



Remember Valley Forge

BY: MARY SALLY MATIELLA, CGFM, C

Military officers often visit the battlefield at Gettysburg, PA, to study its history and absorb lessons learned. The nearby historic site at Valley Forge may offer lessons equally important to today's Army. In the winter of 1777, the Continental Army faced a far more serious peril from a lack of resources than it ever did from the enemy.

Clearly the United States and its military have not always enjoyed the current level of resources. It is possible that coming decade's resource levels will make the budgets of the last decade seem luxurious. We have started calling this situation the Cost War: the struggle to accomplish our missions in an environment of constrained resources.

The key question for many financial management and comptroller organizations everywhere is, "What are you going to do about it?" Newspapers and news broadcasts give frequent examples of local, state and federal battles between cutting services and raising taxes. Let's look at the options.

OPTION 1: GET MORE CASH INFLOW.

The Army can't raise taxes. We can and will seek budget increases. Realistically, however, no one expects that better articulation of our needs will result in increased resources. Furthermore, it is not likely to be helpful if every subordinate Army organization adopted this strategy as its only option.

OPTION 2: CUT SERVICES.

The Army has cut services in response to prior budget declines. Unfortunately, this usually means reducing the number and size of combatant forces. Historically, this process has come to be known as "salami slicing." This describes the seemingly fair, but operationally poor, idea that a 10 percent budget reduction results in a 10 percent across-the-board cut.

OPTION 3: INCREASE COST EFFECTIVENESS.

The third option means getting smarter about using the resources we have. After all, it is not the budget input that drives the mission. It is the spending of the budget that is most important. (See Figure 1.) Unfortunately, the Army and most government entities have not been very skilled at doing this. From U.S. Army Undersecretary Joseph Westphal, who is the Army's chief management officer:

"I challenge you to take on the culture of continuous process improvement and to continue to be an active participant in leading transformational change across our Army."

The Cost-Managed Organization enhances mission effectiveness by generating continuous improvement efficiencies. It commands and controls cost and stimulates creativity to the budget on its own.

THE CHALLENGE: INCREASE MISSION EFFECTIVENESS BY INCREASING COST EFFECTIVENESS

Meeting Westphal's challenge is not an easy task because real success requires more than a new reporting requirement or a different approach to information systems. It requires an institutionalized change in the cost culture of a huge organization. Considerable thought and effort have gone into meeting this challenge. The current strategy is an outgrowth of efforts in the mid-90s when a department-level steering committee began considering the task. This led to a number of pilot programs and considerable learning.

The last decade, however, saw diminished effort. At the time of September 11, 2001, the Army budget was \$78 billion. The nation poured resources into the Army to enable it to fight two wars while re-equipping to fight threats like those from improvised explosive devices (IEDs). In FY10, the Army's base budget and funding for overseas contingency reached \$239 billion. However, it is equally important to be "cost smart" when resources are plentiful.

FIGURE 1:
The Cost Managed Organization





In light of possible constrained resources in the future, the best solution for the Army and for national security is to improve the Army's cost effectiveness to keep it as potent as possible. Practically speaking, this means that cost must be a consideration in all manner of decision-making and operations. This does not mean that cost drives the decision, but cost certainly needs to be considered.

ARMY CAMPAIGN PLAN— LEADERSHIP-DRIVEN MANAGEMENT

The Army recognizes the problem and is addressing it. Secretary of the Army John McHugh and the Chief of Staff, Gen. George Casey, recently contributed to the upcoming Army Campaign Plan for 2011. The plan's overarching requirement is to "effectively and efficiently allocate and use resources to build the best possible force." The use of the word "efficiently" reflects that Army senior leaders increasingly recognize the threat to mission capability posed by constrained resources.

The plan has nine major objectives. Objective No. 9 is transform business operations. Within this objective, 25 initiatives were constructed for business transformation. The Army Business Transformation Plan for 2011 ranks cost culture as the Army's highest ranked initiative based on its enterprise reach and other criteria.

The cost culture initiative recognizes two important, but distinctly different elements. The first, cost benefit analysis, brings cost considerations to the decision-making process. The second, continuous improvement, is much broader in that it seeks to build institutionalized, disciplined, cost-managed organizations.

COST BENEFIT ANALYSIS (CBA)

It can be argued that every action in life other than those driven by emotions or reactions contains an implicit cost benefit analysis. In other words, everything we do starts with a decision to act, and that decision requires a balancing of the cost of doing something and the benefits from doing it. Of course, people reach different decisions given the same situation. This is because costs and benefits of future events must be estimated, and because decision-makers can weigh relative costs and benefits differently.

In other words, there is seldom a definitive "right answer," and cost consideration does not dictate the answer. The value of the effort lies in the process of considering cost and searching for lower-cost courses of action that provide the same benefits.

The Army has done some outstanding work while fighting a war. In one example, Gen. David Petraeus asked for a cost benefit analysis of shipping material back to the states through Jordan instead of the existing practice of using Kuwaiti ports. The initial estimates showed \$17 million in extra costs. Using this estimate, the decision-maker could weigh the global political advantages of supporting an additional ally versus the incremental cost of \$17 million. The most effective solution evolved after a thorough cost benefit analysis. Army analysts learned that Jordan was competitive on 20-foot containers, while the lack of facilities made the 40-foot containers expensive to handle. Jordanian shippers sharpened their pencils, and even the Kuwaiti shippers began to rethink some of their shipping rates.

While detailed CBAs about complex issues can take months, the Army also needs to set up repeatable processes that can handle adaptive planning and complete scaled-down CBAs in a day. A case in point is the Iraq drawdown. As forward-operating bases are turned over to the government of Iraq, we need to decide what to do with all the non-standard equipment collected over the years. For example, a three-year-old window air conditioner on a temporary building costs more to ship home than buying a new one, so we leave it in Iraq. For other items we analyze the shipping cost to the United States and Afghanistan, the age and condition of the equipment, estimate the residual value and then weigh the benefit of potentially filling a requirement for it somewhere else.

As more than 100 small bases were being transferred or closed, each with hundreds of pieces of non-standard equipment, this process had to be rapidly repeated so each disposition plan could have a three-star review and not delay the base transfer schedule or impose an administrative burden on the soldiers executing the drawdown. The result is a process that reviewed tens of thousands of pieces of equipment using metrics developed by senior leaders and cost analysts that provided near-real-time direction to forward troops and helped them get their job done.

CREATING COST-MANAGED ORGANIZATIONS

While cost benefit analysis yields better decisions, it is too formal and time-consuming to work well in continuously improving day-to-day operations. Cost-managed organizations use cost information as part of their intelligence process in reviewing ongoing operations. This requires comparison of actual costs to expected costs. Expected cost could come from previous projections, standard costs, or even from a prior period in relatively stable operations.

Comparison of actual to expected costs isolates variances to expectation. These variances target attention where it is most useful: that is, management by exception. We expect the chain of command to be responsible for two things. It must be able to explain costs (and variances) and to demonstrate thinking about and implementing continuous improvement initiatives.

This is a powerful dynamic that relies on organizational learning that is always looking for the smarter way to operate. It begins with the mindset that there is always a better way to do something and we are better off aggressively seeking it rather than defending past practice. The

culture of continuous improvement is alive and well in the Army. It exists in every debriefing or in reviews following a training event or combat operation. The goal is to learn from past experience on the battlefield. We want to bring that mindset into the Cost War.

The advantage of ensuring all levels of leadership are involved in the cost management review and continuous improvement process is that it transforms the thought process for the many immediate decisions made on a daily basis that do not have time for a formal CBA. Everyone comes to understand the need to scope the problem to the areas they can effect and measure, to articulate the benefit in terms as quantifiable as possible, to distinguish between upfront acquisition cost and life cycle support cost, to avoid optimizing a local solution to the detriment of the overall enterprise process, and to weigh the cost and benefit in a logical, repeatable, justifiable terms that furthers the organization's strategic goals. In short, it transforms the way the Army does business.

REQUIREMENTS FOR SUCCESS

There are four requirements for success. The first and most important is *leadership*. It should be noted that Army leaders at all levels are inherently cost-conscious when it comes to casualties. Much of this way of looking at things is transferable to cost management and control. Training leaders in cost management has resulted in high-impact results.

This leads to our second critical requirement: *managerial costing support*. We have found that creating a team with a leader and a cost expert works like joining a combat officer with an intelligence expert. The result is a better outcome as the leader's effectiveness in cost management and control is significantly improved by having a good subordinate with cost skills.

We are working hard to identify the right people to perform managerial costing and get them trained. To do this we are simultaneously developing courses in Preliminary Cost Accounting and Management, Intermediate Cost Accounting and Management, Cost Management Certificate and Senior Cost Leader classes.

The third key requirement is the *learning-oriented cost control process* discussed above. We are building the templates for this process around the well-known command and control processes that every soldier understands. While this process will vary in frequency and complexity depending on organization, it is clear that the after-action cost review is critically important. This is the forum where the leader supported by the Assistant to the Commander for the Enterprise (ACE) interacts with the command to learn the story

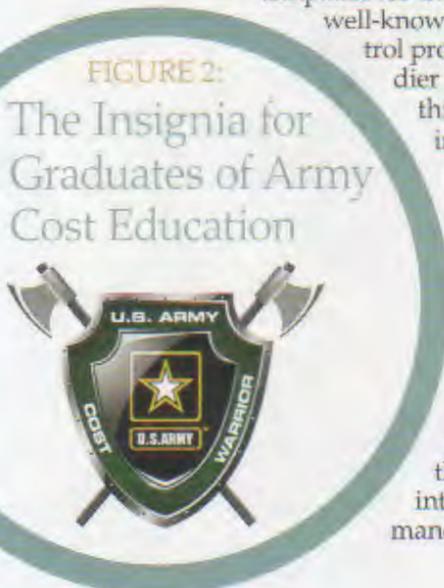


FIGURE 2:
The Insignia for
Graduates of Army
Cost Education

behind cost variances and to see the continuous improvement initiatives that subordinates have developed.

Winning the Cost War is a people problem, not an accounting problem. However, it is unreasonable to expect good cost management and control without *good cost information*, the fourth requirement. The Army is in the process of implementing the General Fund Enterprise Business System (GFEBS) that will provide useful and easy-to-access cost intelligence. We are, however, not waiting for full development of this system. We expect that sound cost management and control can begin with existing cost systems and get better with GFEBS implementation.

CONCLUSIONS

"Asymmetric threat" is a relatively new military concept used to describe nontraditional challenges to military superiority. These threats are particularly dangerous because they avoid existing capabilities, doctrine and culture and in some cases, exploit them.

IEDs were an example of an asymmetric threat. Initially, our forces did not have the equipment or training necessary to defeat the threat. It has taken resources and dedicated work to change doctrine and culture to effectively counter the threat.

Fiscal constraints pose an emerging asymmetric threat that we call the Cost War. The Cost War is the struggle to meet the mission in an environment of constrained budgets. Even a superpower can lose a Cost War and history has some prominent examples.

Winning the Cost War requires a dedicated, proactive, results-oriented effort that should appeal to the aggressive nature of the American soldier. The Army's posture is not to wait for the inevitable budget cuts and merely react to the situation. We seek to shape the issue through the third option: increasing cost effectiveness through the development of a cost-conscious culture.

This transformation will not be easy in an organization with more than 1 million active duty, guard, reserve and civilian personnel. It is made harder because we have received bountiful resources throughout the careers of all concerned. Overcoming resistance and moving from compliance to active engagement will put an especially large burden of effort on finance managers and G-8s throughout the Army.

Gen. George Washington had to win his Cost War at Valley Forge before he was able to prevail militarily at Yorktown and win the Revolutionary War. I am calling on the financial management and comptroller community to "Remember Valley Forge" and take a proactive role in winning our Cost War. ¶

End Note

1. Joseph Westphal, Under Secretary of the Army, Oct. 15, 2010.



Mary Sally Matiella, CGFM, CPA, a member of AGA's Washington, D.C. Chapter, is assistant secretary (financial management and comptroller), US. Department of the Army.