Optimizing transformation in defense
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Introduction

Transformation represents a holistic and dramatic change. Organizations that undergo transformation reinvent and redesign the way they operate to keep pace with change and stay on course for high performance.

Defense organizations have long since grasped the challenge of transformation to remain effective in a changing world. But their attempts at modernization have not always delivered on their promise of a major shift in agility and improved performance against new criteria.

A look at how defense organizations have approached these challenges reveals that changes instigated have not always delivered against expectations. The reason for this is that effective transformation has two key dimensions—process transformation and journey management—which have not always been addressed equally. While many defense organizations have begun to assess and optimize their key processes, they have largely neglected the management of the transformation journey. Journey management includes effective top-down management, objective setting, clear communication of the vision and putting in place effective governance. All of these disciplines help to create the framework and mind-set that the defense organization needs to effectively embrace change and optimize process transformation efforts. Addressing both process reform and journey management equally is the key to the success or failure of defense reforms.

Accenture recognizes that a defense organization is often caught between the need to operate as a business and at the same time continuously enhance its war-fighting capabilities. In parallel, it needs to maneuver in a highly political environment in which rational decisions often give way to political compromises.

In order to face up to these conflicting pressures, it is important that defense organisations have a clear view of their route to transformation and a focus on:

• Meeting customer/stakeholder needs
• Reducing costs
• Enhancing capabilities

In this document, Accenture shares its understanding of the dynamics of transformational change in defense. It explores transformation priorities, the key success factors and reveals its blueprint and roadmap for success in defense transformation.

Effective transformation has two key dimensions—process transformation and journey management.
The need for transformation

In 21st century defense organizations, the need for agility is not in question, but achieving it can pose a significant challenge for organizations of the scale and breadth of most defense forces.

In most of the defense organizations of the world, fixed costs represent the lion’s share of defense budgets—up to 70% in some cases. Personnel accounts for a minimum of 40–50% of overall spend and even where there is exceptionally low personnel spend—for example in the UK and the US—a disproportionate percentage of funds are swallowed up by other fixed cost areas like operations and maintenance. Overall, the average proportion of fixed costs ranges from 65% to 85%. These huge fixed cost blocks severely limit the ability to renew, innovate and adjust in line with new imperatives.

To create the room to renew and innovate, defense organizations have two options: to increase overall spend, or to embark on a process of transformation.

To create the room to renew and innovate, defense organizations have two options: to increase overall spend as Russia, India and China have done but which is not an option for most, or to embark on a process of transformation aimed at reducing their fixed costs by workforce reduction combined with improvements in operations and maintenance efficiencies.
Transformation priorities

Of the two dimensions of effective transformation—business process renewal and journey management—defense organizations have typically focused their efforts on business processes—in particular procurement and maintenance and support—and restructuring and reorganization of the workforce.

**Procurement process reform**

Procurement process reform in defense targets increased buying power through better requirements determination, standardizing and restructuring processes, improved governance and tighter contract systems and buying practices for equipment and non-equipment purchases. Better procurement practices present a way to minimize the challenges of hyperinflation and the rising cost of equipment in defense. Hyperinflation throughout the defense supply chain has been excessive and pervasive for several decades, far outstripping other industries and putting additional pressure on defense organizations’ efforts to contain costs. The argument that technological and capability advancements are the reason behind price increases fails to convince when compared to other capital goods where the inflation-adjusted cost has been relatively flat. Procurement transformation provides a route to addressing the issue of hyperinflation by reconnecting cost analyses with capability requirements, enabling a better awareness of what’s available on the market to avoid “reinventing the wheel” and breaking monopolistic supply.

In Germany, the Federal Ministry of Defense is restructuring and standardizing its procurement systems for enhanced efficiency. Similarly, in the US, a key pillar of the Department of Defense’s strategic management plan is to reform its procurement, acquisition and support processes to increase its buying power. In Australia, the Department of Defense is improving its non-equipment procurement practices through improved governance arrangements to standardize and streamline the contracting and buying practices across defense services and groups. The UK, China, Japan and India are also implementing measures to improve procurement.
Maintenance and support process reform

Maintenance and support process reform in defense involves centralizing support functions that are duplicated across the organization for increased efficiency. It can also involve adopting efficient partnership models or new support contract methods such as performance based contracting to unlock the value in supplier relationships.

Force downsizing

Force downsizing involves strengthening and right-sizing the workforce mix across military, civilian and contracted support to accomplish superior performance. In practice, this often means a reduction in personnel numbers and the average age of personnel. While the overall force size may reduce, the goal is often to retain or even increase the number of deployable troops. Achieving this redistribution often requires a complete rethink of the delivery model—regularly facilitated by IT—to free up soldiers from back office into core functions.

Restructuring

Restructuring is also a key strategy for defense organizations undergoing transformation. Restructuring involves new command structures and reorganization of the Ministry of Defense.

In the UK, the Ministry of Defence is restructuring and clarifying roles and responsibilities to strengthen decision making and accountability. Germany too is reorganizing its Ministry of Defense not only with a new organizational structure, but also with changes to its existing command and control philosophy and to existing civilian and military command structures. France is simplifying its structures, creating a joint support chain, new decision-making bodies, and shared services centers while Russia is replacing six ground force oriented military districts by four joint strategic commands. Brazil is redefining the role of the Ministry of Defense and relationships between each military branch.
Lessons from other industries

Defense is not the only industry to be under pressure to do more with less and increase its flexibility to respond to changes as they arise. Many other industries are also undergoing significant reform. The mining, airline and banking industries, amongst others, are also following significant transformation agendas focused on reducing costs and enhancing productivity through process efficiencies.

As in defense, a key focus area for the mining industry is procurement. To improve procurement practices, many mining organizations have undergone fundamental business process redesign, have taken advantage of advanced analytics to support decision making and are undertaking sourcing reforms. Working with Accenture, one large mining organization for example used ERP to simplify business processes, reducing inventory by 20%, and achieving reductions in the cost of their finance and HR functions of some 40%.

The airline industry also provides useful lessons for defense. The policies and strategies recommended for airline cost control are also pertinent to the defense industry. Measures such as optimizing aircraft fleet dispatch, deploying staff efficiently and maximizing maintenance scheduling have been effective in reducing operational costs and enabling transformation.

Banks too have explored strategies in operational efficiency such as process reengineering, automation and new technology, industrialization, de-localization, founding centers of expertise and outsourcing.

As in defense, a key focus area for the mining industry is procurement. Many mining organizations have undergone fundamental business process redesign, have taken advantage of advanced analytics to support decision making and are undertaking sourcing reforms.
Defense organizations have embraced the need to change and achieved some efficiencies in key process areas such as procurement, maintenance, logistics and business services. Often however, they fail to draw the maximum potential from their transformation efforts. The overarching objective of transformation programs in defense is to gain the ability to renew, innovate and adjust in line with new imperatives. Many programs fall short of this goal, and targeted outcomes such as a renewed focus on customer needs, strategic cost reduction and capability enhancement remain elusive.

While robust processes are central to the transformation effort, the extent to which they will impact organizational performance for the better is due, to a very large extent, to how successfully they are ingrained in the culture of the organization and enable the employees to do their work faster, more efficiently, and deliver customer quality. This is where journey management—the process of cementing the transformational goals into the culture of the organization and preparing and equipping the workforce to do business in new ways—comes into its own.

In many defense organizations undergoing transformation, including the US Department of Defense (see sidebar on following page) leadership tends to focus on innovation and mechanical processes rather than on the transformation journey. Journey management is the most challenging aspect of the defense transformation effort, but critical to its long-term success. As the US Government Accountability Office identified during its analysis of the Department of Defense’s transformation, a lack of journey management capabilities can significantly impede progress.
Behavioral change is needed to embed transformation. Acquisition reforms can be coerced, but will not endure as true transformation unless cultural change occurs.

Acquisition Review Journal, January 2012

The key areas of the transformation journey include:

**Strategy:** The complexity and all-pervasive nature of transformation demands a comprehensive, integrated and enterprise-wide strategy or action plan that identifies areas to improve—collaboration, information sharing, procurement, maintenance or logistics for example—sets clear, measurable objectives and defines a plan for how and by when they can be achieved.

It is critical that targeted objectives—which might include overall savings on the defense budget, reducing fixed costs or increasing R&D spend—are communicated from the top of the organization and cascaded down through the ranks.

Journey management important for success of US Department of Defense's transformation

The US Government Accountability Office identified two critical journey management capabilities that were missing during the Department of Defense's transformation.

As is the case in most transformation programs, the two missing elements were a comprehensive, integrated, and enterprise-wide strategy linked with sustained leadership at the right level.

Due to the complexity and long-term nature of the Department of Defense's business transformation efforts, it needed a chief management officer (CMO) to develop and implement a strategic plan and take responsibility for planning, integrating, and executing the overall business transformation effort. This role would have provided sustained leadership and maintained momentum. Without formally designating responsibility and accountability for results, reconciling competing priorities and prioritizing investments was difficult and impeded the Department of Defense’s progress in its transformation efforts.

1 Source: US Government Accountability Office, 2006

Russian Defense Minister Anatoly Serdyukov’s military reform has been radical, but it lacked a clear strategic objective or a defined doctrine.

Eurasia Daily Monitor Volume, June 28, 2012

**Governance:** Effective governance in transformation projects involves delineating clear lines of accountability and responsibility. Rigorous project management practices, established at CMO level, need to be cascaded down so that each line manager adheres to consistent project management structures. The CMO’s responsibility is to steer and coordinate the change process while the line managers take responsibility for their specialist area, guided by a consistent set of targets and key performance indicators. This structure ensures that the change process remains focused across the company and is not diluted or fragmented into silos.

Optimizing transformation - Optimizing transformation in defense
The problems include an excess of parallel structures, too many staff, too much supervision for too little work and, in many cases, unclear accountability within command structures . . .

Federal Minister of Defense of Germany, Thomas de Maizière

**Leadership:** Providing positive leadership and effective management control in the midst of fundamental change is one of the biggest challenges to the defense organization undergoing transformational change. Ideally, the transformation leader should be a highly placed strategic leader who has the authority and personal conviction to make transformation happen. Strategic leaders must have a vision of the organization that is to be created and provide the necessary motivation, focus, direction, support and roadmap so that the transformation efforts are coordinated.

An important part of effective leadership is the ability to communicate clear objectives and timelines that measure the success or failure of the program and to align the line leaders towards a shared goal so that the organization pulls consistently in one direction.

**Communication:** Effective communication helps the defense organization to tap the huge potential of its workforce and stakeholders to realize the objectives of the transformation effort. Communication is critical to aligning the whole organization top-down to the stated objectives of the program, getting buy-in, defining individual roles in the bigger picture, guiding behaviour and providing support through change. As the transformation effort proceeds, a communications program serves to keep dialogue open so that processes can be fine-tuned and objectives met. Effective communication helps managers to monitor and adapt outcomes to ensure that the change is sustainable over time.

**People:** People need to understand their particular contribution to the overall objectives. This understanding is best achieved through having a clear strategy that identifies priorities, effective governance that makes responsibilities clear at every level, strong leadership that sets clear expectations and robust communications to guide and motivate.

Any transformation effort without a journey management component risks failure to realize its full potential value.

“The pace of reforms is slow . . . A number of factors—the resistance of the military elite to change, the demographic factor, the lack of a clear defense doctrine, the restructuring of the defense industry and the state of civil control over the military—need to be analyzed . . .”

The Russian defense reform and its limitations by Dr. Andrew Liaropoulos, Research Institute for European and American Studies (RIEAS)
Taking into account the challenges facing defense organizations, and based on its experience of working with many of them to achieve reform and transformation (see case studies below), Accenture has developed a defense transformation blueprint.

Accenture’s blueprint addresses the two dimensions that its experience suggests are vital to effective renewal—process transformation and journey management. Whereas transformation efforts in defense have tended to focus on the process transformation element, the Accenture blueprint provides a framework for rigorously analyzing and managing process transformation and journey management equally.
Using the Accenture blueprint to address these two aspects with equal rigor results in three key outcomes:

**Focus on customer/stakeholder needs**
Activities are targeted towards those needs that contribute the most towards customer satisfaction, compliance, risk and governance.

**Strategic cost reduction**
Efforts are redirected towards areas where rapid and deep cost savings can be achieved without sacrificing effectiveness.

**Capability enhancement**
The defense forces are equipped to operate in an increasingly complex environment.

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**Defense transformation blueprint**

![Defense transformation blueprint diagram](image)

**Figure 1: Accenture Defense Transformation Framework**
Many defense organizations have launched initiatives to reinvent themselves for a new reality. They have set out to reduce a heavy fixed cost base with process reform to increase their agility, improve their efficiency and free up resources. Some efforts have fallen short of expectations.

Based on its experience of working with organizations in defense and other industries to improve performance through transformation, Accenture proposes a blueprint for realizing the full potential of process reform. The blueprint points to the two-dimensional nature of effective transformation and underlines journey management as the missing ingredient in transformation efforts that fail to deliver. By embracing journey management—governance, strategy, leadership, communication and people, combined with process reform in the right areas, defense organizations can drive more value from their transformation efforts by reducing costs, enhancing capability and driving customer focus.

By embracing journey management, defense organizations can drive more value from their transformation efforts by reducing costs, enhancing capability and driving customer focus.
Procurement reform program yields $77 for every dollar invested

Accenture worked with the Office of the Assistant Secretary of the Army for Acquisition, Logistics, and Technology (ASA ALT) in the US to achieve performance excellence in procurement. ASA ALT has a critical mission within the US Army: to ensure that war fighters are equipped with the best weapons, systems, support, manpower and technology. Despite previous efforts to transform its complex acquisitions process, ASA ALT needed to accelerate business transformation efforts to reduce costs and develop a more efficient, effective acquisition process.

Accenture applied Continuous Performance Improvement and Lean Six Sigma principles to help ASA ALT reduce acquisition costs, eliminate defects and cut out waste. Accenture helped establish key metrics and reporting practices to ensure on-time completion of strategically important projects.

In 2010 fiscal year, ASA ALT improved the quality of its procurement processes while realizing over $77 million in financial benefits—a return of $77 for every dollar invested in the program. The US Army recognized the ASA ALT program as the Army Organizational Deployment of the Year.

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Supply chain reform optimizes distribution network and frees up US$ 400 million

Accenture partnered with the US Defense Logistics Agency (DLA) to help optimize its supply chain network. The US Department of Defense (DOD) maintains nearly US$100 billion in consumable and repairable material to support the armed forces. With each military service and the Defense Logistics Agency (DLA) managing its own warehouse and yet another organization—USTRANSCOM—responsible to moving material to the war fighter, the DLA was faced with a suboptimal distribution network leading to higher cost and lower customer service levels.

To address excess warehouse capacity, excess inventory levels, redundant inventory investment and the use of expensive transportation modes, Accenture rapidly captured transportation, distribution, material and inventory data and developed network optimization and simulation models. These models enabled the DOD to develop an enterprise distribution network that lowered cost while improving service to the war fighter.

The DOD now has an optimized distribution network and end-to-end visibility of the supply chain and total costs. The projected transportation, inventory, and infrastructure cost savings over five years are estimated to be more than US$400 million.

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New defense model optimizes force readiness, quality of service and response time

Accenture was involved as the project manager of a defense project in France’s General Review of Public Policies (RGPP). The objective of RGPP, launched by President Sarkozy in 2007, was to make the administration of a number of departments more effective and efficient.

Accenture helped design the Reform Coordination Team for the Ministry of Defense and proposed a new model providing shared services support across payroll, finance, statistics and analysis, transportation, war fighter support and procurement and audit.

The program optimized material availability and force readiness, increased cost efficiency and quality of service and response time and created process consistency across the Ministry of Defense.

HR reform improves quality of service delivery and client orientation

Accenture partnered with the Dutch Ministry of Defense to provide and implement a roadmap for a new human resources delivery model. Driven by budget cuts, the Dutch Ministry of Defense wanted to modernize its HR processes to improve quality and consistency of service while realizing a target ratio of one HR staff member for every 50 employees.

All HR processes were standardized across all branches of the organization and a modern IT infrastructure was put in place. Then Accenture helped build a shared services center and transfer administrative activities from the branches to the shared services center via business process redesign. Accenture also planned and supported the Ministry of Defense with its journey management and communication program.

The project delivered an improved HR–employee ratio and an initial reduction in full time employees of 850. The HR shared service center project improved quality of service delivery, transparency in performance measurement and management and standardized HR processes. It also increased client orientation and improved reliability.

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For further information contact:

**Defense Transformation**  
Global Development Lead  
Philip von Haehling  
philip.von.haehling@accenture.com

**Defense Business Service**  
Product Manager  
Valterri Vuorisalo  
valterri.vuorisalo@accenture.com