

ARMED FORCES

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The New Cost Warriors

Findings of the American Society of Military Comptrollers (ASMC) 2011 annual survey of Defense and military department financial management executives

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PRINCIPAL, GRANT THORNTON LLP

Between January and April 2011, ASMC sponsored Grant Thornton LLP in conducting an online survey of 524 civilian and uniformed members of the Defense financial community and in-person interviews with 30 top Defense financial executives. This is the ninth such annual survey since 2003. For a copy of the survey report, visit www.grantthornton.com/publicsector.

In the 2011 ASMC survey of Defense financial executives and managers, we looked at the Department of Defense (DoD) attempts to reduce costs driven by then-Secretary of Defense Robert M. Gates. We investigated several aspects of the Department's attempts to identify and sustain the targeted savings including the policy, process, people, and cultural aspects of this ambitious undertaking. At the core of this new way of operating is the Cost Warrior, an individual trained and willing to take on the challenges of managing costs in the uncertain world of real and potential global conflict.

Quality of Cost Management

In the survey, cost management was defined to mean 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. Table 1 shows the opinions of executives about the quality of Defense 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%

Table 1. Executives' Perception of the Quality of Cost Management

We asked both the 30 executives and 524 other respondents what, in their experience, were some examples of the different levels of quality in cost management. We combined the categories *well* and *adequately managed* and the categories *poorly managed* and *not managed at all*, and added a new category called *over managed*.

Defense cost management is *done well or adequately* in areas where:

- Costs actually mean something to someone important, typically very senior leadership.
- Costs occur regularly and routinely, such as operation and maintenance (O&M), sustainment, or other recurring activities or programs.
- What is being produced can be easily counted (for example, equipment, supplies, labor hours).
- Programs are larger and more visible as opposed to smaller, less visible programs.
- Working capital funds (WCF) or revolving funds are used (according to their managers but not necessarily their customers).
- Costs are local to bases or facilities.
- Costs are reimbursable, ranging from WCFs to travel, because customers pay more attention to them. (Interestingly, reimbursements are also frequently mentioned as poorly managed by on-line responders.)

Poorly managed/not managed areas occur in circumstances where:

- Objectives for new initiatives are not well defined.
- There is excessive focus on meeting execution metrics (that is, spending money). For example, every respondent who mentioned end-of-year expenses opined that they are not well managed because of a single-minded emphasis on spending all the dollars, not on saving at least some of them.
- 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; cost reviews are perfunctory.
- Costs are reimbursable. Travel expenses tend to be over managed, say many respondents, while WCFs “. . . are not understood and therefore not dealt with appropriately,” says one executive.
- 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 an activity.
- The 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,” do the same thing at a base, program, agency, or department.

Over management is when the cost of managing something exceeds the value it adds. Characteristics of over management 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 over management, such as buying technology that

would reduce the need for TDYs for training, meetings, and conferences, or more management training for managers.

Through their involvement in framing the preceding issues, Defense financial professionals have helped define the challenges facing military cost management for the next several years. In the next section, we look at the cultural change needed to incorporate the best of current cost management practices and cost-informed decision makings.

A Culture of Savings and Restraint

What can the Defense community do to change to a new culture? Typically, one starts by describing the characteristics of the desired state. We asked respondents to describe the attributes of an ideal cost culture. Their answers focused on 12 areas:

1. **Foundation.** Reducing costs is a permanent, unwavering commitment, not a reaction to the latest budget drill. It is about managing costs, not arbitrary budget cuts, and it is hard work. Many in the DoD have never faced real reductions to the top line; those who have been through the experience must teach the younger generations how to proceed.
2. **Leadership.** Senior leaders know or ask about costs and how to reduce them. They understand the information provided by cost analysis tools and are involved in discussions about costs, drive home the need to maximize return on investment (ROI), and emphasize cost management. They question the need for purchases and programs.
3. **Expected behaviors.** In a culture of savings and restraint, it is normal to (a) look for in-house resources before requesting more funds and for ways to lower costs without sacrificing value; (b) develop options and their cost implications; and (c) 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.
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.** Granular cost and related information are visible and easy to use throughout the life cycle of a program, service, or product.
6. **Options.** People look for options and alternatives that reduce costs throughout program, product, or service's life cycle. Doing without is always an option.
7. **Flexibility.** Shopping around is the norm, and single-point solutions are not acceptable.
8. **Perspective.** People are able to look across the full range of an operation when considering ways to manage costs. They

collaborate with 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 balances 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.** There are many strong incentives for saving money and disincentives for spending for spending’s sake. Incentives need to be flexible and visible and must create awareness and 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.

Now that we know what a Defense culture of savings and restraint might look like, who will be its ideal professional? We think it will be the aforementioned Cost Warrior.

The New Cost Warrior

Whether they are financial or other professionals, Cost Warriors have these qualities, say survey respondents.

1. **Understanding of nonfinancial issues.** Cost Warriors must know the mission, programs, operations, and general nature of their organizations and the right questions to ask about projected costs and budget implications. Cost Warriors in financial functions first should work in operations a few years to gain a better operational perspective.
2. **Communication skills.** Cost Warriors must be able to speak the languages of financial professionals, warfighters, program managers, budget officers, acquisitions personnel, and other groups. As well, Cost Warriors are honest brokers who can bridge the gap between program needs and financial responsibilities.
3. **The right mindset.** Cost Warriors want to reduce costs now and in the future. They reject a “checklist” mentality that gives lip service to managing costs. They are curious and analytical, look for second-, third-, and fourth-order effects of financial decisions on programs (and vice versa) and find alternatives that lead to lower-cost solutions. Also, the Cost Warrior is an excellent salesperson of sound cost management ideas and solutions.

4. **Business savvy.** Cost Warriors have a good business background. Undergraduate and graduate education in finance or business, with the right certifications (for example, Certified Public Accountant and Certified Defense Financial Manager).
5. **A make-do mentality.** Cost Warriors do the best they can with available data, and their first instinct when tackling resource problems is to be creative with existing resources.
6. **Understanding of related functions.** Cost Warriors know the planning-programming-budgeting-execution process, appropriations law, acquisition process, and the several places where they fit, from setting requirements through monitoring spending.
7. **Resolute and thick-skinned.** Cost Warriors have to be thick-skinned because they question the validity of budgets and purchases, ask for cost-benefit analyses and alternatives, and say and do things that make them unpopular. It helps if they are diplomatic, helpful, polite, and proactive, getting involved early on to take part in guiding decisions.
8. **Skilled in cost analysis.** Cost Warriors must be masters in both using and explaining analytic tools and methods and in mining meta-data for needed information.
9. **Appropriately trained.** Cost Warriors invest in themselves through continuing education, certifications, and joining process improvement teams (Lean Six Sigma, for example).

Cost Warrior Tools and Training

Among the basic tools used by Cost Warriors are various forms of managerial cost accounting, life-cycle costing, cost-benefit analysis, ROI analysis, and cost modeling. We asked executives in the survey about the current skill levels of financial and nonfinancial personnel in using cost analysis tools and show the results in Table 2.

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

Table 2. Executives' Opinions of Skill Levels in Using Cost Warrior Tools, by Personnel Group.

The results in Table 2 show a clear need for more training in the understanding and use of Cost Warrior weapons (tools). Says one executive, “The issue with skills is more a comment on the

organization not providing the tools than it is on the ability of the workforce.” As with their battlefield counterparts, in order to be an effective force in fighting costs, new Cost Warriors must be skilled in using cost-fighting weapons. Similarly, those who procure the cost-fighting weapons must rigorously define the requirements, then purchase the right tools and deploy them where needed most.

Building the New Culture

Survey respondents make clear that a new culture of savings and restraint will never “bubble up” from the ranks but instead requires strong top-down leadership. Financial executives must become champions of cost management and educate nonfinancial leaders on how to integrate cost consciousness into their operations. There have to be positive incentives for the right type of cost savings and disincentives for waste. Training is critical and should be appropriate to the position. The Defense community needs to start thinking about cost management from the inception of a new program, not midway through. Finally, there needs to be a Defense-wide cost accounting system and uniform cost metrics, say several respondents. When

this happens, an attitude of sensible frugality will become part of the Defense way of doing business, ensuring maximum ROI for warfighting and peacekeeping.



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