



FINANCIAL MANAGEMENT

Asking the Right Question: Cost-Awareness Policy in the Army

by Douglas A. Brook

What does the Army cost? With this powerful question, The Honorable Nelson Ford, former undersecretary of the Army and assistant secretary of the Army for financial management and comptroller, set in motion a transformation in cost-awareness policy that permeated the Department of the Army budget and financial management practices and endures to the present, nearly six years after he left office.

Ford had served more than 20 years earlier in the Health Care Financing Administration and on health policy matters in OMB. He had been chief financial officer and chief operating officer of Georgetown University Medical Center and a partner with consulting firm Coopers & Lybrand. Ford credits this private-sector work as the basis of the experiential framework that he brought to the Army. Ford developed the practice of asking about organizational costs: I asked the staff to add up everyone's plan for spending money; then I made a list of sources. We had more mission than money.

"We took a traditional financial management approach to this—we started to explore sources and uses to build a profile of what the Army costs for a year. For everything the Army is expected to do we asked 'What does that cost from a financial perspective?'. We built an operating picture of what

Formal policy directives and published guidebooks requiring a rigorous cost-benefit analysis has helped rein in costs, but mostly has led to solid data on costs of alternatives decisions.

the Army would cost, compared it to the Army's budget, and the delta was the shortfall between mission and money."

Leveraging Powers of Leadership to Change Policy

At the same time, Ford posed a set of related questions for Army leaders and decision makers:

- ♦ What capabilities is my organization responsible for producing, and what do they cost?
- ♦ What are the key cost drivers?
- ♦ How can I generate the required capabilities more effectively and efficiently?
- ♦ How can I reduce management overhead and indirect costs?
- ♦ How can I use cost information to make better decisions?

A new emphasis on cost represented the beginning of a change for the Army from a "budget culture" to a "cost culture." That is, from a culture focused on getting the most resources possible and spending all of it, to a culture of making cost-aware decisions about how to spend limited resources.

In summer 2006, word of Ford's efforts had begun to spread, leading eventually to the Army delaying its submission of the FY2008-2012 program objective memorandum, the key building block for annual defense budget requests, while opening its books and inviting anyone with standing in the budget process to look at the costs of the Army. The resulting DoD budget for FY2008 included a healthy \$130 billion for the Army. This outcome demonstrated a tangible link between the cost-awareness initiative and resource allocation decisions and thus gave momentum to an ongoing Army cost-awareness program.

Policy Changes

Formal policy change followed. On January 15, 2009, Army Chief of Staff General George Casey and Secretary of the Army Pete Geren issued a memorandum that said, "The Army will reform its requirements and resource processes by establishing a more responsive and realistic requirements process and inculcating a cost culture that incentivizes good stewardship."

Later in the year, on December 30, 2009, a policy memorandum from the undersecretary of the Army and the vice chief of staff directed

"that each unfunded requirement or expanded or new program proposal submitted to the Secretary of the Army, Chief of Staff Army, Under Secretary of the Army, or Vice Chief of Staff, Army be accompanied by a thorough cost-benefit analysis (CBA). This CBA must identify the total cost of the proposal, the benefits that will result, the bill payers that will be used to pay for it, and the second and third order effects of the funding decision. The net result of the CBA should be a strong 'value proposition'—a clear statement that the benefits more than justify the costs and required tradeoffs."

The combined actions of the secretary, chief of staff, undersecretary, and vice chief served as a recognizable pivot point. Subsequent policy directives drove change further toward cost awareness and cost-benefit analysis, including two directives by the secretary of defense in 2010 requiring "a cost estimate for all programs and policy proposals" and that "every new proposal or initiative will come with a cost estimate." In a 2011 directive from the assistant secretary, the Army was directed to "use CBA or similar analytical approaches or tools to support resource-informed decision making."

Also, in 2011, Secretary of the Army John McHugh wrote, "All issues, proposals, or requirements must address the costs and trade-offs against projected benefits. The CBA is the Army's primary tool to enable resource-informed decisions."

Other Army commands promulgated CBA processes within the organization. For instance, the commander of the Training and Doctrine Command wrote for his organization, "The capabilities development process spans the spectrum from concept development to fielding of a capability; and Army programming decisions need to be informed on cost-benefit trade-offs at each stage of development."

Processes, Practices, Tools, and Technology and Training

Implementation of the new policies for cost management required attention to processes, practices, tools, technology, education, and training. Processes and practices had to change to meet the requirement for informed resource decisions based on cost-benefit analysis. Technology needed to be developed to support the data requirements for cost analysis, and tools for conducting the analysis were needed. Training and education were needed to explain, persuade, and enable Army personnel to join a new cost-aware culture.

Processes and Practices

The new policies required more rigorous application of cost-benefit analysis to all major resource decisions. To establish the processes and provide tools for cost-benefit analysis, the Army's deputy assistant secretary for cost and economics issued two volumes of a cost-benefit analysis manual.

The first volume, the *Cost Management Handbook*, addresses the role of cost information in decision making, full cost determination, overhead assignment and allocation, labor tracking, contract cost tracking, standard rates, and depreciation. The handbook also identifies the four components of Army cost management: cost accounting, cost analysis, cost controlling, and cost planning.

The second manual, the *Army Cost Benefit Analysis Guide*, describes eight steps in the CBA process: Define the problem or opportunity, formulate assumptions and identify constraints, define and document alternatives, develop cost estimates for each alternative, identify quantifiable and non-quantifiable benefits, define alternative selection criteria, compare alternatives, and report results and recommendations.

Later, the *Army Cost Estimating Implementation Guidance* was issued, providing guidance for compliance with Army and OSD requirements for costing studies, reports, or events. The assistant secretary's office also offered training in the Pentagon for analysts to prepare and review CBAs, a CBA guide and template, a website, and a dedicated mailbox for CBA questions from analysts.

The Army formalized the link between CBA and the program/budget process in its Army Program Guidance Memorandum. CBA is now required for any new requirement or new funding request of more than \$10 million in any one year or \$50 million over the five-year program, and also for any proposed increase to existing programs that exceeds 5 percent growth or \$10 million in any one year or \$50 million over the program. To manage the process, Department of the Army headquarters formed a CBA review board of policy and functional experts to review costs and benefits and summarize presentation and value analysis.

Tools and Technology

Implementation of the new cost initiatives required development of tools and technology with which to conduct CBAs. A cost-performance web portal was created to explain CBA, describe how to conduct CBAs, and provide links to resources, training, and pertinent documents.

A CBA workflow tool also was created to describe and track all current CBAs. The shift to cost analysis coincided with the Army's deployment of its financial Enterprise Resource Planning (ERP) system, which the Army is relying on to reduce non-integrated legacy systems and provide an enterprise-wide source of financial information.

A new cost management assessment tool, the Cost Management Maturity Model, was developed to "enable managers at all levels to assess their organizations' capability to achieve cost management success. The model addresses factors such as accountability and performance management, workforce competencies, data quality, integration of cost management with process improvement programs, and leadership commitment."

Education and Training

Education at both senior and junior levels for military personnel helped to move toward a culture of greater cost awareness among the Army's uniformed personnel. Participants in the early change process cite the influence of general officers' executive development, primarily the Army's senior leader development program at the University of North Carolina's Keenan-Flagler School of Business. Patterned after the Navy's enterprise management course, the program emphasizes cost awareness and resource-informed decision making.

In addition, the strategic studies fellows program for junior officers at the Institute for Defense and Business in North Carolina includes briefings on Army cost-benefit analysis. At the graduate level, the Army is sponsoring a part-time master's degree program in cost estimating and analysis jointly developed and taught by the Naval Postgraduate School and Air Force Institute of Technology.

The Army also has created new education and training programs for civilians to enable current and future civilian managers to operate in this new cost-aware environment. Some of these initiatives include training on using its ERP to obtain and analyze cost information; introduction of cost management concepts in the Army strategic leadership development program for members of the senior executive service; and a new four-week cost management certificate course at the Naval Postgraduate School with instruction in managerial costing, operations management, cost control, and organization development.

In addition, the Army has institutionalized cost management training in the Army finance school with the establishment of two courses on the principles of cost analysis and management and intermediate cost analysis

and management for more advanced training. The Army also offers a cost management 101 course, a website for a self-study, a cost management community of practice, and encourages inclusion of cost management content in all Army professional development courses.

Accomplishments

Data collected by the Army's cost estimators show that CBAs are being conducted throughout the Army. The total number of CBAs grew from seven in the second quarter of FY2010 to 556 by the third quarter of FY2012. And a former Army director of program analysis and evaluation observed that CBAs had minimal impact on the program/budget for FY2012-2016 and some impact on the FY2013-2017 program/budget, but had become a routine and effective part of the FY2014-2018 effort.

Perhaps the strongest impact of CBAs for the Army is in the data provided to conduct informed analyses of alternatives, as in these select examples:

- ♦ *Army Brigade Combat Team (BCT) Force Structure.* With the demands of two major and sustained military operations in Iraq and Afghanistan, and other worldwide commitments, the Army moved from its traditional division-based structure to smaller, more easily deployable, modular BCT-based structures. As initially configured, the BCT did not include combat or construction engineering capability. The need for combat engineering capability was determined to be critical; the solution had to be achievable with no growth in the size of the Army and it had to be affordable within the resource levels projected for FYs 2013-2017.
- ♦ *Enterprise Email.* The Army was concerned about segmented, insufficiently secure, and increasingly costly IT products and services. Concurrently, DoD and OMB were issuing government-wide mandates to consolidate information technology systems and data centers. The Enterprise Email CBA team evaluated four alternatives and recommended consolidation of Army email systems (classified and unclassified) into a managed service provided by the Defense Information Systems Agency—that is, it outsourced email.

Will Change Endure?

Two key factors can assure endurance of cost awareness in the Army: leadership support and technological

support. If leaders continue to emphasize the need for cost awareness and the technology and tools exist to support that requirement, the cultural change will take hold.

The case presented here is applicable to other public management environments beyond simply issues of cost management. First, a Senate-confirmed political appointee plays a unique role. Ford brought an experiential framework from his non-governmental work that informed his approach to leadership in the Department of the Army and led directly to his question, "How much does the Army cost?" His rank provided the power to convene stakeholders, set an agenda, and take his analytical results to other senior Army leaders.

Secondly, using Ford's question as a basis for a successful budget strategy brought a quick win that led to leadership support for the concept of cost management.

Third, policy directives were issued, supported by tools to facilitate implementation, and practices were changed. New technology supported the tools, and education and training programs were developed to communicate the imperative of change and to train and equip the Army's workforce.

All of these steps (idea initiation, leader adoption, early wins, policy directives, tools, practices, technology, and professional development) have served to drive and institutionalize change. A measure of whether the organizational culture has changed is whether the policies and practices endure over time and through leadership transitions.

Ford left the Army in early 2009, but the Army's leaders have embraced and advanced the need for CBAs as a means for better resource-informed decision making.

Douglas A. Brook is on the faculty at Duke University. He was a former professor at the Naval Postgraduate School. He has been assistant secretary (financial management) of both the Army and Navy and acting undersecretary of defense (comptroller). Contact him at doug.brook@duke.edu.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.