 process, the DPG was to be published in May 2002 (it was) and the POM was to be submitted in August (some components were late). The President's budget was delivered to Congress in early February 2003.

That completes our overview of how the current PPBS system works. The next chapter lists what we think are the central tenets of Secretary Rumsfeld's proposals to improve the PPBS, considers their pros and cons, and explores the basic requirements of a resource allocation system.

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[6] Multiple PDMs have been issued in some years.

III. Formulating a New Resource Management System

A. Proposed Changes to the PPBS

The ideas in this section were drawn from the September 2001 QDR report and from papers, speeches, and press conferences by Secretary of Defense Donald Rumsfeld, Deputy Secretary of Defense Paul Wolfowitz, and others. The central ideas running through these public statements on PPBS reform are rooted in the corporate business management model. If the statements are taken at face value, the Secretary wants to decide future-shaping strategic issues, delegate more decisions, focus on defense capabilities and output, measure performance, and create a leaner and more responsive resource management system. These goals are explained in the subsections that follow.

1. Decide Future-Shaping Strategic Issues

Secretary Rumsfeld has established a Senior Executive Council, a small group of senior managers charged with helping him make strategic decisions for the Department.[7]

> [T]he DoD has established the Senior Executive Council (SEC) led by the Deputy Secretary of Defense and consisting of the Service Secretaries, and the Under Secretary of Defense for Acquisition, Technology and Logistics. *The SEC will steer the Defense Department through what will be a challenging period of change.* [Emphasis added.]

It follows that much of the remaining top-level military and civilian leadership is intended to advise the Secretary and the SEC in their areas of specialty, implementing decisions, measuring performance, pointing out problems, and suggesting solutions.

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[7]   CY 2001 QDR.

2. Delegate More Decisions

Secretary Rumsfeld wants to establish areas where service secretaries and their respective chiefs can make or further delegate resource management decisions. Deputy Secretary of Defense Paul Wolfowitz discussed this issue in the following comments.[8]

> I really do think at the heart of it is the notion that *change in this institution is going to come about much more effectively if it is decentralized*; that the attempt to do everything out of the secretary's office is commendable, but at its best, it's going to focus on a limited number of issues.…That would be the way I would say it, and I think if you look at the McNamara reforms, some of which were very creative and we're still living off of today, like PPBS, but nevertheless I think *the failure of a lot of it was the attempt to do too much in a centralized way*. [Emphasis added.]

According to the CY 2001 QDR:[9]

> Today's technology makes the accurate, timely flow of information possible. *Pushing this information down will enable decision-making at the right level* and will, in turn, support the flattening and streamlining of the organization. [Emphasis added.]

3. Focus on Defense Capabilities and Output

Capabilities are what defense is all about, as the following remarks by JCS Chairman General Richard Myers indicate:[10]

> With [the Quadrennial Defense Review], the senior military and civilian leaders of the department came together, and we produced a new defense strategy for the United States of America. We also produced a new force-planning model to guide the department in the 21st century. We put aside the threat-based model of the past and *adopted a capabilities-based approach—* one that focuses less on who might threaten us or where, and more on how we might be threatened *and what capabilities we will need to deter and defend against those threats*. [Emphasis added.]

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[8] Deputy Secretary of Defense Paul Wolfowitz, remarks delivered at a press briefing before the service secretaries, June 18, 2001.

[9] CY 2001 QDR.

[10] Secretary of Defense Donald H. Rumsfeld, remarks delivered at a DoD news briefing with JCS Chairman General Richard Myers, Pentagon, Washington D.C., December 27, 2001.

It follows that managers and their staffs measure output to make sure SEC capability goals are being met on time.

4. Measure Performance

Secretary Rumsfeld wants to substitute output measures to assess performance in lieu of the profit motive used in the corporate business model.[11]

> The old adage that you get what you inspect, not what you expect, or put differently, that *what you measure improves*, is true. It is powerful, *and we will be measuring*. [Emphasis added.]

Secretary of the Navy Gordon R. England put it like this:[12]

> The issue in business practices is for the management team to make better decisions than decisions have been made in the past. I say that because in order to make better decisions, we need better systems in place. So Secretary Wolfowitz mentioned the PPBS…. That system is at times criticized, but we do have a system to allocate funds. *We do not have the corresponding what I'll call ABCS system—that is an activity-based Costing (ABC) system—so that we know exactly how the funds are being spent; and we do not have the measures and metrics in place that you would expect so that you can manage effectively a wide variety of issues.* The thought was put forth that this is a very, very large enterprise. It is. So you can't address every single issue every single day. But you can have in place a set of measures and metrics so you can every day monitor the health of the total enterprise. *So they're the kind of systems we need to put in place so we'll be in a better position to make better decisions as we go forward.* [Emphasis added.]

5. Create a Leaner and More Responsive Resource Management System

Secretary Rumsfeld also wants to establish a slimmed-down process that responds quickly to an ever-changing defense situation—a system that stays on top of situations as they develop. Activities that produce little added value would be dropped. If the function is valid but ineffective, the old system should be replaced with a new process that does only what needs to be done and is

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[11] Rumsfeld, Bureaucracy to Battlefield, September 10, 2001.

[12] Secretary of the Navy Gordon R. England, remarks delivered at the Wolfowitz press briefing with the service secretaries, June 18, 2001.

"quicker, cheaper, and more flexible." The following comments elaborate on this point.[13]

> *Redundant processes* prevent us from adapting to evolving threats *with the speed and agility that today's world demands…. In order to make decisions more quickly, we must slash duplication* and encourage cooperation…. We've combined the programming and budgeting phases to *reduce duplicative work and speed decision-making*. The streamlined process that should result will be quicker and cheaper and more flexible. [Emphasis added.]

According to the CY 2001 QDR:[14]

> Two major institutional processes—the planning, programming and budgeting system (PPBS) and the acquisition process—create a significant amount of the self-imposed institutional work in the Department. *Simplifying these processes will support a streamlining of the entire organization.* The Department has already taken the first step by *conducting a concurrent program and budget review*. DoD will explore options to *fully redesign the way it plans, programs, and budgets*. [Emphasis added.]

While more could be said about the details of these ideas, our purpose here is to focus on their main thrust. We believe any new resource management system is obliged to address these concerns. The following sections discuss the statutory and practical requirements that DoD's resource allocation and management system must meet.

B.   What Are the Basic Management Requirements?

The powers of the Secretary of Defense are based in law, beginning with the National Security Act of 1947. Those powers have been modified (primarily enhanced) over the years with the 1958 Defense Reorganization Act, the 1986 Goldwater-Nichols Act, and amendments to the National Security Act of 1947. Under the law, the Secretary of Defense has broad authority to manage the Department in his own style. Nonetheless, over the years the Congress has placed some restrictions on how the Department operates. For example:

- Congress has required that certain portions of the Secretary's domain be separately overseen, rather than having multiple functions under a

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[13]   Rumsfeld, Bureaucracy to Battlefield, September 10, 2001.

[14]   CY 2001 QDR.

single manager. Two examples are the Assistant Secretaries of Defense for Reserve Affairs and for Special Operations and Low Intensity Conflict. At various points in the past, those portfolios fell under the purview of offices with broader responsibilities (e.g., Reserve affairs were handled by the Assistant Secretary for Manpower).

- Congress has also placed various reporting requirements on the Department (e.g., Congress requires the Department's Future Years Defense Program or FYDP), and placed restrictions on spending portions of the defense budget (e.g., funding cannot be spent until the President certifies it is necessary for National Security or funding is restricted until it passes certain testing milestones).[15]

None of the restrictions outlined above have constrained the process the Secretary can use to produce the Defense portion of the annual President's Budget. In fact, Secretary McNamara installed the planning, programming, and budgeting process now used in the Department without formal consultations with the Congress or the Bureau of the Budget. Secretaries Laird, Brown, and others subsequently made changes to that process without formal coordination or consultation outside the Department.

Based on our reading of the various acts, Title 10 of the U.S. Code, and annual authorization and appropriation acts, the Secretary of Defense can modify the planning and resource allocation process a great deal without running into restrictions. However, modifying congressional reporting requirements is another matter. Those have to be dealt with by direct negotiation with the Congress.

It seems likely that current law will support any reasonable management process the Secretary of Defense wants to put in place. This paper presents one such management process.

1. Secretary of Defense's Planning, Programming, and Budgeting Responsibilities

The Secretary of Defense is responsible to the President for shaping the defense program, assembling a budget that supports that program, and seeing that the program is executed properly and efficiently. Since the National Security Act of 1947, defense secretaries have been involved in these activities to different

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[15] Only the President's Budget FYDP is submitted to Congress.

degrees, ranging from almost no direct involvement to a centralized "hands on" management style.

Since the 1970s, defense secretaries have used variations of Secretary Laird's "participatory management" style to carry out their responsibilities. This style is an "elegant" management arrangement in which everyone involved in the highest levels of DoD management gets to propose ideas and have them debated before the Secretary or before a board the Secretary establishes for that purpose. While this system has worked well enough, it uses a great deal of executive and staff time and has a long annual schedule of events that seems bureaucratic, ponderous, and repetitious. On the positive side, it improves DoD decisionmaking by focusing executive attention on current and future defense issues.

2. Fundamental Program Management Activities

Simply said, the fundamental requirement is to carefully plan for future needs. The current PPBS looks ahead 6 years, which seems to be satisfactory for overall program management. Procurement planning, especially shipbuilding, often benefits from longer-term consideration. DoD has heretofore handled those areas as special cases; for example, the Defense Program Projection (DPP) covers 18 years, including the FYDP out-years, in exploring procurement options. Whatever the term, the underpinnings of the DoD resource allocation system should be built to support the whole period easily and naturally.

For a new administration, careful planning means conducting an initial decision process that sets defense policies, defines defense program objectives, and establishes the size of the defense budget the administration chooses to support during its tenure. After the decisions have been made, the next task is to see them through to completion. Table 1 lists the services a defense secretary should expect from a PPBS-like management system.

14

Table 1. Fundamental Program Management Activities

Management Area	Year 1	Years 2–6
Policy	Set overall policies and goals	Institute policy changes as needed[a]
Defense Capabilities	Set specific program objectives	Institute program changes as needed[b]
Budget	Set spending priorities	Submit budgets to Congress annually based on policies and programs in place as each future year becomes the budget year[c]
Assessment	Establish performance metrics	Measure program output against objectives[d]

[a] Changes are made as needed.

[b] Changes are made as needed. Programs will have to be updated annually prior to the budget to incorporate fact-of-life changes such as schedule slips or changes in Defense Working Capital Fund, inflation, and pay rates.

[c] Expected changes to the DoD top-line funding levels, schedule slips, and rate changes should be handled as program adjustments prior to each year's budget scrub.

[d] This activity requires a robust DoD-wide management accounting system that provides the quantities of each product or service to be measured along with the cost of its production.

C.   Will the Corporate Business Management Model Work for the DoD?

No—that is, not well without adjustments. The DoD is different than a typical private corporation in significant ways. The following subsections discuss some of the most important differences.

1.   Organizational Problems

a.   Placing Key People

The Secretary of Defense leads a management team, as does a corporate Chief Executive Officer (CEO). For both, placing qualified people in key positions quickly is important. But a CEO is likely to possess greater power to hire and fire. A corporate CEO can hire people he or she believes are qualified by training and experience to work in the principal posts of the corporation when incumbents resign, retire, or are fired. In contrast, as a key leader in the public sector, the Secretary of Defense sometimes gets to pick individuals for jobs, but often, the administration places people in key jobs. The unique nature of the DoD limits the available pool of experienced candidates. Although these appointees, for example, service secretaries, are technically subordinate to the Secretary, they may be difficult to lead because their loyalty may be to another influential administration official or they are beholden to a key group supporting the

administration and, as a result, could have an agenda that is at odds with the aims of the Secretary. This is not to say that good, competent people are not appointed to these jobs, but that they may not have the training or experience they need to take control and effectively lead a military organization.

Finally, even if all goes well, it can take a year or more for an appointee to gain Senate approval and begin to understand the military department and its unique issues. This lag is important because the membership of the SEC, for example, is composed entirely of political appointees and could have a year-long hiatus while everyone is getting up to speed. Including the Chairman of the JCS on the council, as we propose in Chapter IV, would provide continuity during a change of administrations.

b. Integrating Military Views

Warfighting has no direct corporate equivalent. Although every organization grapples with integrating its field operations with top-level management, the differences between the DoD and the corporate world are significant. Civilian control is a constitutional imperative, yet the Department recognizes the unique nature of military professionalism. Military service chiefs, combatant commanders, and JCS chairmen serve with more than 30 years of experience in military matters. Integrating military experience with civilian control is a basic organizational requirement unique to DoD.

c. Organization of the DoD

While businesses can have organizational problems, they also have the authority to fix those problems. The DoD organizational arrangement is established by law and can undercut the Secretary's ability to lead the Department. Before 1947, the military departments were independent public entities that reported directly to the President as Cabinet members. The intervening 55 years have seen that access diminish with the creation of the position of the Secretary of Defense to which they now report. Today, the Secretary of Defense is the only Cabinet member from the DoD, but the military departments are still public entities that enjoy the support of the general population; their officials testify before the Congress, and they command a respectable share of the U.S. budget. Rather than being invisible pieces in a large public organization, the services and their officials have public personas and are authorized under law to appeal their cause directly to the Congress when they

disagree with the Secretary of Defense.[16] Although formally organized as a monolithic, hierarchical organization, the DoD's informal organization could be described as a loose confederation of strong, semi-autonomous entities competing for national resources. Ultimately the Congress, not the Secretary, provides those resources in appropriations ear-marked for each military department.

d. Need for Department-Wide Coordination

Decentralization of decisionmaking is difficult to implement in defense. The warfighting combatant commanders must be able to coordinate their operations jointly with the national command authorities, the forces of the four service components that are at their command, and other combatant commanders. Each service component must also coordinate its needs for supporting combatant commander operations with DoD infrastructure activities that resupply consumables, provide repair of battle damage, and so on. These DoD infrastructure products and services involve coordinating with the four services and a dozen or more major defense agencies. A high degree of coordination is needed to support joint wartime operations and is critical to the outcome of those operations. In short, a foul-up in business may lose sales, but a foul-up in defense may lose lives, the battle, or even the war. That is why war plans, regulations, and operating instructions are written so as to minimize the risk of mistakes. It is also why so many activities in defense are managed centrally. The idea is to be proactive in identifying and solving problems so that, in time of war, everyone knows what to do. This idea is doubly important because DoD military manpower rotations regularly bring new people into every aspect of the process.

But there is a limit to how much and what kind of coordination is actually useful. Because planners have little idea what to expect next, the kind of coordination used to prepare for, say, tank battles in Europe is not really possible. Instead, more general and flexible plans at the DoD level and enhanced programs for joint experimentation and interoperability are needed. Today's circumstance requires speedy decisions by the national command authorities as to the nature of the response and equally speedy decisions from the appropriate

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[16] Title 10 United States Code, subtitle B (Army), Section 3013, contains the following text, "After first informing the Secretary of Defense, the Secretary of the Army may make such recommendations to Congress relating to the Department of Defense as he considers appropriate." Similar laws provide this authority for the Secretaries of the Navy and Air Force.

military leadership as to who goes where and what they are to do when they get there. To make this possible, the DoD needs to review its current centralized policies, standards, and goals and update them, if necessary, to make sure that they encourage force employment flexibility and develop more agility than has been possible until now. But the efficient and responsive day-to-day management of our operational forces will have to become a more decentralized activity that allows military commanders opportunities to work out ways to respond effectively to the post–Cold War operational scenario.

2. Problems in Measuring Performance

Under the Goldwater-Nichols Act of 1986, the combatant commanders use service forces to fight wars and the military departments operate the infrastructure that creates and sustains those forces.[17] The nature of the performance measures for forces and infrastructure is quite different, as we explain in the following subsections.

a. Measuring Performance in the Infrastructure

Much of the infrastructure could benefit from the application of business methods modified to account for certain differences. Because an enemy can attack anytime, the infrastructure retains production capacity beyond what is needed for peacetime in order to move quickly to a wartime footing. Reasonably sized wartime capacity must be permitted. Because any item or service can be essential in wartime, the military needs prudently higher inventories than is theoretically needed for "just-in-time delivery" stock levels. Where off-the-shelf commercial equipment will do, it should be used; where there is a good case for it, equipment built to military specifications should be used. The idea here is that even though an equipment maintenance operation, for example, looks a lot like its commercial counterpart, it has some fundamental differences that must be

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[17] This paper treats as forces most joint command and control activities, access to global communication networks, computers, and intelligence-related surveillance and reconnaissance activities (C4ISR). Performance measurement for C4ISR systems is a particularly difficult area. In a recent speech to the Armed Forces Computer and Electronics Association, JCS Chairman General Myers said that the DoD continues to have problems with the interoperability of its numerous C4ISR systems. "We have to get better at joint warfighting," he said, "at integrating our services' capabilities, and…the C4ISR piece is the key to that."

taken into account. After all, while being efficient is important, winning wars is more important.

b. Measuring Performance in the Forces

Measuring how well combat units deliver "defense services"[18] can really be done only during actual combat conditions.[19] That said, the DoD routinely measures how well units and individuals do on activities called for by their unit training syllabi, sessions at special unit training centers, and operational readiness inspections. The DoD can also measure equipment condition. Some of these measures are difficult to relate to costs and give only a rough idea of the readiness of the overall force.[20] The methods used in business and in the infrastructure will have to be modified extensively for application to combat units. Once the measures are established, setting effective cost and performance standards for the forces will take time and ingenuity.

The DoD has issued a directive establishing the Defense Readiness Reporting System (DRRS).[21] The new system will extend current Status of Resources and Training System (SORTS) readiness reporting and add new readiness assessment tools, software, and models to aid in readiness reporting and assessment. The policy intent of the new directive is as follows:

> 4.1. The DRRS shall provide the means to manage and report the readiness of the Department of Defense and its subordinate Components to execute the National Military Strategy as assigned by the Secretary of Defense in the Defense Planning Guidance, Contingency Planning Guidance, Theater Security Cooperation Guidance, and the Unified Command Plan. All DoD

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[18] "Defense services" is a term we use to describe DoD's contribution to national security.

[19] This is different from activities in the infrastructure. Many infrastructure activities perform the same tasks during combat. There is, however, the matter of the infrastructure activity being sized properly to handle any extra workload that may result from the wartime situation. Combat is as inherently different from training as real casualties and physical damage are different from simulated casualties and facilities damage.

[20] Readiness is in two parts: (1) the readiness of each individual unit, and (2) the overall readiness of DoD. The readiness of units is important, but it is the readiness of the DoD that is intended here.

[21] Department of Defense Directive 7730.65, Department of Defense Readiness Reporting System (DRRS), June 3, 2002.

Components will align their readiness reporting processes in accordance with this Directive.

4.2. The DRRS shall build upon the processes and readiness assessment tools used in the Department of Defense to establish a capabilities-based, adaptive, near real-time readiness reporting system. All DoD Components will use the DRRS to identify critical readiness deficiencies, develop strategies for rectifying these deficiencies, and ensure they are addressed in program/budget planning and other DoD management systems.

Upon implementation, this system should address the primary concerns of those who must be sure U.S. forces and their supporting infrastructure are ready to fight when necessary. While it grades DoD's primary output in terms of being ready to wage war, it does not directly address the cost or efficiency of producing that output. These costs are important to defense because with them you can (1) compare different options, (2) discover opportunities for cost improvement, and (3) improve strategic decisionmaking.[22]

c. Availability of Performance Measurement Data

Businesses use Activity-Based Costing (ABC) and other management accounting methods to provide data on intermediate production activities that don't necessarily lead directly to a salable product. This provides the data that, when aggregated across all of the applicable production activities, sums to the cost of goods produced and ultimately the cost of goods sold. With the reservations noted in the previous two subsections, these methods should be helpful in gathering useful performance data on infrastructure activities. Gathering these data should be part of a suitable management accounting system that currently doesn't exist in DoD. Collecting data for performance measurement would have to be instituted uniformly in the infrastructure and, at the same time, DoD should also collect data for forces even if it is not clear today how to use it for performance measurement. Studying the data received at least tells management what the money went for and, with some analysis, what the overall cost is for each different kind of force capability. Those data would at least permit subjective decisions about whether or not a particular kind of force is worth what it costs.

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[22] "Introduction to Activity Based Costing (ABC)," Internet ABC Online Presentation, Slide 6, "Why is the knowledge of the 'true' cost of a product so important?" University of Pittsburgh, Pittsburgh, PA, available at www.pitt.edu/~roztocki/abc/abctutor/, 28 May 1998.

Current accounting systems are more attuned to certifying that appropriations have been spent, and not overspent, on the goods and services for which they were intended by the Congress. The intent of many accounting features is to prevent misuse and fraud. This fiduciary function must be continued, but the data it provides are generally thought of as input-oriented, not output-oriented, and therefore are not very helpful in managing the Defense Program or for measuring performance. The next section talks more about input and output.

d. DoD Should Focus on Program Output, Not Budget Input

Program management and performance measurement require data on the production of output, rather than budget input—and the difference between them is not well understood. For example, a restaurant uses various inputs to produce the output listed on its menu. It uses electricity, the services of a cook, a waitress, and a manager. It also uses raw materials such as potatoes, hamburger, bread, pickles, mustard, cheese, and other necessary items—all input—to produce the cheeseburger with fries—an output—you see on the menu. Applying this idea analogously to defense, the DoD uses input summarized as men, money, materials, and management to produce output such as the strike forces used to attack terrorists in Afghanistan, for example, or the wings of intercontinental ballistic missiles that provide deterrence for the United States and its allies.

The management accounting system needed for performance measurement is also needed to make program orientation universally possible in defense. This output-oriented system is routinely used in the corporate business world where it is important to know where the money went and what you got for it. It's just as important in defense, but coherent data-collection systems to routinely produce those data have not been built.

e. Senior Defense Managers Need Better Output-Oriented Information

While senior decision-makers in both the private and public sectors need a wide variety of information, this subsection focuses on resource-oriented accounting information needed to manage defense activities and their output. This subsection addresses the need for better managerial accounting data, one of the four main types of accounting—financial accounting, managerial (cost) accounting, tax accounting, and non-profit or fund accounting. Because the DoD

also performs financial accounting, we provide definitions of both below to minimize confusion.[23]

In the private sector, *financial accounting* is the process that culminates in the preparation of financial reports on the enterprise as a whole for use by parties both internal and external to the enterprise. Users of these financial reports include investors, creditors, managers, unions, and government agencies. The financial statements most frequently provided are (1) the balance sheet, (2) the income statement, (3) the statement of cash flows, and (4) the statement of owners' and stockholders' equity. (In DoD, these ideas and reports are modified as necessary to meet public sector accounting standards and needs.)

In contrast, *managerial accounting* is the process of identifying, measuring, analyzing, and communicating financial information needed by management to plan, evaluate, and control an organization's operations.

Although DoD has been criticized for its financial accounting practices— and is responding with a substantial overhaul of those practices—we are, as noted earlier, concerned primarily with improving the managerial accounting data available to senior defense leaders.

While management accounting produces information tailored to the operation or process being managed, its products generally provide information for four broad purposes, as follows:

- Formulating overall strategies and long-range plans,
- Resource allocation decisions,
- Cost planning and cost control of operations and activities, and
- Performance measurement and evaluation of people.

In DoD, the first three of these purposes are generally addressed by the PPBS and the data systems that underpin it. We believe DoD needs to reassess the current data systems supporting these purposes, examining in particular how well the service management accounting systems mesh with the FYDP and budget data structures and how well the needs of senior management are met by the information provided by all of these systems.

The subsections immediately following discuss the data flow generated by the three major data-oriented PPBS processes: preparing the FYDP, supporting

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[23] The accounting categories and definitions used here are from Donald E. Kieso and Jerry J. Weygandt, *Intermediate Accounting,* John Wiley & Sons, Inc., 1995, p. 6.

the program review, and supporting the budget review. We follow these discussions with an analysis of the most serious problems with the way data flows from the services into OSD and with the overall usefulness of the data in DoD's reviews.

Structure and Content of the FYDP. The FYDP was originally devised to array the defense program in an output- and quantitatively oriented format. It was used as the baseline for the Secretary's deliberations on proposed changes to the capabilities of the military departments and for recording and reporting the decisions the Secretary of Defense made during those deliberations. A fundamental attribute of the FYDP database was to crosswalk its output-oriented program element structure to the input-oriented appropriation structure the U.S. Congress requires. This feature made it possible to track the Secretary's decisions during program deliberations into the budget subsequently submitted to the Congress. It also made it possible to use the program-oriented rationale, facts, and figures that went into those decisions to support and defend the budget request before the Congress.

A second fundamental attribute designed into the FYDP data system was that, when budgets were enacted by the Congress and subsequently executed by the military departments, the enacted funding and the subsequent actual expenditures tracked by the military management accounting systems would update the data carried in the FYDP. The two main benefits from this process are that:

- Department program managers could satisfy themselves that the Secretary's resource decisions were being implemented, and
- DoD would have a solid record of what each element of its output-oriented program actually costs—vital information needed for projecting future costs.

The FYDP was intended to relate both to the congressional data structure and the military departments' management accounting systems and thus tie together DoD's entire resource management system, extending from program design and budget formulation to congressional enactment and budget execution.

A third attribute of the FYDP was that it carried only summary data—no details. Separate annexes were created for areas where more details were needed, for example, Procurement and Military Construction programs. The FYDP depended on service staffs to extract summary resource impacts from auxiliary information systems for complex projects and other centralized activities (e.g., developing and buying an aircraft carrier, designing and constructing barracks,

or heavy maintenance and ultimate disposal of equipment). In this way, the essence of each project or activity was carried in the FYDP and the plethora of details supporting that project or entity were maintained elsewhere.[24] The data required to update the FYDP are organized by program element, appropriation, and fiscal year for Total Obligational Authority, Manpower, and Forces. The Procurement Annex requires data by appropriation, budget activity, budget sub-activity, and line item. The FYDP and its annexes are updated twice each year.

Structure and Content of Program Data Requests. The Secretary's review of the Defense Program has been an annual event since the early 1970s when Secretary of Defense Melvin Laird initiated it. To focus the review, OSD asks each military department and agency to submit data and text using the formats supplied in the Program Data Request. Recently these data requests have been streamlined as appropriate for the combined program and budget review, but they still represent a significant body of information that flows from the services and agencies to OSD. These data do not cover every aspect of defense. Rather, this information is requested on an exception basis to cover issues in which the Secretary of Defense is interested. The data requested are usually program-oriented in some way, but may take whatever form is appropriate for the issue under consideration. There is an effort underway to interrelate these data, where possible, with data requested in the FYDP and for the budget review process. These data are submitted once each year.

Structure and Content of Budget Data Requests. The annual submission of the DoD budget to the President and ultimately to the Congress is a work-intensive activity. The Under Secretary of Defense (Comptroller) publishes the Financial Management Regulation that specifies, within its fifteen volumes, the data required for the combined OSD and OMB budget review and for submitting the completed budget to the OMB. Unlike the program review, the budget review examines every area of the budget and specifically includes the authorized funding for every DoD activity within its decision documents.

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[24] These auxiliary data systems are maintained in each domain managed by a major organizational entity within the military departments and represented on the staffs of the military departments and OSD. Examples include Science and Technology Programs; Acquisition and Technology Activities; Installations; Logistics and Material Readiness; Command, Control, Communications, and Intelligence; Personnel and Readiness; and Health Affairs. The senior decision-makers in each of these activity areas establish policies and manage the area's resources. These data systems serve those managers as well as provide data for the FYDP.

The service and agency budget submissions are organized by congressional appropriation, by budget activity within each appropriation, sub-activity within budget activity, and finally by "line item" within each budget sub-activity.[25] These funding requests are then justified with budget exhibits that are often organized around the underlying program activities or projects that are "driving the cost," or, in shorthand, the "cost drivers." For example, a budget exhibit justifying Operations and Maintenance (O&M) funding needed to support the Air Force flying-hour program displays the flight hours needed by aircraft type to support the annual crew training and flying proficiency requirements. The flying-hour data is an output-oriented exhibit supporting the allocation of a portion of the O&M funding requested by the Air Force. Efforts to interrelate Program and Budget Review data use this fundamental idea to integrate the data from the two reviews (i.e., program or output-oriented data is required to justify budget requests and budget data is vital in a program review to understand the nature of the funding required to support each individual element of the program).

Budget review data are required twice each year, first, to support the OSD/OMB budget review and, second, to support OMB's preparation of the President's Budget.

Evaluation of DoD's Management Accounting System. The general description of the DoD's equivalent to the management accounting system typically found in a large corporation sounds adequate or better on the surface. However, the following problems are known to exist:

- *Field data structures and OSD data structures differ*. While the service management accounting systems do supply fundamental information needed for their program and budget data structures, the updating of FYDP and budget prior-year displays with actual expenditure data generally requires substantial intervention by the service staffs. Synchronizing the collection and categorization of field data with senior management's program and budget data structures would permit additional automation and reduce the work and time now required in the resource allocation and budget preparation process.

- *Accuracy may be a problem*. The "Line of Accounting" information encoded on basic defense financial transactions (e.g., checks) in the

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[25] The number of subdivisions within an appropriation varies with the complexity of the appropriation.

services and agencies do not necessarily include the program element number. The absence of the direct assignment of expenditures to program elements makes accurately tracing expenditures back to the correct program elements difficult, if not impossible. Requiring financial transactions to be linked to program elements for service expenditures would make it possible to automate updating of FYDP prior-year information.

- *The system sometimes fails to assign expenditures to end-users.* In some cases, costs are assigned to the budgeting entity rather than to the end user. For example, the base headquarters may prepare the budget for the direct costs of fuel and parts needed by its operational units and, in due course, pay the fuel and parts bills because it has the money. This means those costs may not be directly associated with the operational units. Without these data, establishing the costs for the end user, perhaps a tank battalion or a fighter squadron, becomes a matter of making estimates based on incomplete information. This is important because knowing the actual operating costs of existing units makes it possible to project future costs more realistically for those same units and for estimating the costs for new, analogous units.

Improving Integration of DoD's Resource Data Systems. An effort is underway to review FYDP, program, and budget data requirements by subject area (e.g., depot maintenance) and suggest ways in which a single data structure can serve both purposes. The reviewers have also been asked to identify alternative taxonomies that could enhance the quality of information, increase analytical flexibility in supporting analysis of current and future missions, and enable end-to-end resource tracking. The general criteria used for assessing the adequacy of data for programming and for budgeting are as follows:

- Acceptable programming data permits management to review the resources allocated to a defense output and to judge then if the value of that output justifies the resources requested;

- Budget data should permit management to validate the amount and phasing of the resources requested in each appropriation, to comply with public laws and executive branch policies, and to address any specific instructions the Congress might have provided in its acts or reports.

Much of the Procurement and the Research, Development, Test and Evaluation (RDT&E) data have been standardized for the FYDP, the program review, and the budget review. Military Construction, O&M, and Military Personnel budget categories remain to be addressed.

One of the most troublesome problems to overcome in integrating program and budget data is that some budget line items support multiple program elements. This then requires either:

- Allocating joint-product resources among those program elements or
- Creating a new program element to hold the joint-product intact.

That total cost is assigned to each defense output is the key concept underpinning programming theory. In this way, judgments can be made as to whether each output's military value justifies its cost. Because this idea is so fundamental to programming, a simple way to allocate joint-product budget line items is needed.

A second problem is the proliferation of program elements, not as defense output, but as a vehicle for maintaining visibility of funding for special interest programs. Accounting for programs that contribute to output could be handled in a sub-appropriation or even a sub-program element structure. Minimizing the number of program elements makes the assignment of budget line items simpler.

To summarize, while the PPBS and its underlying data systems do provide much of the information currently used to manage the Department, it does so in an inefficient and disjointed manner. Synchronizing these underlying data systems would provide more management information on a routine basis, produce it faster and cheaper, and make better use of increasingly scarce staff time.[26]

f. Business Goals Are Different from Defense Goals

Ultimately, profits are the fundamental gauge used in business to measure performance. Of course, there are other things as well. Low personnel turnover rate, high productivity rates, business goodwill, and community service are a few examples. But the fundamental gauge is still profits—the corporation exists to earn money. Other things are secondary. In the public sector, the fundamental gauge is exemplary service to the country. This is particularly true in the seven uniformed services and is possibly even more pronounced in the military services. The military services are complex, unusual organizations with myriad outputs (none profit-oriented) and strong traditions and motivations that are not

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[26] Staff time is wasted in two main pursuits: (1) translating data from one automated system to another and (2) responding to routine, ad hoc calls for data that are not provided by existing data systems.

easily changed. The primary motivation for each military service is to provide the most reliable military capabilities for the country in its mission areas. Each service believes it has unique capabilities and wants to extend them to cover every vulnerability an enemy might exploit. While this approach is good for defense, it may not score well under business-style performance measures. Nevertheless, Secretary Rumsfeld has spoken often about his commitment to effective use of taxpayers' dollars. Reconciling service orientations with prudent financial management is unique to DoD.

3. Recommendations

Because we inferred his intent from public comments and the QDR report, we may not have divined Secretary Rumsfeld's PPBS objectives accurately. Still, the themes are pretty clear and have been reiterated on several occasions. We recommend the DoD consider the following points as it builds its new management system:

- Include the Chairman of the Joint Chiefs of Staff on the Senior Executive Council to take advantage of his experience and provide continuity.

- Retain centralized decisionmaking on policies, standards, and goals affecting joint matters, but consider delegating decision authority in other areas where possible.

- Emphasize developing a management accounting system to focus the Department on managing DoD output. This emphasis should be in addition to current improvements to the fiduciary accounting system that are needed to prevent fraud. The management accounting system is needed for program management activities, including performance measurement.

- Institute performance measurement but temper it to account for wartime surge needs in the infrastructure—efficiency should not undermine precautions intended to support operations under wartime scenarios.

We included the above recommendations in the design of the management system discussed in the next chapter.

IV. Program Development and Implementation Management System (PDIMS)

This chapter outlines a new DoD resource management system we call PDIMS. This system is intended to address Secretary Rumsfeld's concerns about the current system and, in so doing, lay out a blueprint for a simpler, faster, and easier process. It is rooted in Secretary Rumsfeld's critique of the DoD's current resource allocation system and in an evaluation of the remedies—both explicit and implied—he has proposed for its improvement. We've modified the Secretary's ideas in areas where we believe a standard business approach won't work well for the DoD.

A. Basic Ideas

As we discussed in Chapter III, the central ideas running through the public statements on PPBS reform are rooted in the corporate business management model—a collection of organization structures, cultures, and strategic management styles that reflect how the majority of large "for profit" companies are managed. One such strategic management style is described like this:[27]

> Probably the most effective style of strategic management, partnership management, is epitomized by a highly involved board and top management. The board and the top management team work closely to establish the corporate mission, objectives, strategies, and policies. Board members are active in committee work and utilize strategic audits to provide feedback to top management on its implementations of agreed-upon strategies and polices.

There doesn't appear to be a specific corporate model that fits DoD's situation, although the Senior Executive Council (SEC) looks like a "strategic planning and top management team" that functions like a CEO and is now popular in a number of large companies.

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[27] Thomas L. Wheelen and J. Davis Hunger, *Strategic Management and Business Policy*, Third Edition, Addison-Wesley Longman, Incorporated, 1989.

Because there is no profit motive in government operations, some ideas found in the corporate business model must be modified to be effective in the Department of Defense. Aggressive performance measurement is substituted for the profit motive, and ABC systems provide the data for measuring performance.[28] DoD's infrastructure activities are the most business-like activities and performance there could be measured well. The fighting unit's performance is harder to measure, in some ways, but some existing measures, such as SORTS, are in place and others may be developed over the next few years. An even harder problem is measuring capabilities that do not reside in "units" like interoperability, joint command and control capability, and intelligence, surveillance, and reconnaissance capability. These capabilities are a fundamental requirement for joint operations but, according to JCS Chairman General Myers, DoD continues to have problems with the interoperability of its numerous Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) systems.[29] This may be a good area in which to begin the work of designing, installing, and monitoring performance metrics.

The formation of the SEC, the decentralization of decisionmaking, the focus on output, the measurement of performance, and the elimination of unnecessary work are consistent with the corporate business model. PDIMS builds on these ideas and is designed to be compatible with the corporate business world-view as modified by the concerns discussed in Chapter III, Section C. The basic idea of PDIMS is to develop a sound defense program in the beginning of an administration and then focus on implementing it and measuring performance over the remaining years.[30] During the implementation years, PDIMS updates specific policies and programs because circumstances require change—not because there is an annual schedule that permits building a new policy document or crafting a new program.[31] These circumstances range from the

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[28] ABC is only one technique. Other management accounting techniques could be used as well.

[29] JCS Chairman General Richard Myers, remarks made at an Armed Forces Computer and Electronics Association luncheon in Washington, D.C., June 2002.

[30] Because the process of clearing appointees takes a long time, a new administration may not have all of its leadership positions filled during the first year, making it difficult to develop and begin work on a new program. For this and other reasons, the Secretary of Defense is on record as favoring a QDR process that culminates during the second year of a new administration.

[31] Circumstances referred to include both the Secretary's need to redirect DoD policies and programs, and the Services' need to make changes acknowledging fact-of-life changes. Fact-of-

failure of one policy and institution of a new one to repricing supply costs because of price inflation or a change in the real cost of items. There is still an annual cycle that leads to the submission of an annual budget, but the basic philosophy is different. In PDIMS, the policy and program are changed only as needed from year to year and the time saved is spent on meeting implementation goals as efficiently as possible.

The following sections address important features of PDIMS—features that address problems that the Secretary and Deputy Secretary of Defense have pointed out—along with other aspects of the PPBS that need to be considered.

B. How Would PDIMS Decide Future-Shaping Strategic Issues?

The SEC is an important new initiative. The council is responsible for providing recommendations to the Secretary on all corporate-level decisions and for monitoring program implementation performance throughout the Department. The SEC currently has six members, and, although maintaining a relatively small decisionmaking group is a good idea for the DoD, PDIMS would add the Chairman of the Joint Chiefs of Staff (CJCS) as a member. Adding the CJCS to SEC membership would directly address the need to integrate military views at senior leadership levels. The CJCS is the principal military advisor to the Secretary of Defense and the President. As such, he provides advice on military matters as he sees them as well as any important dissenting views the chiefs of the Army, Navy, or Air Force may have. In essence, by including the CJCS on the SEC, the members can get, indirectly, advice from all of the top military officers in the Department.[32] Such advice is important because every service chief, as well as the CJCS, is a career soldier, sailor, or airman. The chiefs' views are always available through the service secretaries, but it would be well for the SEC to get candid military advice directly from the CJCS.[33]

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life changes adapt policies and programs to events that have already happened, such as development delays on a major defense acquisition program that cause the procurement schedule to slip or inflation increases that cause Defense Working Capital Fund rates to go up.

[32] Situations similar to this in the private sector include integrating doctors' concerns for the treatment of their patients in the management of a health maintenance organization or blending the technical priorities with business priorities in an automobile manufacturing company or an emerging hi-tech company.

[33] The members of the Joint Chiefs of Staff are military advisors to the Secretary and the President. The Chairman is the principal military advisor. A Service Chief by virtue of JCS membership can elect to have his views presented by the Chairman to the Secretary and the

C.   How Would PDIMS Delegate More Decisions?

We believe the Secretary of Defense (and the SEC) needs a management support process that brings him viable alternatives for strategic decisions (i.e., major decisions that shape the Department's future). This process would include the allocation of resources among the services and defense agencies and the review and approval of the major forces within those organization's programs. This same process should also bring the Secretary more mundane items that need corporate decisions on matters, for example, that affect "jointness" because they affect multiple services and agencies or that have to do with arrangements between the United States and its allies. Finally, to maintain management control, this management support process should provide measurements on how well the services and agencies are performing as they execute their programs. Table 2 shows how the decisionmaking responsibilities would be divided up under PDIMS.

Table 2. Decisionmaking Responsibilities Under PDIMS

Management Areas	Decisionmaking	Executing the Program and Budget	Evaluating the Results of Execution[a]
Policy, capabilities, and major investment projects[b]	Corporate	Components	Corporate
Delegated investment projects and non-joint operations and activities	Components	Components	Corporate

[a] Measuring performance requires installation of a management accounting system that routinely provides management with performance data.

[b] Major investment projects above a certain size would be handled as corporate decisions—the service secretaries would manage smaller programs. The SEC will also consider any other large project that shapes the future of the department.

The SEC makes corporate decisions that are focused on deciding matters of Departmental policy, defense capability objectives, and major investment projects.[34] Establishing and evaluating defense capabilities is a key SEC responsibility that decides the size and nature of the forces needed and the degree of readiness to be maintained. In this regard, it is essential that corporate

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President when they differ from the Chairman's advice. JCS members can also present views to Congress after informing the Secretary of Defense.

[34] The Senior Executive Council currently includes the Secretary and Deputy Secretary of Defense, the service secretaries, and the Acquisition Executive. PDIMS recommends adding the CJCS to take advantage of his experience and to provide continuity during a change of administration.

decision-makers oversee and inspect all activities that play a part in joint operations to insure that each of the services is prepared to do its part. The following quote is from the QDR:[35]

> To better meet future warfare challenges, DoD must develop the ability to integrate combat organizations with forces capable of responding rapidly to events that occur with little or no warning. These joint forces must be scalable and task-organized into modular units to allow the combatant commanders to draw on the appropriate forces to deter or defeat an adversary. The forces must be highly networked with joint command and control, and they must be better able to integrate into combined operations than the forces of today.

This increasing need for joint operations will compound the need for standard operating procedures. Coordination, regulation, and standardization are needed to create the precision interfaces between services on which successful joint operations depend. The complexities of joint operations not only generate cross-service linkages, they also require good linkages with defense agencies and the various support communities within the services. The Joint Staff and the OSD staff are the natural proponents for interoperability among the services and would advise the Secretary on how to institute common standards or enforce current standards. All this argues that the future may have fewer rather than more areas for decentralized decisionmaking.

D. How Would PDIMS Focus on Defense Capabilities and Output?

The fundamental purpose of the DoD is to deter wars, if possible, and to win them if deterrence fails.[36] Deterrence and warfighting are, therefore, the most fundamental outputs of defense.[37] In practical terms, these fundamental purposes must be distilled to a list of capabilities needed to generate the desired results. To achieve these capabilities, military units are formed by integrating trained people, appropriate equipment, operating and support facilities, a

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[35] Quadrennial Defense Report, September 30, 2001, page 32.

[36] This deliberately simplified view of defense purposes is intended to advance quickly the overall concept that follows.

[37] Again, this view is deliberately simplified. Over the last decade, the daily work of DoD has become contingency operations—almost always well short of war. What the Department does every day has to qualify as a fundamental output along with deterrence and warfighting. In this paper, contingency operations are included in warfighting.

command structure, and a highly developed doctrine. The obvious conclusion is that each military organization either produces a capability or contributes to a capability. U.S. military forces, then, are ideally made up of units designed to cover the specific capabilities the United States needs, either singly or in conjunction with other units. The inherent capability of the military force structure and its supporting infrastructure is the practical output of the DoD.

The point is that defense resource managers should be using output-oriented management products to manage the Department. However, defense organizations produce their output capabilities using input provided by their budgets—Military Pay, O&M, and Procurement funds. Often such input becomes the focus of defense management activities since the annual budget is such a high-profile Departmental activity. But management activities organized around organizational output, from planning through budget execution, will give a much clearer idea of what capabilities are available and what they cost.

Much of the work needed to see basic resource data in terms of defense output is already done, but it needs to be revitalized. Secretary McNamara created the Future Years Defense Program (FYDP) to get a clear idea of what capabilities DoD was getting for its money. The military departments and defense agencies all submit data to the FYDP. The FYDP has, however, two serious failings: the first is that, while it theoretically gathers budget expenditures from unit operations during the budget execution phase, the DoD accounting system is not structured to provide these data well and needs to be updated. Second, although the FYDP was designed to be output-oriented, it now has many program elements whose primary purpose is to account for items on which the Congress, OMB, or the DoD itself has a special interest. These are most often not major outputs of defense.[38]

The upshot of this is that no single system currently exists that is structured to help DoD plan, program, budget, and track budget execution. Currently, DoD *plans* using a capability-oriented planning structure, *programs* with a separate output-oriented programming structure, *budgets* using an appropriation-based

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[38] Tracking the status of functionally oriented, special interest inputs, such as Pollution Prevention, are needed to manage support activities. We suggest that these items be handled as part of a sub-structure to the current appropriation structure used in the FYDP. In this way the number of program elements can be reduced substantially, limiting them to those acknowledged as either intermediate or final outputs of defense--and the nature of their supporting appropriation-oriented inputs can still be tracked and analyzed.

structure, and *executes* budgets with the existing accounting structure—all different activities. The FYDP provides a crosswalk between the programming structure and the budgeting structure but does not help link to the planning structure. The next section proposes a change in the planning process to help it mesh better with the programming process, thereby helping to achieve capability-based planning goals in DoD's programming and budgeting activities.

1. Translate Defense Planning Guidance (DPG) Planning Goals into Programming Goals

The inability to crosswalk easily from traditional defense guidance categories given in capability terms to the precise set of platforms or units that provide that capability has been a long-term problem in the PPBS. Because military units can be used to provide multiple capabilities depending on the need, it is usually not a simple one-to-one relationship and is often a many-to-many relationship among force units and their potential uses. This is a fundamental ambiguity between the way capability changes are traditionally specified during the planning process and the specification needed to install those changes in the defense program. Heretofore, it was the task of the military departments to propose what they saw as the best way to meet those planning requirements, and broad statements of policy have served that purpose. But, for the planning function to be authoritative, the language used to describe capabilities must be set down in the specific terms programmers and budgeters use.[39]

The FYDP provides an output-oriented view of the DoD for all defense components. The Army's main outputs are shown in program elements for types of divisions; the Navy's, in program elements for ship, boat, and aircraft platform types; and the Air Force's, in program elements mainly for aircraft and missile platform types. The Marine Corps has both ground units and air platforms. Taken together, these program elements can be thought of as the major force organizations (MFOs) in the DoD.

If a single structure is to be built to facilitate planning, programming, budgeting, and execution, the solution probably lies in focusing the whole process on these MFOs. Gathering information by MFO should not be a problem technically for modern management accounting systems and techniques. In this way, information about each MFO's cost, equipment inventories, end-strength,

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[39]   The need for authoritative planning guidance is discussed in Section F.3 of this chapter.

and training activity could be acquired for business analysis. Military planners are familiar with these MFOs and have at least subjective values for the capabilities they provide. Summarizing data on MFOs of the same type, F-16 wings or mechanized divisions, for example, would provide the same type data currently found in the FYDP forces program elements. If the planning process expressed its capability goals in terms of existing and new MFOs with certain qualities, perhaps a useable crosswalk could be constructed. Budgets can be constructed once everything is expressed in terms of DoD organizations, since every organization of consequence already has a budget.

Expressing defense guidance in terms of MFOs would mean inserting a new concluding section in the DPG that illustrates its intent by proposing changes in the number or nature of specific MFO types.[40] While this would be a demanding task, it may be a way to build authoritative corporate planning guidance that would focus the abbreviated program review on the important corporate issues.[41]

2. Secretary of Defense's Fiscal Guidance for Building Service and Agency Programs

Under PDIMS, fiscal guidance to the services would include all funding normally available to a service from the OMB top-line (i.e., all funds would be assigned to a specific military department or agency). However, within the fiscal guidance document, funds reserved for interdepartmental programs, such as the National Foreign Intelligence Program, or for corporate acquisition programs would be established as corporate-approved programs to be funded as directed, subject to fact-of-life surprises. The overall PDIMS philosophy envisions encouraging stability in acquisition research and production schedules, insofar as that is possible.

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[40] This means, for example, a change in armored divisions in general, not directions to do something with the 1st Armored Division specifically.

[41] The other choice is to express programming, budgeting, and execution activities in defense guidance terms, which would not be practical. No matter how it is done, it is important that planning, programming, and budgeting activities all be easily translated from one structure to another so senior management can see that what they do in one phase affects subsequent phases (e.g., seeing planning effects in programming terms).

3. Forces and the Display of Their Full Cost[42]

In addition to the forces program elements in the FYDP, which contain the direct costs of forces, each military department has hundreds of other program elements that deal with indirect costs of forces, such as the development and procurement of new weapons and the support of existing units, weapons, and people in military and civilian organizations around the world. Allocating these indirect force costs sensibly among the forces they support would provide full cost figures needed to help decision makers weigh the usefulness of a given type of force against its cost.

The Defense Working Capital Fund (DWCF) system that currently charges users for the material they consume has done a fair job of distributing material costs that were previously funded centrally. A similar system could perhaps be installed for distributing the cost of personnel benefits and at least part of the cost of training, which are both currently funded centrally.[43] If that were done, it would leave only the cost of operating bases, long-haul communications, and defense data processing centers as costs closely related to forces that were not allocated to forces program elements. The other remaining items, not so closely related to forces, include the Science and Technology Program, acquisition infrastructure, and Departmental policy and administration infrastructure.[44]

E.   How Would PDIMS Measure Performance?

Adopting an ABC-style performance measurement in an organization presupposes an underlying management accounting system that reports to management the amount spent producing each type of business output and an accounting of the output produced as a result of spending those funds. Defense doesn't have a suitable management accounting system of this type, and, as a

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[42] Remember that the C4ISR "non-force" warfighting capabilities that make employment of the forces effective—intelligence, surveillance, and reconnaissance; joint command and control; joint doctrine; and joint experimentation—are considered an intrinsic part of forces.

[43] See Ronald E. Porten, Daniel L. Cuda, and Arthur C. Yengling, "DoD Force and Infrastructure Categories: A FYDP-Based Conceptual Model of Department of Defense Programs and Resources," Institute for Defense Analyses, Paper P-3660, September 2002, Chapter III, Section E, Forces and the Display of Their Full Cost.

[44] *The Statement of Federal Financial Accounting Standards No. 4: Managerial Cost Accounting Standards*, issued July 31, 1995, p. 318, provides the rules for developing the full cost of output for use in managerial decisionmaking.

result, a major undertaking is required to develop one. Secretary Rumsfeld has authorized the service secretaries to implement an ABC system for all *new programs*. It is not clear what to expect as a result of this authorization.

To measure performance, PDIMS would call for a management accounting system whose data collection categories would match the common program and budget breakdown structure suggested earlier as the replacement for the current FYDP and Comptroller Information System data systems. To these data, DoD should add program output measurement data. These measurement data would be easiest to establish for DoD infrastructure activities—those activities most nearly approximate business activities in that they produce tangible products (i.e., a stream of goods and services that can be measured).

Output measurement for forces is somewhat more difficult. Since mission requirements are usually well defined, some forces metrics should be fairly straightforward. However, other areas that are less easily quantified could well include subjective military judgments. Although subjective measures can be difficult to work with, they would suffice where objective measures are unavailable. Data from SORTS and the new DRRS will establish whether or not the forces are ready for employment but, as discussed previously, probably won't provide the information on cost efficiency expected from ABC. As noted before, performance measures are particularly difficult but vitally important for C4ISR activities as they become more important to joint effectiveness.

F. How Would PDIMS Create a Leaner and More Responsive Resource Management System?

1. Simplified 4-Year Process

The traditional PPBS cycle consists of a series of sequential activities that take more than a year to complete. It is organized into three annual rounds or phases of activity in which OSD acts and the services respond:

- The Secretary's defense policy and programming guidance to the services leads to the service program submissions to OSD.

- The Secretary's amendments to the program submissions lead to service budget submissions to OSD.

- The Secretary's budget decisions lead to the defense budget submission to Congress.[45]

Executing these activities sequentially every year uses time, manpower, and other resources lavishly.

With PDIMS, an administration would establish its defense policies and guidance to the services during and immediately after the QDR sizes DoD forces based on a capabilities-based worldwide view.[46] After that initial work is complete and distributed, updating would be done quickly anytime changes are needed. As a result, the DPG would be maintained as a "living" document that is never late and always up-to-date and authoritative.

In an organization the size of the DoD, it is important that the broad outlines of the overall plan be deliberately and carefully prepared to meet the future squarely. Corporate deliberations on policy and planning during the time of the QDR should form the basis of the original guidance to the services. Details may change, but the overall plan should stay in place so long as it continues to focus directly on the threats as they unfold. For that reason, we do not believe it is useful to have a formal annual process to republish the planning guidance each year. Instead, the Under Secretary of Defense for Policy should bring proposals before the SEC as necessary to make changes to that original work. In this way, the guidance is always available as an authoritative document *any time of the year*. In years when the future funding projections change significantly, it would be necessary to alter the guidance to indicate the capabilities that should absorb the increases or decreases in funding. An additional QDR would be necessary during a two-term administration or in response to a major change in the global security environment.

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[45] OSD's program and budget reviews are currently combined into a single process but will probably handle program and budget issues separately within the combined process.

[46] The practice of sizing defense capabilities to a specific scenario, usually the most demanding case envisioned, may limit perception of the worldwide threat to vital U.S. interests or those of U.S. allies and friends. It limits visibility into the capabilities of the nations and regions of the world envisioned in that scenario. A more careful approach would be to survey the capabilities resident in all nations—and non-nation actors as well. That would establish a *range of worldwide capabilities* and serve as a basis to allow estimates of *how much of each capability* the United States needs if it is to be prudently prepared. This is aligned with the administration's recent emphasis on becoming more aware of the worldwide capabilities that could be arrayed against the United States and designing defense capabilities to deal with them.

Under PDIMS, the program and budget preparation process would save time and effort as well. The defense program and budget data must be reconciled and maintained centrally for the SEC by the service and defense agency staffs.[47] Like the DPG, program and budget content, funding profiles, and priorities could be established during and immediately after the QDR and, once approved by the Secretary, would change only as directed by the SEC. It is envisioned that the program would be updated to implement policy changes as they are approved, although the pace and timing of this activity could be managed. In short, the PDIMS process doesn't necessarily develop new guidance and new programs every year. Guidance and programs change only when circumstances make it necessary. This approach should minimize work and reduce turbulence in the defense program.

The rest of this section describes areas of the PPBS process that change the most under PDIMS, starting with decisionmaking, moving to changes to the planning process, and, finally, looking at changes in the programming and budgeting processes.

2. Decisionmaking Under PDIMS

Under PDIMS, the SEC would decide selected resource allocation issues. A Program Review Group (PRG) would administer the selection, screening, and preparation of resource allocation and management review issues for review by OSD and the Joint Staff prior to presentation to the SEC.[48] After the SEC met, the PRG would record and issue SEC decisions on resource allocation and management matters. Figure 1 shows the membership of the SEC and PRG. All parties involved in resource allocation today would be represented under PDIMS.

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[47]   Each service and defense agency would maintain its own program/budget databases using a common program and budget breakdown structure. The service or agency would implement SEC-directed program and budget changes according to the schedule found in the implementing directive. OSD/Joint Staff would automatically have access to the entire database on a read-only basis. Services and agencies would normally see only their own data. The initial implementation of this data structure would be the Comptroller Information System database modified to accommodate all FYDP program elements. The final system would be developed and implemented by contract with a world-class company who has an outstanding track record for installing robust management and financial data systems.

[48]   The PRG has members from the JCS, OSD, and the services and is chaired by the Under Secretary of Defense (Comptroller).

Senior Executive Council

- Secretary of Defense
- Deputy Secretary of Defense
- Service Secretaries
- Acquisition Executive
- Chairman, Joint Chiefs of Staff

Program Review Group

- Office of the Under Secretaries of Defense (OUSD) for:
  - Acquisition, Technology, and Logistics (AT&L)
  - Personnel and Readiness (P&R)
  - Policy (P)
  - Comptroller (C)
- Office of the Director (OD), Program Analysis and Evaluation (PA&E)
- Office of the Assistant Secretary of Defense (OASD) for Command, Control, Communications, and Intelligence (C3I)
- Office of the General Counsel
- Office of the Joint Chiefs of Staff (OJCS)
- Department of the Army
- Department of the Navy
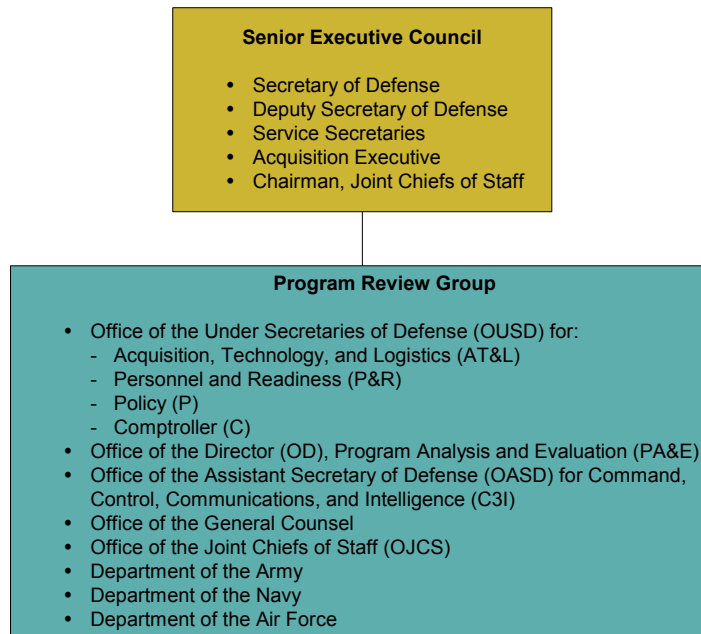- Department of the Air Force

Figure 1. SEC and PRG Membership

The duties of each participant would be the same as established by the Goldwater-Nichols Act of 1986, but with a focus on program implementation and performance measurement as well as current and future program formulation. The SEC would make the major policy, capability, and investment project decisions in the Department with the help of OSD, JCS, and the military departments.

3. Instituting Authoritative Defense Planning

Historically, the planning process has been useful in developing new ideas for achieving the aims of defense; however, implementing those ideas has been successful only when the military departments also thought the new ideas were good ideas. Because the planning phase did not limit new initiatives to what the military departments could afford under the accompanying fiscal guidance, the services often would pick and choose the directions they wanted to implement and profess they were not funded well enough to embrace all of the ideas described in the Secretary's planning guidance. Often, the services also could claim that the guidance was received too late to consider because, in fact, the guidance was typically late, sometimes as late as one day before the military departments' Program Objective Memorandums (POMs) were due to the Secretary. This experience teaches that to be effective, the Secretary's defense guidance must be (1) achievable within the funding available to each service and

(2) available early enough for the military departments to include it in their programs.[49]

To make the guidance achievable, the DoD must prepare a baseline capability assessment for the current program.[50] Developing a candid assessment would tell the Secretary what the current capabilities of the defense establishment are today. Planning changes to that overall capability would become simpler because the cost of adding an increment of capability to an established capability baseline could be estimated fairly well.[51] This would enable the Secretary of Defense to add a specific amount of money to a service's fiscal guidance and expect compliance with his direction.

4. Streamlining the Programming and Budgeting Process

When Secretary Rumsfeld instituted a combined program and budget review, he eliminated some duplication. PDIMS would further reduce activity by not asking the services for a new POM/Budget Estimate Submission (BES) submission. Instead, it would ask for an update of the program/budget for fact-of-life changes and any other changes the SEC asked to be implemented.[52]

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[49] As noted previously, service fiscal guidance includes all funding available to a service from the OMB top line. However, within the guidance document, any funds that are reserved for corporate or joint purposes, for example, the National Foreign Intelligence Program or a corporate acquisition program, would be explicitly set down as a mandatory program to be funded as directed. For acquisition programs, this approach minimizes turbulence in procurement schedules, which helps minimize procurement costs.

[50] Current capabilities levels would be established by a Capabilities Evaluation Working Group whose membership is drawn from the Joint Staff, USD(P), USD(P&R), and USD(C) and who reports to a Capabilities Evaluation Steering Group chaired by the Vice Chairman, JCS. The USD(P) could ask this same group to formulate alternative capability levels needed to meet policy goals under consideration by the SEC.

[51] Of course, there may be several ways to create a new capability or add to an existing one. There is nothing implicit in this suggestion that would make choosing among them any easier—that remains a matter to be resolved by military judgment and fiscal realities.

[52] In the past, fiscal guidance usually provided increases in service and agency program top lines for the out-years that grew at rates of 1 or 2 percent up to around 15 percent at one point in the 1980s. In order to minimize program changes as a future year becomes the budget year, DoD should not program unattainable real growth into fundamental procurement programs or other support programs that must be continued. Most often, the real growth forecast in the out-years is not realized at budget time.

Here's how it would work: Each service chief, on behalf of the service's secretary, would prepare an initial 6-year program that institutes SEC policies and achieves SEC goals and objectives within the service's fiscal guidance.[53] The service secretary would then present this initial program to the OSD and Joint Staff, asking them to raise any concerns they may have with any aspect of the program. The service secretary would resolve as many issues as possible and then present the program to the SEC. The OSD and Joint Staff offices would then outline alternatives for settling unresolved issues deemed important enough for the Secretary or Deputy Secretary to decide. Senior OSD and Joint Staff advisors directly involved in an issue might be asked to appear at a particular SEC meeting to address that issue.

After the SEC heard from each service secretary, the Secretary of Defense would make decisions on the outstanding issues and address any separate concerns.[54]

Following the preparation and review of these initial programs, the Secretary would approve them for implementation over the next 4 (or 8) years. Programs would be changed during implementation for only two reasons:

- Fact-of-life changes. For example:
  - A development program slips behind schedule and the follow-on development and the procurement schedule has to change.
  - The real costs of products and services from the DWCF and commercial vendors increase substantially, requiring the reprogramming of more funds, reductions in the amount of products and services procured, or both.
  - Inflation projections increase, causing a need to update the costs of all programs and reprogram additional funds, reduce the program to cover the additional costs, or both.
  - The OMB top-line projection of future funding levels change in a significant way and the real program must be cut or increased to accommodate those changes.
- A real program or policy change must be made to refocus defense efforts on a changing international situation. This may only change a program's

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[53] Acquisition activities are the purview of the service secretaries, and each service chief would integrate his service secretary's acquisition programs into the overall service program.

[54] The USD(C) reviews defense agency programs and presents the highlights and any issues requiring the Secretary's attention to the SEC along with the service programs.

priority and funding as necessary to achieve a threat-defeating capability earlier while some other program is delayed. It could also mean changes to the absolute size of one or more programs that necessitates dropping, scaling back, or delaying a number of other programs.

The desired effect of this approach is to diminish the program turbulence that has marked defense programming over much of its history. Some level of change is inevitable and necessary to keep the program and the budgets it generates sensible and efficient. However, the PDIMS approach would urge policy makers to make relatively conservative policy and major procurement decisions that can be sustained as core programs over the long term. In short, it would mean not relying on proposed out-year funding increases to fund core programs in the DoD.

To change a program, a service secretary or the Deputy Secretary of Defense would sponsor a Program Change Request in the SEC, and the service or defense agency staffs, upon receipt of a SEC Program Change Decision, would update the program.[55] Each year's BES would be based on the program as approved by the SEC at budget time. The service and defense agency staffs would prepare the BESs for the service secretaries and the Deputy Secretary. The BES would automatically reconcile with the current program in the corporate database and the Program Budget Decision/Program Decision Memorandum process would be a corporate activity with all decisions reviewed (or at least countersigned) by the SEC.

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[55] The impetus for a policy or program change could begin with anyone in DoD who can make a case to a service secretary or the deputy secretary that a change is needed. Ordinarily, suggestions for change would come from service, Joint Staff, and OSD staff organizations. These organizations have a continuing responsibility to anticipate problems before any serious damage is done and to formulate suitable solutions that the senior defense leadership can implement.

V. How Would PDIMS Work?

To illustrate how PDIMS would work, we describe PDIMS activities over a 4-year period beginning with the first Quadrennial Defense Review (QDR) of a new administration. The activities fall into two categories, as follows:

- *Defense Policy and Program Development*—During its first year, a new administration formulates defense policy, decides on defense program size and shape, and chooses budget priorities. These activities underpin the QDR, the administration's defense program, and its first Fiscal Year (FY) budget. During its second, third, and fourth years, the administration amends failed policies and fine-tunes the defense program.

- *Defense Program Implementation*—The administration annually prepares and submits to Congress one FY budget, receives appropriations for another FY budget, begins to expend funds Congress has appropriated for a third FY budget.[56] At the same time, management is involved in an ongoing process to determine if goods and services being produced meet the SEC's goals.

These categories encompass the same fundamental program management activities we outlined previously (see Table 1 in Chapter 3).

Because the budget-related portion of this process takes 3 years to complete, activities related to three FY budgets and, possibly, two administrations are going on simultaneously, as Table 3 indicates. For the purposes of illustration, Table 3 depicts the PDIMS process for a notional administration beginning its term in calendar year 2005. The sections that follow explain in more detail.

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[56] It takes 3 years for an administration to completely plan, program, budget, and execute its first fiscal year budget; however, some Procurement and Military Construction projects may not expend all its appropriated funding for over a decade.

Table 3. Sequence and Overlap of PDIMS Management Activities

	New Administration				Next Administration
	Year 1 (CY 2005)	Year 2 (CY 2006)	Year 3 (CY 2007)	Year 4 (CY 2008)	Year 1 (CY 2009)
Defense Policy and Program Development Activities					
Make program and policy decisions:	X				X
Amend failed policies and fine-tune program:		X	X	X	
Determine if goals have been met:	X	X	X	X	X
Defense Program Implementation Activities					
Begin budget development for:	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Request/receive appropriations for:	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Complete budget execution for:	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009

A. Policy and Program Development

1. First Year

During the first year, a new administration must establish its policies and priorities, funding levels, and capability goals immediately so that they can be used to build the defense program that will underpin the next defense budget.

The development of defense policy also contributes to the work of the QDR, which, under current law, must be conducted during the first year of an administration, and the results must then be forwarded to the Congress.[57] Note that Figure 2 indicates the lead corporate and component entities that are responsible for each separate activity that culminates in a solid defense program and budget for the first year (e.g., the service secretaries and chiefs prepare their programs and budgets during the May-July time period).

The action begins with the Under Secretary of Defense for Policy, or USD(P), leading development of the Defense Planning Guidance (DPG) by initiating two collaborative efforts:

- Consultation with the appropriate elements of the SEC and the OSD and Joint Staff offices to establish the policies and capability levels to be published in the DPG.

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[57] There is support in the Congress for moving the QDR due date into the second year of an administration, as Secretary Rumsfeld has suggested. If enacted, this change could result in significant policy and program changes appearing in the second year of an administration.

- Assessment of the legacy defense program to determine its capabilities. The legacy program will function as a baseline for establishing and prioritizing changes necessary to get to the desired capability levels.

The results of these activities provide the basic information needed to develop a new defense program and budget. The methodology is outlined in the following subsections.
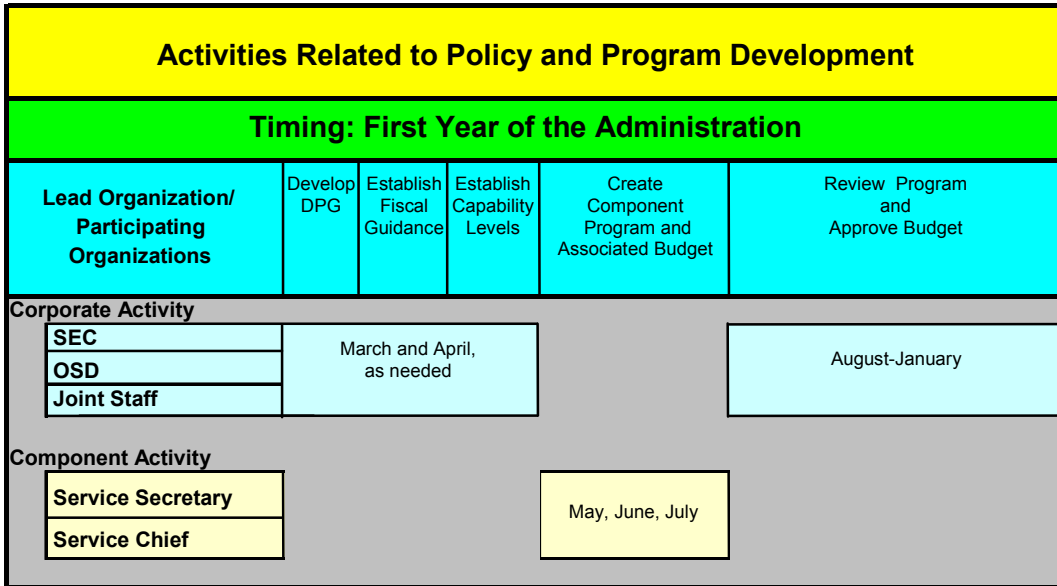
Activities Related to Policy and Program Development					
Timing: First Year of the Administration					
Lead Organization/ Participating Organizations	Develop DPG	Establish Fiscal Guidance	Establish Capability Levels	Create Component Program and Associated Budget	Review Program and Approve Budget
Corporate Activity					
SEC		March and April, as needed			August-January
OSD					
Joint Staff					
Component Activity					
Service Secretary				May, June, July	
Service Chief					

Figure 2. Policy and Program Development Under PDIMS: First Year

a. SEC Policy, Fiscal, and Capability Guidance

The Under Secretary of Defense (Comptroller), or USD(C), estimates what each change in capability would cost and calculates the funding levels each service and agency would need to comply with the guidance.[58] The SEC uses this information to produce the best mix of capabilities obtainable within OMB's funding guidelines.[59, 60] Having made its decisions, the SEC can now publish the

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[58]   These funding levels would include estimates of fact-of-life changes for the SEC to consider along with the real changes envisioned. The USD(C) would work closely with the services in assessing the costs of changing capabilities as well as the fact-of-life-changes.

[59]   This task is much easier said than done; it encapsulates everything that is difficult about groups of strong-willed people first determining what kinds of capabilities are needed to defend the United States, its allies, and their interests worldwide and then deciding who will

DPG, the fiscal guidance, and the capability objectives memorandum. The services and agencies use this matched set of directives to build their programs and budgets.

b. Service/Agency Combined Program and Budget Submission

The services and agencies—who have been updating their combined program and budget data for USD(C)-approved fact-of-life changes that have taken place since the last program and budget was produced—can now make the real program changes the SEC formulated and the Secretary directed. Differences between USD(C) program cost estimates and the service/agency program cost estimates can be addressed during the combined program and budget review the USD(C) conducts for the SEC.

c. SEC Review and Approval of the Combined Program and Budget Submission

The USD(C), with the cooperation of OSD and the Joint Staff, reviews both the program and the budget and produces the budget submission to OMB and the Congress. Any discrepancies between the guidance issued by the SEC and the programs submitted by the services and agencies are handled as program review items. Any discrepancies between the guidance issued by the Congress on projects and accounts found in the appropriation acts and other authoritative congressional sources are handled during the budget review activity. After the SEC approves the amended program and budget, all corporate and component actors prepare the final documentation for submitting the defense budget and its programmatic underpinnings to the OMB and Congress.

2. Subsequent Years

The second and subsequent years of an administration begins with preparation of the next FY budget for submission to the Congress. Unlike traditional PPBS, under PDIMS this process wouldn't begin new every year; instead, activities would build on the prior year's work. In traditional PPBS, the policy and program development process starts over every year; the policy

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get the available funding to develop those capabilities. We assume that the SEC, in order to address these issues, would have the CJCS included as a member.

60 This process is, in effect, the QDR.

guidance is thoroughly reviewed and republished, new fiscal guidance is issued, and the services and agencies develop new programs and budgets and submit them to OSD, where they are reviewed in depth.

Under PDIMS, the policy guidance, fiscal guidance, and capability guidance are updated only when something happens that requires a change—and then only the things that need to change are touched. The original programs are amended only for fact-of-life changes. If circumstances seem to require the rethinking of a corporate strategic decision, the question must be taken back to the SEC for resolution prior to making program or budget changes. Component decisions can be amended as necessary to achieve SEC goals within policy, fiscal, and capability guidance limits. For its part, the SEC would lobby OMB, the Congress, and private interests to support original program and budget levels. The establishment of firm production schedules saves money on procurement programs and in other areas where DoD program turbulence causes uncertainty, making things more expensive.

After the fact-of-life changes have been made to the program and budget, a combined program and budget review smoothes out any remaining wrinkles and gets the budget ready to submit to Congress. Figure 3 summarizes these activities.

Figure 3. Policy and Program Development Under PDIMS: Subsequent Years

B. Program Implementation

This section describes how the program developed in the first year of an administration is implemented in subsequent years. During the second, third, and fourth years, the administration presents one FY budget to the Congress, DoD leaders testify in support of that budget, the Congress authorizes and appropriates funds for another FY budget, and the DoD begins to expend the money to execute the program from a third FY. Also, the DoD begins an ongoing process of measuring performance in attaining SEC goals. Figure 4 is a diagram of these activities.
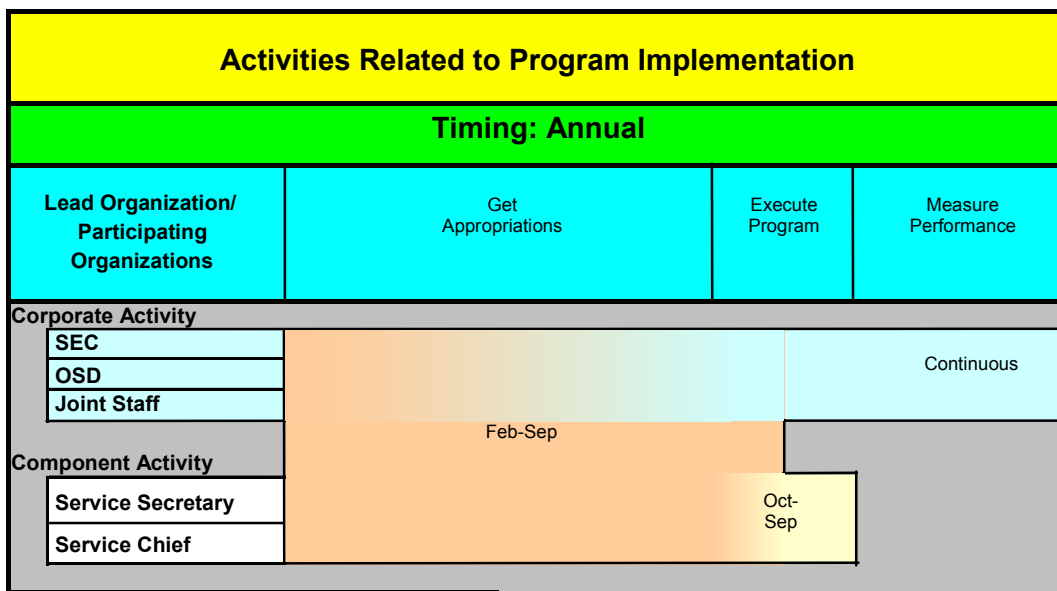

Figure 4. Program Implementation Under PDIMS

The activities involved in presenting and defending a budget before Congress and subsequently executing that budget are well known. But something new must be added to facilitate performance measurement. Budget accounting practices are now optimized in terms of tracking expenditures in order to comply with the laws governing these expenditures. Management accounting of the type needed to do in-depth performance measurement is not in place throughout the DoD and would have to be installed. This type of accounting is also the basis for ABC, a practice suggested by Secretary of the Navy Gordon England and authorized by the Secretary of Defense. Notice in Figure 4 that performance measurement is an activity of the SEC and military, policy, and management advisors. Following the activities of the first year, the Secretary's advisors would focus primarily on performance during execution of the annual budgets and implementation of the defense program.

If after the fourth year, a new administration takes over, the new administration would take a fresh look at the policies and programs in place to get organized and prepare its QDR report to Congress, thus beginning the process all over again. Likewise, an incumbent administration might start over if it wants to take a fresh look at its policies and programs.

VI. Afterword

The foregoing sketch of PDIMS only touches on the main ideas for a new defense resource management system. Much remains hidden in the unplumbed details of such a system. In summary, we recap the main ideas as follows:

- Ensure corporate leaders commit to strategic decisions early and focus on achieving the goals of those decisions in the following years, updating those decisions and goals only as necessary to adapt to real-world or fact-of-life changes.
- Conduct a capability assessment of the legacy program immediately and draft policy, fiscal, and capability guidance to match the capability changes desired. In short, the policy and capability guidance cannot ask the services for changes that their fiscal guidance cannot accommodate.
- Install a robust management accounting system that supports performance measurement and other program management needs.
- Improve performance measurement. The current PPBS does not provide management much objective feedback on what DoD gets for the appropriations it spends.
- Reconcile the program and budgeting data systems with each other and with the new management accounting system. Synchronicity in data structures reduces the need for the large staffs now used to understand what is going on in the Department.

Under the traditional PPBS, each of six program years were reworked eighteen times before a final estimate was submitted to the Congress. The current system, which combines programming and budgeting reviews, theoretically reduces the reworks to twelve times. By managing the opportunities for change between QDRs to a once-a-year amendment for fact-of-life changes, PDIMS could reduce the number of reworks for each year to a number approaching six. The main idea is to sharply reduce occasions where a program or budget is reworked just because the schedule and tradition permits it. It is better to use that time to monitor the implementation of the current program year, looking for ways to make things cheaper, better, and faster.

Abbreviations

ABC	Activity-Based Costing
BES	Budget Estimate Submission
C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance
CEO	Chief Executive Officer
CJCS	Chairman of the Joint Chiefs of Staff
DoD	Department of Defense
DPG	Defense Planning Guidance
DPP	Defense Program Projection
DRRS	Defense Readiness Reporting System
DWCF	Defense Working Capital Fund
FY	Fiscal Year
FYDP	Future Years Defense Program
JCS	Joint Chiefs of Staff
MFO	Major Force Organization
O&M	Operations and Maintenance
OASD(C3I)	Office of the Assistant Secretary of Defense for Command, Control, Communications, and Intelligence
OD(PA&E)	Office of the Director, Program Analysis and Evaluation
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
OUSD(AT&L)	Office of the Under Secretary of Defense, Acquisition, Technology, and Logistics
OUSD(C)	Office of the Under Secretary of Defense, Comptroller
OUSD(P)	Office of the Under Secretary of Defense, Policy

OUSD(P&R)	Office of the Under Secretary of Defense, Personnel and Readiness
PBD	Program Budget Decision
PCR	Program Change Request
PDIMS	Program Development and Implementation Management System
PDM	Program Decision Memorandum
POM	Program Objective Memorandum
PPBS	Planning, Programming, and Budgeting System
PRG	Program Review Group
QDR	Quadrennial Defense Review
RDT&E	Research, Development, Test and Evaluation
SEC	Senior Executive Council
SORTS	Status of Resources and Training System
USD(C)	Under Secretary of Defense, Comptroller
USD(P)	Under Secretary of Defense, Policy
USD(P&R)	Under Secretary of Defense, Personnel and Readiness

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14. ABSTRACT

This paper proposes an alternative approach to the Defense Department's Planning, Programming, and Budgeting System (PPBS) to meet the new needs of national security. The alternative approach, dubbed PDIMS for Program Development and Implementation Management System, involves (1) a comprehensive set of decisions by the Secretary of Defense on capability, policy, and investment; (2) a resource-constrained, Department-wide program planning process that develops the alternatives for these decisions; and (3) a Department-wide implementation review process that monitors implementation of the Secretary's decisions. The paper reviews Secretary Rumsfeld's vision for a transformed PPBS, explores his criticisms, defines his statutory tasks, and investigates the applicability of the business paradigm. It also describes the historical practice of the PPBS, explains the various elements of PDIMS, and illustrates how the sequence of events could work. PDIMS is a synthesis of Secretary of Defense Donald Rumsfeld's call for defense transformation and his concerns about the ability of the Department's current resource allocation processes to make transformation a reality. PDIMS offers choices for changing the existing PPBS process and serves as a starting point for consideration and discussion.

15. SUBJECT TERMS

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