



THE NEW **COST** **WARRIORS**



About the American Society of Military Comptrollers

The American Society of Military Comptrollers (ASMC) is the nonprofit educational and professional organization in the field of military comptrollership. Established in 1948 and located in Alexandria, Va., ASMC is open to all uniformed and civilian financial personnel in the U.S. Military Departments, the Department of Defense and the Coast Guard. The Society promotes the education and training of its members and the development and advancement of the profession of military comptrollership. ASMC provides professional conferences to keep members abreast of current issues, operates a certification program, occasionally sponsors research and encourages the exchange of techniques and approaches. For more information on ASMC, please visit www.asmconline.org.



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Executive summary

Between January and April 2011, the American Society of Military Comptrollers (ASMC) sponsored Grant Thornton LLP in surveying 554 civilian and uniformed members of the Defense financial community, including in-person interviews with top executives. This is the ninth such annual survey since 2003.

Survey theme

Budgets are tight, there are several wars and humanitarian assistance operations going on, the deficit is skyrocketing and no one in government is going to get a whole lot more money absent a national emergency like World War II. In the 2011 ASMC survey of Defense financial executives and managers, we looked at the most recent history of Department of Defense (DoD) attempts to reduce costs and evaluate the progress. At the core of this new way of operating

is what we call the *cost warrior*, an individual who is trained and willing to take on the challenges of managing costs in the uncertain world of real and potential global conflict. The survey focused on several aspects of cost management and the development of the cost warriors who help change the DoD from a culture that values spending every dollar to one that values cost awareness and best value.

Quality of cost management

We identified cost areas that were well, poorly and over managed:

Well managed:

- Costs that are important to senior officials
- Regular or routine costs
- Things that are easily counted
- Large, visible acquisition programs
- Revolving funds
- Local base costs
- Reimbursable costs





Poorly managed:

- New programs with ill-defined requirements
- End-of-year expenses and obligations
- Information systems

Overmanaged areas:

- Small-dollar programs and activities compared to large-dollar
- Decision forums within DoD
- Contracts and contractors in general

Secretary of Defense Gates's initiatives

Respondents generally felt that the savings initiatives announced by Secretary Gates in summer 2010 would be somewhat effective, with the re-baselining of General /Flag Officers (GO/FO) and Senior Executive Service members as having the most promise. Most people thought that much of the GO/FO re-baselining had been completed, but resulted in small savings. Consolidating and eliminating ineffective and duplicative intelligence organizations and personnel had the least chance of being effective. Most respondents felt the intelligence community was too large and funding streams too vague for DoD to be able to manage them effectively.

A culture of savings and constraint

Senior leaders and lower-level financial managers alike gave the DoD about a 3.5 score on a scale of 1 to 5 (5 being highest) when asked how much emphasis their entity is placing on developing a culture of savings. They indicated that the factors most important to developing a such a culture include proper foundations, leadership, established norms, continuity, visibility and

transparency, flexibility, perspective, training and tools, an incentive structure to reward cost savers and proper risk management skills.

Cost warriors and their tools

According to survey respondents, the skills and attributes of cost warriors include understanding of the operations context, communication, a saving mindset, business acumen, courage and thick skin, analytical skills and a willingness to try new ideas. Such skills are needed among cost warriors working in the financial community and in operations. Executives say that current financial and operations managers tend to have a low level of knowledge of cost control and management tools and methods. Improving this will require more training, standard cost management tools throughout DoD and more demand by leaders for cost management information.

Creating the new culture

Executives and managers think it will take 5 years for DoD to establish a culture of savings. Critical factors for founding and sustaining this culture include leadership from the top, financial management community leadership, incentive structures, training and barrier removal. All respondents think that existing financial management tools now used within DoD are only marginally effective for developing a culture of savings, because they are disjointed and do not provide the right information for making and tracking cost decisions.

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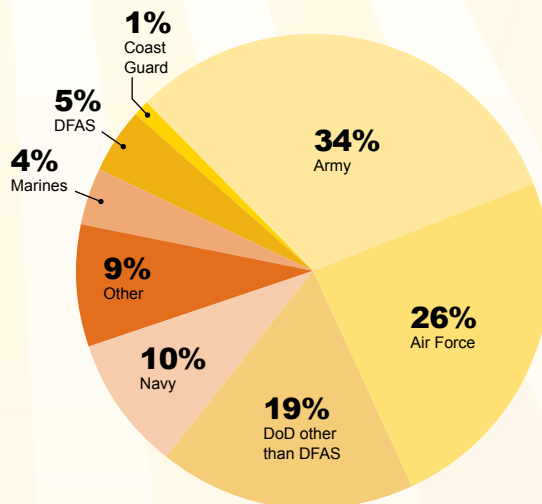
About the survey

Since 2003, the American Society of Military Comptrollers (ASMC) and Grant Thornton LLP have sponsored an annual survey of Defense community executives and staff on their opinions of trends and prospects in financial management. The Defense community includes the Army, Marine Corps, Navy, Air Force, agencies of the Department of Defense (DoD) and the U.S. Coast Guard. “Executives” in this survey are the 30 Defense financial leaders interviewed in person by Grant Thornton partners and directors. “Managers” refers to the 524 respondents to an online survey of ASMC members.

Survey respondent profile

Figure 1 shows the distribution by organization of the 524 online survey manager respondents.

Figure 1:
Online survey respondents
by organization

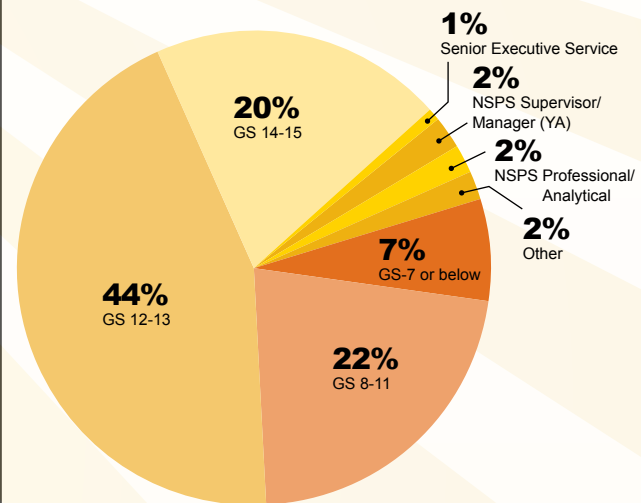


**Does not add to 100% because of rounding*

Of the staff respondents who provided background information, 97% were ASMC members, 8% were active duty uniformed personnel,

77% were Defense civilian employees, 5% retired and 10% other (mostly private companies and academics). Of the active duty respondents, 60% were officers. Figure 2 below shows the level of each civilian staff respondent.

Figure 2:
Grade level of civilian staff respondents



Grant Thornton used an interview guide/questionnaire to conduct one-on-one interviews with Defense uniformed and civilian financial executives who are representative of the highest echelon of financial professionals in government.

For copies of both the in-person and the online interview questionnaires, please go to www.granthornton.com/publicsector and click on Publications.

Confidentiality

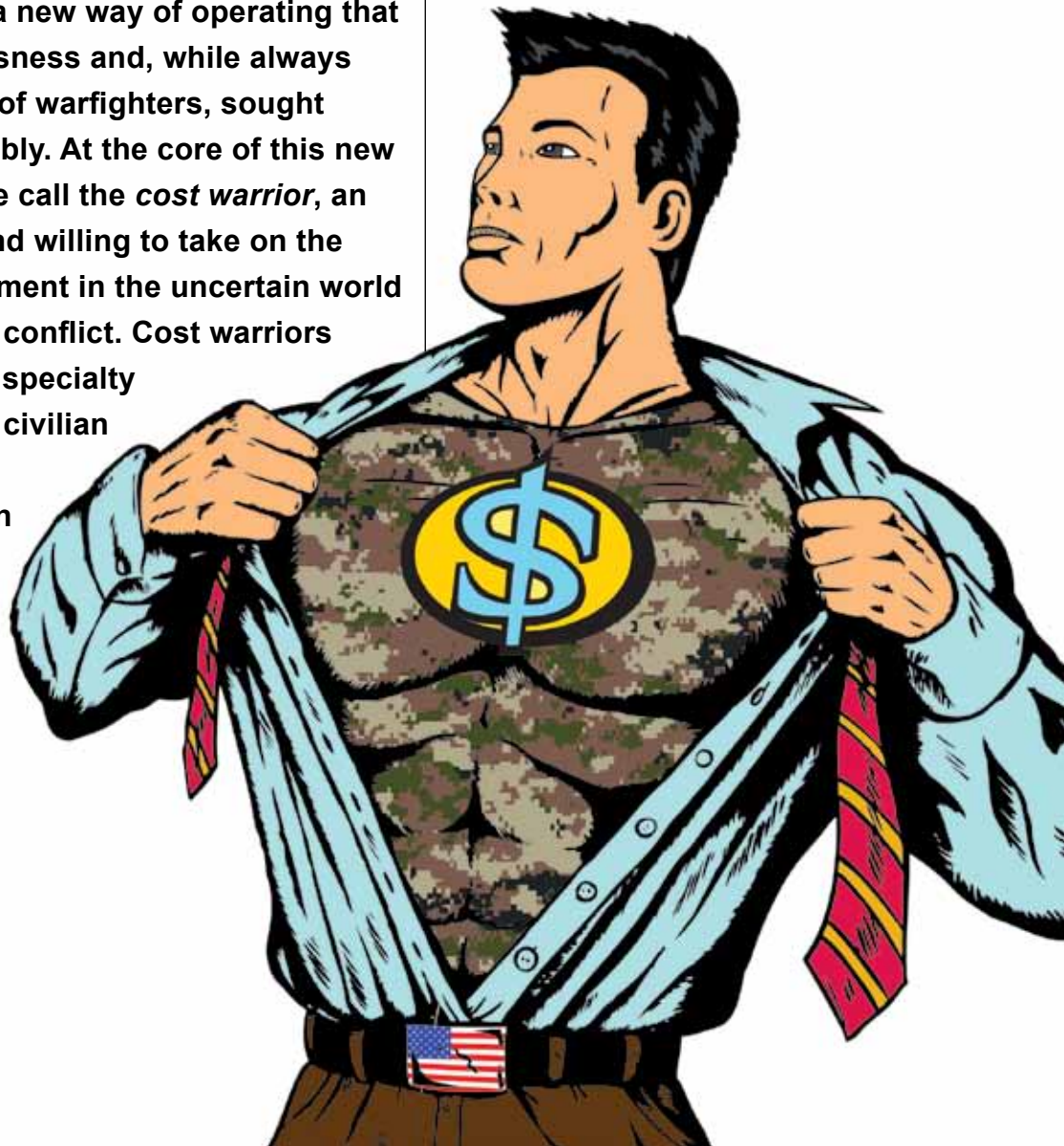
To obtain frank opinions from survey participants, we kept their responses anonymous. We did not share the names and affiliations of in-person interviewees with anyone outside the Grant Thornton research team. Only one person, the survey coordinator, saw e-mail addresses or other identifying information from online survey respondents.

Introduction

Budgets are tight, there are several wars and humanitarian assistance operations going on, the deficit is skyrocketing and no one in government is going to get a whole lot more money absent a national emergency like World War II. In the 2011 ASMC survey of Defense financial executives and managers, we looked at the most recent history of Department of Defense attempts to reduce costs and evaluate the progress. Then, we worked with Defense executives and managers to envision a new way of operating that emphasizes cost-consciousness and, while always keeping in mind the needs of warfighters, sought ways to reduce costs sensibly. At the core of this new way of operating is what we call the *cost warrior*, an individual who is trained and willing to take on the challenges of cost management in the uncertain world of real and potential global conflict. Cost warriors are not some new corps or specialty within the military ranks or civilian echelons. Instead, they are executives and managers in financial management and operations who, along with their other jobs, are equipped to maximize the return on investment (ROI) for taxpayer dollars.

“It has been a long time since the last era of budget reductions and many of the current crop of mid-career active duty managers have not ever seen this type of environment.”

—an executive



Quality of cost management in the Defense community

In this survey, *cost management* means managing operations effectively and efficiently by accurately measuring and understanding the full cost of an organization’s business processes, products and services in order to provide the best value to end users. In Defense, the end users are combat units and warfighters — everything and everyone else supports them.

How well does the Defense community carry out cost management? There is no single answer, but there are clusters of responses that, when connected, paint a general picture as seen through the eyes of the Defense financial community.

Table 1 shows financial executives’ perception of the quality of cost management in Defense budgets. About 2 out of 5 executives say that Defense budgets are well managed. The others see at least some room for cost management improvement, and 1 out of 5 thinks things are managed poorly or not at all. According to financial leaders, then, there is room for improvement.

Table 1:
Executives’ perception of the quality of cost management

| Cost is: | Percentage responding |
|---|-----------------------|
| Well managed | 43% |
| Adequately managed, but room for some improvement | 36% |
| Poorly managed, definitely needs improvement | 17% |
| Not managed at all | 4% |

We asked both executive and manager respondents what, in their experience, were some examples of the different levels of quality in cost management. Of interest is that many of the items appeared on both the “well managed” and “poorly managed” lists. For example, travel (TDY) for training, conferences and other business purposes is among the most frequently mentioned well-managed activities, but also often appears in the list of poorly managed activities. The same goes for training, operations and maintenance (O&M) and research and development (R&D) accounts.

Well or adequately managed

Areas where costs are well or adequately managed tend to have these characteristics, based on survey responses:

- Costs actually mean something to someone important, typically very senior leadership.
- Costs occur regularly and routinely, such as operations and maintenance (O&M), sustainment or other recurring activities or programs.
- What is being produced can be easily counted (e.g., equipment, supplies, labor hours).
- Larger, more visible programs are better managed than smaller, less visible ones.
- Working capital funds (WCF) or revolving funds (according to their managers but not necessarily their customers).
- Local base costs.
- Reimbursable costs, because more attention is paid to them by customers (but reimbursements are also mentioned as poorly managed).

Poorly/not managed at all

Says one executive, “The root cause of poor cost management is overemphasis on securing funding versus managing funding. We ask how much we can get instead of how much we need.

There's a lack of cost-consciousness, lack of reliable inputs and not sufficient control or detail." Respondents say the following are characteristic of poorly managed areas:

- Objectives for new initiatives are not well defined.
- There is excessive focus on meeting execution metrics (i.e., spending money).
- Appropriate cost information is not visible to people up and down the hierarchy.
- There is little or no use of cost analysis and few trained cost analysts available; cost reviews are perfunctory.
- Anything having to do with reimbursement, ranging from personal travel expenses to WCFs or revolving funds, tends to be poorly managed. The former tend to be overmanaged, say many managers, while the latter "...are not understood and therefore not dealt with appropriately," says an executive.
- Every respondent who mentioned end-of-year expenses opined that they are not well managed because of a focus on spending all the dollars, not *saving* dollars at year's end.
- There is little or no emphasis on increasing efficiency or productivity.
- There is little coordination of effort and poor communication among units involved in a process or activity.
- The main focus is on how things are done instead of on results.
- Too many information systems are involved in collecting, tracking and reporting data.
- The requirements generation process is not well defined and "requirements creep" is not under control.
- Different processes, usually "home grown," which do the same thing.



Overmanaged

We asked what activities or areas they think are overmanaged, that is, when the cost of managing something exceeds the value that it adds to a process or, in some cases, the value of the product or service being managed. A manager gives an example: "This may seem trite, but the cost of our office supplies is overmanaged. A GS-15 spending any amount of time looking to save 50 cents on the cost of a laser pointer is what I call overmanaging costs." Here are some other examples:

- Centrally managed programs: "It is very noble to want to streamline and realize potential

efficiencies by centralized management, but the result is too often delays, poor communication and a cumbersome process. It would be better to have overarching rules and regulations — a set of do's and don'ts — and promote local efficiency.”

- Daily work activities: “There is still too much micro-management. This might be necessary for nuclear energy operations and weapons storage facilities, but not for most other activities. The culprit: untrained managers who do not trust their staff.”
- The budget process in general.
- Financial management: “There are over 5,000 pages in the DoD financial management manual.”
- Overseas contingency operations are often mentioned.

Other areas frequently mentioned as being over-managed include overtime and compensatory time for employees. Characteristics of overmanagement include:

- No sense of priorities based on overall costs to the Defense community, which results in “Too much worry about the small costs and not enough about the large costs.”
- Too many “decision forums” with the same membership.
- Too many layers of management involved in routine decisions.
- Several separate estimates or reviews required when one would do.
- Lack of attention to and investment in solutions that would reduce the causes of overmanagement, such as buying technology that would reduce the need for TDYs for training, meetings and conferences, or more management training for managers.

Contracts

Of interest is that contract management and contractor oversight lead the poorly managed list. Says an executive, “There is no way to put a finger on how much we spend on contractors. The next problem is converting that into equivalent full time equivalents (FTE). It would be very helpful to come up with a standard way to report on contractor spending.”

Secretary Gates's initiatives

On August 2010, Secretary of Defense (SECDEF) Robert Gates announced several efficiency initiatives aimed at gaining \$100 billion of savings over the next five years. Table 2 shows that, on average, the executives do not think that the Defense community as a whole will be very effective in carrying out the actions needed to achieve Secretary Gates's goal. DoD will be best





Table 2:
Executives' views on how effective the Defense community will be in carrying out Secretary Gates's savings initiatives of August 2010

| Item | Mean effectiveness score on 1 to 5 rating* |
|---|--|
| To re-baseline every General Officer/Flag Officer (GO/FO), Senior Executive Service (SES) and PAS billet in DoD | 3.5 |
| To ensure that new initiatives proposed will be accompanied by a cost estimate | 3.3 |
| To re-baseline the Office of the Secretary of Defense (OSD), the Defense Agencies and the Combatant Command staffs and reallocate leadership, personnel and resources | 2.9 |
| To quickly reduce dependence on contractors for staff functions | 2.7 |
| To consolidate IT assets to take advantage of DoD economies of scale | 2.7 |
| To reduce the number and cost of burdensome oversight reports | 2.7 |
| To de-layer and make DoD more flexible, cost-effective and efficient | 2.4 |
| To consolidate and eliminate ineffective and duplicative intelligence organizations and personnel | 2.1 |
| Average score for all initiatives | 2.8 |

*1 = ineffective, 5 = extremely effective

at re-baselining senior billets and headquarters staffs (items 1 and 3 on the table) in an effort to reduce what many survey respondents think is a top-heavy organization. The Defense community will be somewhat effective in attaching cost estimates to new initiatives (item 3). The other 5 items, which tend to generate more costs than the first 3, will be managed less effectively, according to executives in our survey.

Re-baseline senior billets. Most of this has been done effectively, say executives, but the personnel dollar savings is small.

New initiatives will have cost estimates.

“There is a need to give clear guidance on these cost estimates,” says an executive.

Re-baseline the Office of Secretary of Defense, the Defense Agencies and the Combatant Command. Some of this has occurred (elimination of the U.S. Joint Forces Command [JFCOM], for example), but there is a need to ensure that people and functions have not simply moved somewhere else. Of note, a DoD official recently commented that no civilian jobs would be lost because of closing JFCOM, calling into question the projected savings from the closure.

Reduce dependence on contractors for staff functions. Executives who gave a low score to this initiative say that there are many unknowns involved. They say the Defense community has trouble defining exactly what a contractor is, how



many contractors there are and how much DoD is spending on them. While in favor of shifting contractor work to staff, says one executive, “It’s a mistake to hastily establish contractor reduction goals without understanding the impacts.” Another says that the effort to in-source work now contracted out is being derailed by added efficiency requirements. Further, says an executive, “There is no validation that any savings were generated. In-sourcing was supposed to save money, but that can’t be proven. The only thing that happened was the money went away.”

“Let’s see... my cube just got smaller, we don’t travel, dozens use the same broken printers, we can’t find a projector, computers are so secure we can no longer share data and I take enough annual online mandated ‘training’ and briefings that I lose a week’s worth of productivity every year.”

—a manager

Consolidate IT assets. Low scorers for consolidating IT assets say their reasons are that “everybody still wants to have their own” and because “consolidation is being done without lawyers and finance personnel in the room.” Another says, “There is huge potential here, but the issue is poorly understood by almost all who make decisions and therefore will not be as effectively addressed as it could be.”

Reduce number and cost of oversight reports. Few executives really think that DoD is going to cut out much of this paperwork. One important issue, says an executive, is who decides which reports are burdensome. However, progress could be made by figuring out what key information is in the reports, streamlining the

reporting process and making fewer revisions to reports, say other executives

De-layer and make DoD more flexible, cost-effective and efficient. Talking about the need for de-layering, one executive says, “I have never felt so disempowered. I used to run worldwide operations with lesser pay, but now at this upper level I cannot do much to truly lead this organization. The layering defeats efficiencies and economies of scale. Your resources can be moved around and without telling you. Your power or authority for finding resources and where they need to go is gone.” Regarding the process of de-layering, an executive warns, “If the personnel and functions taken out of the extra layers are just transferred instead of gotten rid of, the desired efficiencies may not be achieved.” Expressing resignation, another executive says, “There are just too many rice bowls involved.” Finally, several executives warned against misinterpreting “de-layering” as a hiring freeze.

Ineffective and duplicative intelligence organizations and personnel. “This area is too disjointed and too big and no one is in charge,” says an executive, “Too many people control the money in intelligence.”

Role of and effect on Defense financial management in the initiatives

Many executives say that, in general, Secretary Gates’s initiatives have more impact on budgeting functions than on financial management operations, especially where the initiatives are viewed strictly from a budget-cutting perspective. Financial executives say they are regularly asked for ideas on reducing costs. These executives say they are doing more cost analysis and cost accounting than ever before. They are providing a baseline understanding of what

is doable and what is not, say some, injecting much needed perspective into the initiatives along with financial data. Says one, “While financial managers cannot control things on their own, a lot of people look to them for help in the initiatives implemented by the DoD, so we keep pretty busy.”

On the other hand, a general cost-cutting move in the Defense community appears to have affected several financial management offices, trimming as much as 10% of staff, according to some executives. Also, as contractors are pulled out of financial functions as part of the initiative

to reduce contractor support, they are not being replaced by government employees, so workload is mounting on those who remain.

Should the initiatives continue and how should they change?

Nearly all executives surveyed favor continuing all of Secretary Gates’s initiatives. “We now have a big cost culture in (my Military Department). There is a definite change in the way people now think,” says an executive. Echoes another, “Functional leaders and line commanders are gaining an appreciation for costs of services required to perform their missions.”

Job satisfaction

We asked executives and managers tell us how happy they are in their jobs, and show the results in Figure 3. Executives score 4.7 out of 5 in job satisfaction, with 1 meaning they do not enjoy their jobs at all and 5 being that they enjoy them very much. Managers scored 3.9, indicating that they are close to enjoying their jobs most of the time, but have mixed feelings about their work.

Figure 3: How well executives and managers enjoy their jobs



Financial managers say they like the challenges of their jobs and accept an often-heavy workload. Areas where challenges exist include:

- Lack of support in BRAC transitioning
- Inability to improve processes and solve problems they see because of their position within their organization or hierarchy
- Frustration with having to develop financial information that operations managers do not understand (and sometimes do not want to understand)



The initiatives could use a few tweaks, though, say the executives. Their comments include:

- “Take the FTE cap off of WCFs and industrial funds because it constrains effective decision making and is contrary to the purpose of establishing industrial funds in the first place.”
- Pay more attention to removing unneeded work entirely and eliminate people when their billets are eliminated.
- Review contracts for duplication and strive to consolidate duplicate BPA vehicles.
- Consolidate business systems.
- Spend more time defining end goals to guide people better in decisions.
- Reduce administrative staff infrastructure because there is still room to cut more there.

One executive fears that the combination of reducing contractors, a civilian hiring freeze *and* a civilian pay freeze will be too much, too fast, and says it might be better to wait until we finish engagements in some of the current wars and humanitarian operations before reducing too many positions.

Survey respondents would make the following major additions to the list of initiatives:

- Get rid of unneeded facilities, perhaps with another Base Realignment and Closure (BRAC) effort.
- Put more emphasis on business process improvement methods.
- Add an initiative to improve management of multi-year budgets.
- Revisit for savings the way in which the Services use Federally Funded Research and Development Centers (FFRDC).
- Eliminate, reduce or consolidate *missions*, not just offices, units and assets. Not all missions can be critical and some take priority over others.
- Put more emphasis on standardization across the Military Services.

Says an executive, “We need a more granular view of our data. We can track execution of our budget throughout the process, but we don’t link the results back into the data to analyze how effectively programs are implemented, if at all. Making changes to shift more money from ‘Tail to Tooth’ is a good idea, but we don’t have enough granular data to see how well the changes are feeding back through.”

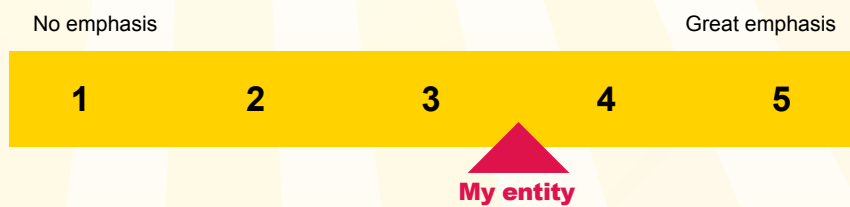
Speaking of granular, says one executive, do not ignore the small stuff. “Although not huge savings in the big picture, some efficiencies, such as not keeping office lights on 24/7, using energy-efficient light bulbs, water conservation in restroom facilities, etc., do mount up. We overlook them and nobody seems to know whom to talk to about implementing these efficiencies.” Indeed, we found hundreds of mentions of these types of small savings in our online survey of managers. It is important to go to for the big savings and a mistake to overemphasize the small stuff, but every bit helps, and it would send a message.



A culture of savings and constraint

DoD leaders have said the days of large increases in Defense budgets are over, so that Defense personnel have to start thinking harder about the costs of things. The leaders are calling for a new culture of savings and restraint aimed at reducing waste, controlling costs and improving business processes. We asked financial executives and managers how much emphasis they think their Defense entity gives to this culture, and the answers of senior leaders and rank-and-file respondents answers were similar. Figure 4 shows that the executives give their entities a score of 3.6 on a scale of 1 to 5, with 1 being no emphasis and 5 great emphasis. Managers scored it at 3.5, so both groups give their organization a “C” grade on its fiscal culture. This raises the question of what DoD can do to improve the emphasis on cost management.

Figure 4:
Executives’ and managers’ opinion on how much emphasis their entity gives to a culture of savings and restraint



Characteristics of the new culture

In order for a process or a whole culture to improve along the right lines, it needs a vision of what it could be. We asked executives to describe to us their concept of a culture of savings and restraint for their entities; all agreed that these culture characteristics also applied to the Defense community as a whole.

“All we hear is cut, cut, cut. Conduct the same mission with a reduced budget! The exercise is cut, with no consideration of efficiency or effectiveness.”
—a manager

We grouped executive and manager responses to the question into 12 categories.

1. **Foundation.** A culture of savings and restraint is built on the idea that reducing costs is a permanent, unwavering commitment, not a reaction to the latest budget drill. The culture is about managing costs, not arbitrary budget cuts, so it is hard work. Many in DoD never had to operate in an environment of real reductions to the top line and do not know how to deal with declining budgets; those who have been through the experience must teach the younger generations how.
2. **Leadership.** Senior leaders know or ask about costs and how to reduce them. They understand the information provided by cost analysis tools (managerial cost accounting and others shown below under “Cost warrior tools”). These leaders are involved in discussions about costs, drive home the need to maximize ROI and emphasize cost management whenever possible when speaking to employees and contractors. They question the need for new systems, purchases and programs. Leaders inside and outside the financial management community must become champions of cost-consciousness in order for the culture to change.

3. **Norms.** As used in this report, norms are the established and expected behaviors of a society or culture. For example, in a culture of savings and restraint, it is the norm to look for in-house resources before requesting more funds; to look for ways to lower costs without sacrificing value; to develop options and examine their cost implications; and to question orders to “do it no matter what it costs.” New requirements must be accompanied by offsets to pay for them. Needless duplicating what another unit, program or department does is not acceptable. Says a manager, “We need to question why things are needed and know our programs to understand the context of purchases. If a group wants to buy a trainer, we need to go see what they are talking about. We need to get to the heart of the requirement, not what they want to purchase.”
4. **Continuity.** New leaders do not change ongoing cost management initiatives simply to put their own stamp on things, but do monitor the success of the initiatives and make changes as required to keep them effective. They invest personal time and political capital to ensure that the initiatives endure.
5. **Visibility and transparency.** Costs are visible throughout the life cycle of a program, service or product. People are able to drill down into cost information and to use it for different types of analyses. Cost-related information is easy for people to find and use.
6. **Options.** In this culture, it is expected for people to look for options and alternatives that reduce costs. The search starts once requirements become known and continue throughout a program, product or service’s life cycle. “Doing without the shiny new thing is always an option,” says a manager.





All viable options have their costs clearly labeled. Contract expirations and billet openings are opportunities to see if the old work is still needed, can be done for less or needs a scope and skill change. Being an incumbent contractor should not be a significant advantage.

7. **Flexibility.** “Program management tends to be positive when the program has the flexibility to shop around,” says a manager. Single-point solutions are not acceptable.
8. **Perspective.** Organizations and managers are able to look across the full range of an operation when considering ways to manage costs. They collaborate with colleagues in other organizations to maximize ROI. Everyone understands life-cycle costing and total cost of ownership.
9. **Tools and training.** Those who need cost management tools and methods are trained in and have access to them. Executives and managers monitor their subordinates to make sure they use these tools frequently and in the right way. They also track how people use the results of cost analysis, so that it does not become a rote exercise.
10. **Balance.** A culture of savings and restraint is one of balanced consideration of cost and value; innovation and standardization; near-term and long-term needs; “must have” and “nice to have.” It is a culture of dialogue among many groups who, although they have different concerns, understand that in the end there will be one set of priorities.
11. **Incentives.** Right now, the Defense community has few incentives for saving money and many incentives for spending every last dime in the budget, say many executives and managers. Says an executive, “There are many opportunities to incentivize the right savings behavior but they always get taken away.” According to survey respondents, in a culture of savings and restraint, incentives should:
 - Be flexible, so that local leaders can adjust them to an entity’s or program’s operations and goals.
 - Be visible, so that everyone knows the rewards for acceptable cost behavior (and the punishment for unacceptable behavior).
 - Create awareness about cost and how it relates to what individuals are doing in their daily work.
 - Apply to everyone whose responsibilities include managing costs.
12. **Risk management.** A culture of savings and restraint should apply to financial operations the same analytical rigor and risk analysis that warfighters apply to field operations.



Cost warriors

In the Defense community, warriors are America's teeth — the people who fight the enemy. Both on and off the battlefield a new type of warrior is emerging. This *cost warrior* is a Defense professional with the training, skills and drive to get the biggest bang for the buck, giving warfighters the biggest boom on the battlefield. They drive unneeded costs out of DoD, but not the old budget-cutting way. Instead, cost warriors search for ways to reduce cost and maximize ROI. This is different from simple budget cutting.

In this survey, we asked financial executives and managers to describe to us the ideal Defense cost warrior for a culture of savings and constraint. We asked this about cost warriors on the financial and the program side of Defense, thinking that they might have different

characteristics. However, survey respondents generally agreed that the attributes of a cost warrior are just about the same no matter where they reside in the Defense community. We sorted the attributes into 9 categories, understanding that while there may be differences in the degree to which each attribute applies to financial or operations professionals, each is important to the success of costs warriors and the culture they strive to create.

1. **Understanding non-financial issues.** Most frequently, respondents said that cost warriors have to understand the mission, programs, operations and general nature of the organization with which they work. They need to know the right questions about money spent for purchases and programs, asked in a context that program and other personnel can understand. Says a manager, "A cost warrior knows a program well enough to fully grasp its budget implications." Several executives and managers suggested that cost warriors in financial functions should work in operations for a few years to gain a better operational perspective.
2. **Communication is critical.** Cost warriors must be able to speak the languages of several groups, not just that of their own profession. They must be generally conversant in the terms and concepts of financial professionals, warfighters, program managers, budget officers and acquisitions personnel. This is an important point, because cost warriors spend a lot of time communicating with all these groups (one reason for good writing skills, says an executive). As well, cost warriors are honest brokers who can bridge the gap between program needs and financial responsibilities.





3. **The right mindset is essential.** Cost warriors do not simply want to save money now, but instead are committed to reducing costs now and in the future. To do this, they reject a “checklist” mentality that merely gives lip service to managing costs. They are curious and analytical detectives, ready to dive into the details, but with the big picture in mind. Cost warriors look for second-, third- and fourth-order effects of financial decisions on programs and vice versa. They are keen to find alternatives that lead to lower-cost solutions that deliver the same or better quality as do options that are more expensive. As important as everything else under mindset: the cost warrior is an excellent salesperson of sound cost management ideas and solutions.
4. **Business savvy.** A good background in business is necessary for a cost warrior. Although government is not exactly like business, the cost warrior is more involved in the business end of Defense. Undergraduate and graduate education in finance or business, with the right certifications (Certified Public Accountant [CPA], Certified Defense Financial Manager [CDFM]) is helpful, too.
5. **Keep a make-do mentality.** Cost warriors know they will never have perfect data for analysis, so they do the best with what they can get. “Make do” is more than metrics, though. The cost warrior’s first instinct when faced with a resource problem is to find creative ways to apply existing assets and resources.
6. **Understand related functions.** Cost warriors have a solid understanding of the budget process and appropriations law. They are familiar with the Planning, Programming, Budgeting and Execution

system (PPBE) and know the several places where they fit into it, from setting requirements through monitoring spending. These warriors are asked to be in the room during negotiations of major contracts because they understand acquisitions.

7. **Are resolute and thick-skinned.** Cost warriors question the validity of budgets and purchases, asking for cost-benefit analyses and alternatives. That takes courage, because there may be no laws to fall back on — just business sense and integrity. “Sometimes cost warriors have to say and do things that make them unpopular, so they have to be thick-skinned,” says a manager. That is a good reason for cost warriors to be diplomatic, helpful, polite and proactive, getting involved early on to help guide decisions.

“A financial cost warrior is a person of integrity who collaborates with non-financial managers to help them get their mission done by showing the relationship between cost drivers and decisions options, in order to do the mission more effectively and economically.”
—a manager

8. **Have cost analysis skills.** Cost warriors must be masters of analytic tools and methods such as those discussed in the next section, “Cost warrior tools.” Besides using managerial cost accounting and cost analysis, today’s cost warriors must be able to mine meta-data for needed information. They must also be able to explain the analyses derived from them in terms that people who are not cost warriors will understand.

9. **Have the right training.** Cost warriors look outside their organizations for cost management ideas and for best ways to use resources. They invest in themselves through continuing education, certifications and joining process improvement teams (Lean and Six Sigma, for example).

“If operational managers are not cost managers, cost management fails because only half of the cost management cycle is controlled or managed by financial management professionals and the other half is at the sole discretion of the operational manager.”

—a manager



Cost warrior tools

In a culture of savings and restraint, say executive respondents, every effective cost warrior has a tool kit that includes methods for analyzing the true financial costs of Defense business. The kit may include:

- **Some form of managerial cost accounting** used to inform make/buy decisions, show the full cost of an output or activity that makes the output, and makes visible hidden costs. Examples in Table 3 include job-order, standard and process-cost systems, activity-based costing (ABC) and other such tools.
- A method of showing the **life-cycle cost** of a product, which reveals the total cost of ownership, starting with planning and acquisition, continuing through operation and maintenance and ending in disposal.
- A **cost-benefit** or **ROI** method, in order to determine if the amount invested in a product or service yields sufficient value to be worthwhile.
- A system of **cost modeling** to test assumptions about differences in cost drivers, which are the things that make total or unit costs go up or down.

All the tools make costs more visible and enable both financial and non-financial managers to compare the costs of alternative approaches, look for ways to save money and in general manage dollars, processes and outputs.

Table 3 shows executives' estimate of the frequency with which their financial management staffs are now using cost warrior tools. On a scale of 1 to 5, with 1 being no use of a tool and 5 being extensive use, the table data indicate that none of the tools is being used regularly. This is an indirect measure of the amount of interest in cost analysis, and the table indicates that there is room for more widespread use of cost warrior tools.

Commenting on the question, some executives say that there is a need for standard and consistent methods and a common language for cost analysis, especially in life-cycle costing and cost-benefit analysis. Several say that their organizations are making good use of ABC, although it has the lowest utilization score of all the tools. One executive questions whether life-cycle costing really works for military assets that can be deployed in multiple different ways. However, when asked which methods would be most acceptable to their organizations' culture, the most frequent responses were life-cycle costing and cost-benefit analysis.

Several executives and managers say a few good analytical tools should be added to Table 3. One such tool is earned value management (EVM), a management method that shows variances in projects by comparing worked performed and work planned.

We also asked executives about the skill levels of financial and non-financial personnel in using cost analysis tools and show the results in Table 4. On a scale of 1 to 5, with 1 being not at all skilled and 5 being extremely skilled, financial executives rate the skills of their financial analysts and managers the highest and those of facility and military commanders and their staffs the lowest.

If financial analysts and staff only have a 3.3 out of 5 average score for proficiency in using cost analysis tools and their budget colleagues only a 2.9, there is surely a great deal of room for improvement. Says an executive, "The issue with skills is more a commentary on the organization not providing the tools than it is on the ability of the workforce." The scores indicate that a significant amount of training may be required to develop the new cost warriors.

Table 3:
Executives' estimate of their staffs' use of cost warrior tools and methods

| Tools and methods | Frequency of use by staff on 1 to 5 rating* |
|---|---|
| Managerial cost accounting | |
| • Other cost or managerial accounting system | 3.3 |
| • Job-order cost system | 3.2 |
| • Process-cost system | 2.9 |
| • Standard cost system | 2.9 |
| • Activity-based costing | 2.5 |
| Life-cycle costing | 3.4 |
| Cost-benefit analysis | 3.3 |
| Rate-of-return or return-on-investment (ROI) analysis | 3.2 |
| Cost modeling | 3.4 |

*1 = No use; 5 = Extensive use

Table 4:
Executives' opinions of skill levels in using cost warrior tools, by personnel group

| Personnel group | Skill level on a scale of 1 to 5* |
|---|-----------------------------------|
| Financial analysts and managers | 3.3 |
| Budget analysts and managers | 2.9 |
| Program managers | 3.0 |
| Facility commanders and their support staff | 2.6 |
| Military commanders and their support staff | 2.6 |

*1 = not at all skilled; 5 = extremely skilled

Creating the new culture

Executives estimated that it would take about 4 years and managers about 5 years for the Defense community to create a culture of savings and restraint such as they described in the previous section. A first step would be to create a cadre of cost warriors to be the core of the new culture. As shown in Table 5, executives say it would take about 3 years to do this within their own entity and 5 years for the whole of DoD; managers say 2 and 5 years, respectively.

Table 5:
Years needed to create a sufficient cadre of cost warriors

| | Own entity | | All of DoD | |
|--------------|------------|----------|------------|----------|
| | Executives | Managers | Executives | Managers |
| Years needed | 3 | 2 | 5 | 5 |

Here are what executives and managers say has to happen over the next few years to create cost warriors and a culture of savings and restraint.

Leaders. A DoD culture of savings and restraint will never “bubble up” from below, which means change must be top-down, say most executive respondents. The Secretary of Defense and Secretaries of the Military Departments, Uniformed Service commanders and other senior officers and civilians must take the lead in creating this culture. Below them, military commanders and heads of agencies must make it clear to their direct reports that cost management is an integral part of their jobs — and hold them accountable for results.

It is important to be receptive to ideas for saving money, but leaders can no longer wait for them to come through the door. Instead, leaders must go out and look for the ideas themselves. Leaders must strive to use cost management information when making decisions. The best leaders will know how to do at least simple cost analyses so that they understand (and sometime challenge) how their subordinates derived cost information.

Financial management leadership.

Comptrollers from the headquarters level and below must be champions of sound cost management. They need to educate their commanders and civilian leaders on how to integrate cost management into operations.

Priorities. DoD as a whole and each of its components should put more effort into defining priorities that can guide people looking for ways to reduce cost. A clear understanding of what is most important helps keep cost warriors and others on track.

Incentives. Do not reward people and organizations simply for saving money or cutting budgets. Instead, give them incentives to reduce costs by improving products and processes,





eliminating unneeded work and especially for cost-effective solutions that actually add value to warfighter support. Give military and civilian personnel the same rewards for reducing costs, which can foster more collaboration. Holding people accountable for cost management is a facet of incentives that has been downplayed in performance reviews. Finally, remove incentives that promote “spend the entire budget” attitudes — perhaps the hardest thing to do in government.

Training. Give more training in cost analysis and cost management to people who need to use it, no matter where they are in the Defense community. This includes both financial and non-financial managers. The higher up in command warfighters go, the more they need to know about making cost-conscious decisions. Also:

- Start with the premise that DoD components do not have unique cost problems, so they can all have the same training curriculum.
- Mold cost management training to create and encourage a collaborative environment among components and professions.
- Train financial and operations personnel together in basic cost management concepts and methods. Just training financial professionals will not transform DoD. One manager suggests training operations managers first, which will certainly motivate financial managers to get on board.

- Do formal, standard training in cost management, so that all of DoD learns the same methods and cost language.
- Both financial and non-financial personnel need to know the cost structure of their organizations and where they and their decisions fit into that structure. This is more a briefing exercise than it is formal training, but “...deserves a few days for someone in the organization to put it together and then present the structure,” says a manager. “Once they see where they fit, people can start to develop ways to reduce costs.”

Remove barriers. The biggest barrier to effective cost management in DoD is that its advocates are not in the room at the very start of major investment decisions. In a cost-conscious culture, financial and cost analysis advocates and specialists need to have a place at the table from requirements determination through project or program closeout. In addition, large-scale costs usually occur across many organizations, so increased collaboration across boundaries is essential to effective cost management. Formal and informal forums for sharing cost reduction ideas would further increase communication and collaboration.

Institute Defense-wide cost accounting system and uniform cost metrics. Everyone in the Defense community should use the same cost accounting system and cost metrics, say several executives and managers.



Improve technology. All large organizations need superior systems for inputs to data-driven decisions and to house cost management tools. We asked financial managers how effective DoD’s financial and other information systems would be in supporting a culture of savings and restraint. As shown in Figure 5, they gave financial and non-financial systems each a 3.0 score out of 5, with 1 being ineffective and 5 being extremely effective. In a slightly different question, executives gave their entities’ financial systems a 2.5 effectiveness score.

Figure 5:
Managers’ opinions of effectiveness of both financial and non-financial systems in supporting a culture of savings and restraint



These scores seem low given the years and billions of dollars invested in financial and management information systems. One problem leading to low scores, according to our respondents, is a fundamental flaw in how DoD designs and uses this technology. As several managers say, the Defense community can no longer afford to do without top-notch financial and business data. Nor can it afford to keep making the same mistakes with existing implementations. It is beyond the scope of this survey report to address

the reasons for systems problems, but please see our 2009 survey report, *Taking Care of Business: Managing Military Dollars*, for a more detailed description of DoD financial and business systems and their problems.¹

Suggestion programs. Put more emphasis on getting suggestions from staff on how to reduce costs. The best way to do this is to make managers accountable for encouraging, reviewing and using staff suggestions. Communicate priorities to staff so that they know where to focus their search for cost reducing suggestions.

Sensible frugality. Among the thousands of comments managers made in our survey, several hundred can be summed up by the term “sensible frugality.” Managers say that their offices do not always have to have the latest equipment and furnishings, as long as the existing assets are adequate and in good repair. On the other hand, saving money by not keeping office equipment up and running wastes time and slows production. Says a manager, “In a time when other commands are adding to their amenities, we are not wasting time on new restrooms and other things that a HQ normally has on its agenda. The sinks look like they are from the 1950s, but they work. As long as we do the maintenance to keep things working properly and it’s not more than replacing them, this is a good place to save on budget.”

We received hundreds of suggestions from managers regarding minor items like turning off office lights and computers at the end of the day, recycling copy paper and doing teleconferencing instead of travel. That means there is sensible frugality within DoD, but it may need to be embraced at higher echelons of operations, major programs and information systems.

¹Available for download at www.grantthornton.com/publicsector under Publications.

Top concerns about financial management

In each of our annual surveys, we ask executives and managers to tell us their top concerns about financial management. Table 6 shows the results for 2011.

Table 6:
Executives and managers' top concerns

| Item | Percentage with concern | |
|------------------------|-------------------------|----------|
| | Executives | Managers |
| Human capital | 30% | 34% |
| Culture, how to change | 17% | 8% |
| Systems | 13% | 10% |
| Budgets | 13% | 18% |
| Other | 26% | 29% |

Human capital. This leads the list, as it has in the past. One important human capital concern is replacing the Baby Boomer generation of personnel (born between 1946 and 1964) that dominates the middle and upper ranks of financial managers. This is an especially vexing problem because of gaps in ages of Defense personnel brought about by earlier hiring freezes. Attracting new young professionals may also be a problem, say several executives and managers, because a recovering economy means higher-paying private sector financial jobs will be more attractive. Managers are concerned about lack of funds for training, for both younger workers and their own advancement. Says an executive, "Knowledge transfer to our younger folks is not happening; we must figure out how to do that." Other executives call for more cross-training and for training that reaches across what one calls "...the dysfunctional silo system we have in the career series." Everyone is worried about hiring freezes and budget cuts that will further reduce the financial management workforce at a time when it will be needed the most.

Culture and how to change. As discussed throughout this survey report, many executives and managers say DoD needs to change its "spend" culture into one of savings and restraint. How best to do this is still something they are wrestling with, but most look to top leadership to show them the way. The immediate reason for change, say many, is the federal debt crisis, which is also an opportunity to create the necessary urgency for the Defense community to change. It is important that change take place across DoD, not just in individual components and organizations, say executives and managers, because everyone has to pull together to make a difference.

Systems. Says an executive, "We are working too much for financial systems and not having them work for us. Most of this is because of how we configured the systems. Many standard system reports are not available because of this configuration." This is very much the case with DoD-wide reports, say some. Part of the blame goes to "piece-mealing" implementations, which could become an even more serious problem if funding is reduced or becomes erratic.

Budgets. Naturally, the main concern is with budget cuts, but do not be misled by this. Both executives and managers are resigned to budget cuts and many say it is in the best interest of the nation. However, survey respondents would like to see Congress behave more rationally, which means no continuing resolutions or pork barrel budget items and an understanding on the part of lawmakers, Defense leaders and everyone else of the Defense-wide effect of budget decisions. There is some concern about salary freezes and the ability to attract and retain financial talent.

Other concerns range from the audit-readiness of DoD and its components, how the structure of the Defense community affects cost management and collaboration and lack of leadership in bringing about better financial management.

Conclusions

In the 2010 survey of DoD financial officials, we concluded with the following note to Defense financial professionals: “Your world is going to change. In an environment where sound financial management skills will be at a premium, there will be challenges and opportunities. Train for the future, and you will be helping future warfighters meet their challenges.”

Since publishing that survey in June 2010, the world of DoD financial management professionals has indeed changed. Defense Secretary Gates announced his cost savings initiatives. Significant acquisition reform measures focusing on costs have been implemented. At least two major humanitarian operations were conducted. Another conflict involving U.S. forces erupted in North Africa. The Federal Government came within hours of a shutdown. Predictions of a smaller Defense budget have shifted to the reality of the burgeoning national debt. The Congress, the Administration and the Defense Department

now have laser beam focus on what things will and should cost.

Instilling a new culture of cost consciousness in Defense will be difficult. DoD has been through decades of ever-larger baseline budgets, with extra-added growth from out-of-cycle supplemental budgets. Although the survey indicated most professionals in the Defense financial community “get it” about the fiscal situation and are eager roll up their sleeves and get to work, they need to operate in a cost conscious culture and use the right tools for cost management.

DoD leadership must drive the change to a cost conscious culture from the top and give financial and operations personnel the tools and training they need to become effective cost warriors. Decision makers must be willing to invest time and effort in understanding the data these new tools provide and the implications of the findings on Tooth and Tail. As our survey showed, leaders must enable their new cost warriors by building a firm foundation of cost culture, establishing the norms of cost consciousness, providing continuity of purpose and being transparent and flexible in order to nurture the nascent cost society in DoD. Defense community members must be convinced that a cost conscious culture is not just another flash-in-the pan management technique or slogan. Leaders must offer incentives to reward those who save and deterrents to those who needlessly spend.

Our survey leaves no doubt that the financial community is poised to change, and we think that the same is likely true in all parts of DoD. It is up to Defense leaders to follow through and be on the point, leading by example, instilling the new culture and embracing the 21st century cost warrior.





Additional Information

To request more copies of this survey or an opportunity to hear more about its findings, please contact ASMC or Grant Thornton at the addresses below. We will be pleased to discuss the possibility of providing your organization with a briefing or presentation of survey results at a conference or seminar.

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