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A Management Reform Agenda for the Next Secretary of Defense

The world's largest bureaucracy is too big and too complex not to have major management problems. The Department of Defense has an annual budget of more than \$700 billion, which is transmitted to Congress with more than 100 separate volumes of supporting materials. It runs the largest acquisition system in the world, spending hundreds of billions of dollars annually on everything from nuclear submarines and hypersonic research to truck tires and accounting services. It has a workforce of almost three million active and reserve service members and civilians, who do everything from flying aircraft to delivering babies. As I have argued elsewhere, the Department is [more like an economy than a business](#).

Secretary of Defense Mark Esper has prioritized management issues, personally leading a [“zero-based”](#) budget review to free up resources for modernization. Management reform requires more than generating savings, however, and there is a risk that the Department's recurring emphasis on cutting programs may squeeze out needed improvements to organizations, policies, and practices. No secretary of defense will ever be able to “fix” the Department's management problems, but a secretary who can make measurable improvements on four or five of the eight priority issues identified below will count among the most successful managers that the Department has ever had.

Priority 1: Reassert civilian control over the military and the secretary's authority over the military services. Civilian control over the military is a bedrock of our democracy, helping to bridge the [civil-military divide](#) and ensure that the armed forces [serve the will of the people](#). The secretary's [“authority, direction, and control”](#) over the entire Department is critical to civilian control and enables the secretary to balance the roles and resources of the military services, ensure interoperability, provide joint capabilities and enablers, and implement common policies and common purposes.

In January 2017, Congress [approved a waiver](#) that exempted retired Marine General James Mattis from a decades-old federal law that prohibited recently retired military officers from serving as secretary of defense. Mattis was a highly qualified nominee who served capably as secretary and strove while in office to ensure that the military remained outside the realm of politics. However, he also chose to [rely more heavily on the military](#) joint staff for advice that was formerly provided to a much greater extent by civilian officials and to delegate to the military services powers previously husbanded in the office of the secretary. The weakness of the Pentagon's civilian leadership has been exacerbated by the large

number of vacancies in the office of the secretary, with nearly [half of the assistant secretary positions](#) held by temporary stand-ins, while other senior officials [continue to depart](#).

In less than a year, either Secretary Esper or a new secretary will begin service in a new presidential term. The most important step that the next secretary could take—beyond making sure that senior civilian positions are filled with capable, Senate-confirmed presidential appointees—is to strengthen the joint, mission-focused [planning, programming, and budgeting](#) process. In the Pentagon, policy is driven by money, and visionary leadership has little impact without control over the financial levers that establish priorities and shape forces. In the absence of strong leadership from the top, entrenched interests in the military services typically default to status quo funding decisions. Only by reasserting control of the budget process will the secretary be able to reshape the force and implement the comprehensive changes needed to meet emerging global challenges.

Priority 2: Align the DOD organization for emerging missions. Over the last decade, the Department has responded to challenges of emerging near-peer competitors and rapidly developing technology by establishing a new [Cyber Command](#), a new [Space Command](#), and now a new [Space Force](#). In addition, the Department is considering the possibility of establishing a new organization to focus on [electronic warfare](#) and operations in the electromagnetic spectrum.

While offensive cyber, space, and spectrum missions should benefit from the focus provided by separate organizations, the defensive missions share a common objective: enabling the command, control, communications, and intelligence that are the foundation for networked and forward-deployed forces. As a result, these missions are not only interlinked with each other, but are also deeply embedded in every organization and platform in the U.S. military.

The challenge for Secretary Esper or his successor will be to enable the new organizations to field needed capabilities without undermining the integration required to effectively carry out the mission. For example, investments in new formations and offensive capabilities should not distract from the need to defend conventional platforms and capabilities. In the short term, the Department should establish a civilian position that has policy and oversight responsibility for cyber, space, and spectrum capabilities to provide focus for offensive and defensive missions. In the long term, the Department may need to merge cyber, space, and spectrum capabilities into a single military organization to ensure the coordination of their overlapping mission sets.

Priority 3: Stabilize the defense acquisition system. Four years ago, Congress sought to cut through a rigid, paperwork-bound acquisition process by eliminating many of the oversight responsibilities of the office of the secretary of defense. The military services responded by further delegating authority and ramping up innovative tools like “[other transaction authority](#),” “[middle tier acquisitions](#),” and [rapid prototyping and fielding](#). Pentagon officials have emphasized that “it’s [OK to fail](#) as long as you learn and you adjust” and “a 100% solution a couple years from now is not nearly as valuable as an [85% solution tomorrow](#).”

Used appropriately, these new acquisition approaches may speed the development and fielding of cutting-edge technology by enabling the Department to place many small bets rather than wagering everything on a handful of too-big-to-fail acquisition programs. Unfortunately, the services have shown an inclination to take risky bets on even their largest programs. For example, a dozen of the largest Air Force programs and a half a dozen of the largest Army programs are [currently being treated](#) as “middle-tier” programs, exempt from requirements for independent cost estimates; independent assessments of technological risk, manufacturing risk, and integration risk; and independent operational testing.

The next secretary of defense should preserve the good elements of the new acquisition experimentation, while avoiding a return to the 1990s-era “[Conspiracy of Hope](#),” in which cut corners led to [massive cost overruns](#) and [other program failures](#). To this end, the secretary should conduct a comprehensive review of all major programs to identify and rebalance cost, performance, and technical risks and reinstitute a gateway process to consider such risks in advance of major investment decisions for future acquisition programs.

Priority 4: Apply best practices in personnel management. Even more than advanced technology, the U.S. military relies on the quality of its people. However, the Pentagon’s ability to access the people it needs has been undermined on the military side by “cookie cutter” personnel systems that [reward risk avoidance](#) and push officers with critical skills into premature retirement, and on the civilian side by [a maze of rules](#) and regulations that stifle creativity, driving away needed talent.

Congress recently enacted [new flexibilities](#) for military personnel systems and provided the Pentagon with [streamlined hiring authority](#) for recent graduates, science and technology employees, cyber employees, acquisition employees, intelligence employees, and others. The military departments have begun to

experiment with these authorities— in particular, by establishing [talent matching systems](#) that give new weight to the career and assignment preferences of service members. The next secretary should build on this progress to ensure that the Department can access the talent it needs in cutting-edge areas such as software, cyber, artificial intelligence, and language and cultural skills. To this end, the secretary should identify best practices for military talent matching and innovative civilian hiring and develop a strategic plan to propagate them across the force.

Priority 5: Complete the reform of the defense health care system. The military health care system is designed to serve two very different purposes: a readiness mission to ensure that service members get the care that they need in combat and a beneficiary mission to provide quality care to service members, their families, and retirees. Unfortunately, peacetime health requirements center on pregnancy and pediatric care rather than the trauma care and related specialties that are most likely to be needed in combat situations. The result is a military health care system that is expensive to maintain in peacetime but cannot ensure that specialists are “clinically proficient in the workload [they need] to perform during deployment [that are] essential to [reducing preventable death](#).”

Congress has enacted more than a hundred legislative provisions addressing the military health care system in the last four years, including a far-reaching requirement for [a single agency](#) to replace separate health care systems in each of the military services, but implementation is just getting underway. On the beneficiary side, the next secretary of defense should be prepared to consider reducing headquarters size, closing inefficient facilities or right-sizing them to a caseload they can support, and turning over some military medical facilities to civilian management and civilian doctors. On the readiness side, the secretary should consider placing some active duty providers in busy civilian trauma centers where they will gain significant exposure to complex, critical injuries similar to those suffered on the battlefield and experimenting with new service models to increase the role of reserves (who already work in civilian hospitals and are less costly) in providing critical combat care.

Priority 6: Straighten out the Department’s CXOs. The Pentagon has long had a chief financial officer, a chief acquisition officer, and a chief human capital officer. In more recent times, it has added a chief information officer, a chief management officer, a [chief data officer](#), a [chief software officer](#), and even a “[chief digital engineering recruitment and management officer](#).” Management,

information, data, and software are important, but, at some point, [the proliferation of “chiefs”](#) means that nobody is in charge at all.

Over the last 20 years, the position of chief information officer has been assigned to [an assistant secretary](#) who also had responsibility for defense intelligence functions, [separated](#) from intelligence functions, [downgraded](#) to a position that was not Senate confirmed, and [bumped up again](#) to a Senate-confirmed position. In just 12 years, management responsibility has been delegated to a “[deputy chief management officer](#),” bumped up to the [third-ranking position](#) in the department, and designated for reconsideration with the [intent to downgrade](#) or eliminate the position.

The Department should end the constant uncertainty about these positions. Instead of trying to assume superpowers to direct change by fiat (an approach that [inevitably draws resistance](#) from leaders with responsibility for making their own organizations work), these “chiefs” should focus on establishing policy guidance and using a consultative framework to drive change. For example, the chief management officer could provide value by acting as an internal management consultant (i.e., helping other senior officials redesign business systems and processes to meet user needs), while the chief information officer could get out of the acquisition business and focus on the core role of developing and enforcing an information architecture for the Department.

Priority 7: Improve the operation of working capital funds. The Department of Defense has been using working capital funds for [the last 150 years](#) to finance commercial operations, such as equipment maintenance, supply, finance and accounting, communications, and transportation. Under this approach, one part of the Department sells products or services to “customers” in other parts of the Department. Because a working capital fund is funded by customer fees, it is supposed to [work like a business](#), balancing receipts with expenditures and making rational investment decisions to improve productivity.

The problem is that the business is frequently a monopoly that can force a customer to buy its products and services whether they are wanted or not. Rather than setting prices based on a market, working capital funds set prices to cover their costs, no matter how high these costs may be, and, when the funds come up short, the [taxpayers make up the difference](#). Moreover, working capital funds have been criticized for [leaving their customers in the dark](#) by declining to share key information about costs, leading the military services to [complain](#) about the prices that they are required to pay.

The next secretary of defense should require the working capital funds to open their books to their customers. Detailed briefings with documentation of expenditures and rate methodologies would give the military services an opportunity to weigh in on questionable assumptions, inefficient operations, and inappropriate investments, thus improving productivity and driving down costs. With [\\$50 billion in annual](#) sales, even small improvements in working capital funds could yield major savings.

Priority 8: Fix the Department's data problems. Over the last 30 years, the Department of Defense has spent billions of dollars pursuing an auditable financial statement on the assumption that better data would [support better decision making](#). The audit effort is expected to last at least [another ten years](#), at the cost of a billion dollars a year. Even if the Department succeeds in producing a clean financial statement, however, it is [unlikely to produce useful information](#).

No amount of money spent on finance and accounting systems will improve the Department's personnel policies and practices because data about workforce requirements, recruitment and retention, skills and qualifications, training and education, attitudes and beliefs, assignments and promotions, and health and readiness are not included in those systems. Likewise, most of the acquisition data that matters most is not needed for financial statements. As [one expert](#) recently explained, "the Pentagon could buy literally thousands of \$1,280 coffee cups and millions of gallons of \$26 fuel, and—as long as these transactions were faithfully reported on the financial statements—it would 'pass' that element of the audit with flying colors."

While the Pentagon has lavished resources on the finance and accounting systems needed to produce an auditable financial statement, other critical business systems have been neglected. The next secretary should carve funding out of the audit effort to make a substantial investment in the personnel, acquisition, logistics, and real property data that is needed to support sound business decisions. It is easy to think of management reform as a cash cow that will produce resources to invest in other areas of the Department. As is often true in life, however, the Department is unlikely to achieve positive results without a major investment of time and resources.