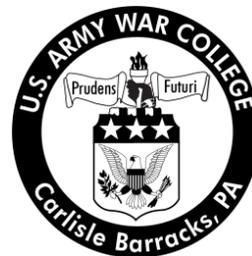


Replication of U.S. Army-Europe Military Pay Efficiencies: Bright Spots

by

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Class of 2014

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The Department of Defense (DoD) faces extraordinary fiscal challenges. The Army made deep budget reductions to meet sequestration caps and those measures could be re-imposed in 2016. However, given results of several Lean Six Sigma projects in the U.S. Army-Europe, it proved possible to find significant savings in military pay entitlements which could lead to substantial savings elsewhere. Initiatives projected millions of dollars in savings over five years from efficiencies of several entitlements. Additionally, improving the accuracy of military pay entitlements contributes to the Army's audit readiness, a Congressionally imposed DoD mandate for 2017. Replication of these projects elsewhere in the Army, unfortunately, has not occurred. Savings resulted from successful financial management organizational transformation, and the Army should use those lessons as it prepares to implement significant force structure changes. This paper explores why efficiencies did not spread throughout the service, what steps the Army should take to achieve benefits in other commands, and encourages the Army to assist other services with the replication of these projects to realize savings throughout DoD.

Replication of U.S. Army-Europe Military Pay Efficiencies: Bright Spots

We are now in a different fiscal environment. New realities are forcing us to more fully confront these tough and painful choices.

—Secretary of Defense Chuck Hagel¹

The United States Army must contend with a serious fiscal reality. The Army Chief of Staff, General Raymond Odierno, explicitly addressed the pressures on the Department of the Army's budget during his confirmation hearing in 2011, when he stated, "most importantly, all of this is underpinned by our own fiscal crisis."²

Sequestration, formally known as the Budget Control Act of 2011, led to subsequent Army decisions, which occurred less than 30 days from the Army Secretary's directive of August 14, 2013 to meet sequestration resource levels.³

Adding further pressure on the Army, the Department of Defense (DoD) recently announced a reduction in Army active component force to an end-strength somewhere between 440,000 and 450,000 by 2015, a significant reduction from the 2013 Army end strength of 532,000.⁴ Should subsequent sequestration be enacted in 2016, the Army would have to further reduce its end-strength to 420,000.⁵

Incentive for the Army to Seek Savings

In such a fiscally constrained environment, one would expect the Army to aggressively and prudently seek savings to increase efficiencies to make the most of the current level of resources before the drastic measures of sequestration begin taking effect. The efficiency measure of the directed 25% reduction in Army Headquarters could lead to the assumption that the Army had reached a level of efficiency in all its practices prior to taking this drastic step.⁶ The Army, however, has not displayed

comparable initiative in seeking efficiencies with certain entitlements paid through military pay disbursements.

As a follow-on to transformation in Europe following the “Grow the Army” initiative, the United States Army Europe (USAREUR) in 2010 directed its payroll finance activity, the 266th Financial Management Support Center (FMSC), to perform reviews of procedures involved with the authorization and disbursement of entitlements. Reviews led to proposals for lean six sigma (LSS) projects through the 266th FMSC higher headquarters, the 21st Theater Sustainment Command (TSC). To date, four LSS projects have achieved estimated multi-million dollar cost savings in USAREUR through fiscal year (FY) 2019. If entitlement authorization and disbursement problems are not unique to USAREUR, the Army could potentially realize significant additional cost savings through widespread replication of these highly successful projects.

This paper uses lessons from several works to examine USAREUR’s Army financial management transformation and develops a framework for strategic leaders preparing for or overseeing military organizational transformation. Rather than simply criticizing the execution of the 2008 transformation, this paper presents proposals to improve possible transformation initiatives in the future--which seems nearly a certainty given steep budget and personnel reductions DoD announced in February 2014.⁷

Financial Management Transformation Background

The “Grow the Army” initiative increased the number of Total Army (Active and Reserve) Brigade Combat Teams (BCTs) from 48 to 77.⁸ By 2007, the Army rebalance and redistribution of forces already converted most of 116,000 positions to the Army’s Operating Force – infantry, military police, civil affairs and other specialties deemed critical to staff the additional BCTs and support units.⁹ As a component of the Army

enterprise, financial management completed its transformation in 2008 to support the growth. In USAREUR, transformation resulted in a loss of nearly 500 positions, 58% of total personnel, in the 266th Finance Command (FC), and resulted in the deactivation of the 266th FC as a separate command and its activation as a subordinate staff element of the 21st TSC.¹⁰

Although civilian authorizations increased in the financial management community, there was not a one-for-one transfer of eliminated military positions into civilian authorizations (referred to as “mil-to-civ” conversions). Military training and administrative requirements lower the availability of combat service support soldiers to perform community support. Accordingly, Army manpower regulations use just 77% of a full-time civilian employee equivalent as the availability factor for a financial management soldier.¹¹ Notably, deactivating finance units were replaced at an even lower ratio than the standard availability factor. The concept plan for staffing the transformed organization would exist for less than one year based on the assumption of a short operating life because of the imminent fielding of the DoD’s automated solution, the Defense Integrated Military Human Resources System (DIMHRS). As late as 2008, the Army projected DIMHRS fielding in March 2009.¹²

Framework Development: Four Works; Five Theorists

The Army may garner significant lessons learned from the USAREUR financial management community’s transformation experience. A framework that applies concepts of implementing organizational change and transformation initiatives from four works of applied theorists may shed light on the financial management community’s transformation. Application of the framework uncovers significant problems with the planning and execution of the transformation. Additionally, the framework may prove

beneficial in explaining the successful change in culture and the steps taken to embed these changes in the organization. Finally, each military service may benefit from the use of this framework, given the impending reduction in the size of the Army, reductions in personnel strength in the Marine Corps, the retirement of Air Force platforms, and reevaluation of the Navy's Littoral Combat Ship program at barely half the total sought by the Navy.¹³

The framework selects the most effective measures for two stages of the transformation process: the preliminary stage to prepare for change; and the post-transformation embedding stage.

Table 1. Framework for Military Organizational Transformation Strategy

Author:	Chip Heath and Dan Heath	John Kotter	Paul Schoemaker	Edgar Schein
<i>Publication:</i>	<i>Switch</i>	<i>Leading Change</i>	<i>Brilliant Mistakes</i>	<i>Organizational Culture and Leadership</i>
Significant pre-transformational cultural element or threat	Grow people to make organizational changes.	Assumption that developing technology will solve all problems.	Successful organizations require a culture of curiosity	Leadership must find a way to speed up cultural change
Significant post-transformational cultural element or threat	Search for and take advantage of bright spots.	Transformations often fail from declaring victory too soon	Allow, even encourage, deliberate brilliant mistakes	Unsolicited information implies a manager is ignorant

Table 1 illustrates the most applicable lessons for transformation of military organizations culled from four works by contemporary business consultants, academicians, and authors. Conscious consideration and application of initiatives and lessons from these works for organizational transformation in Army units, in what seems sure to be just as significant changes through 2019, could make transformations more effective. The proposed methodology, highly selective of recommendations from these

works, is based on the exceptionally successful transformation of the USAREUR financial management organization.

Use of this framework could turn more organizations into exemplars or “bright spots” by “achieving radically different results with the same set of resources behind you.”¹⁴ That succinctly describes the exemplary achievements of the 266th FMSC as it absorbed reductions of 58% when the supported population was reduced by half of that (i.e., only 29%). The unit emerged as a bright spot as it solved systemic problems outside the financial management area of responsibility and realized millions of dollars in savings, multiple times. The Internal Review and Compliance Office of the 21st TSC validated the estimate of \$14.4 million in cost savings over five years for the four most noteworthy projects--each nominated for an Army level award between 2011 and 2013.¹⁵ The following sections provide a synopsis of the pertinent philosophies from the four theorists.

Chip Heath and Dan Heath

In *Switch: How to Change Things When Change is Hard*, Chip Heath and Dan Heath make the case that people are central to any organizational change. Personnel development is imperative to successful transformation. The authors recommend a strategy of looking for “bright spots” to find and emulate successful efforts.¹⁶ Unfortunately, the 266th FMSC workforce experienced little or no overlap between departing military members and new civilian employee replacements prior to the implementation of transformation and therefore workforce development delayed successful transformation. Still, once transformation of the 266th FMSC occurred, the unit found its own “bright spots” to accelerate success internally, and the unit communicated these “bright spots” to the Army’s transformation community to no avail.

John Kotter

John Kotter provides what should have been cautionary warnings in *Leading Change* by making note of failure in the vast majority of transformation initiatives in his experience.¹⁷ Unfortunately, critical parts of Kotter's work appear absent from the Army's financial management transformation. During the pre-transformation phase, the organization was consciously under resourced based on a faulty assumption that an automation system would be fielded on time and deliver all promised capabilities. This inevitably led to the problem of declaring victory too soon.

Edgar Schein

The Army is the classic hierarchical organization, known for its unique and deeply embedded cultural norms. Yet, many organizational cultural pitfalls Edgar Schein described in his *Organizational Culture and Leadership* which threaten transformation and require leadership action were exhibited throughout Army financial management.¹⁸ As the 266th FMSC underwent transformation, accelerating cultural change proved a difficult undertaking. Following its challenging, but ultimately successful transformation, the 266th FMSC shared best practices throughout the financial management community. Schein explained why best practices frequently fail to take hold outside the originating organization.

Paul Schoemaker

Finally, organizational transformation commonly leads to changes in procedures that are not necessarily foreseen, but successful organizations establish an atmosphere conducive to innovation. Paul Schoemaker in *Brilliant Mistakes* provides suggestions to organizational leaders to foster such an atmosphere. Schoemaker described this as a culture of curiosity. The 266th FMSC's organizational atmosphere led to such a culture

and greatly contributed to successful transformation. The culture of curiosity eventually led to the “brilliant mistakes” which “accelerate learning and lead to breakthrough innovation.”¹⁹

Framework Applied

Applying the organizational change framework requires careful planning and consideration. The four theorists provide key elements necessary to successfully apply the concepts to transformation within the DoD.

Chip Heath and Dan Heath: Grow People

In *Switch*, Chip Heath and Dan Heath describe elements necessary for a successful transformation. In retrospect, many of these elements were absent in the transformation of the Army’s financial management community. The situation required those members in the organization to grow in skill and performance. However, USAREUR leadership found no alternative to fulfill this recommendation, given workforce reductions. Deactivation of the command structure of the combat support community in 2008 reduced military authorizations by the Modification Table of Organization and Equipment for the Finance Command in USAREUR by over 50%.²⁰ What appeared to be a people problem proved to be a situation problem.²¹ Mitigating issues resulting from a significant workforce reduction became management’s focus. The challenge of the same volume of work with fewer workers consumed available planning time and resources rather than the seismic cultural change in practices, which proved more challenging to the organization.

Prior to 2008, the legacy financial management workforce staffed individual communities to function as stand-alone offices and to perform all tasks on site. Transformation consolidated personnel into centralized staff that would perform many of

the tasks performed previously at field finance offices. The workload, however, did not migrate to the centralized office as planned. Although the workload migrated to the centralized office, it was not handled effectively and quickly returned to field sites. The field finance offices (finance customer support teams (FCSTs)) were staffed only with enough people to address customer service inquiries, and in- and out-processing of soldiers and their families arriving to and departing from Europe.

Initially, centralization of transaction processing failed. When the workload that had been forwarded to the centralized site entered a backlog and remained unprocessed, customers returned to the field office to inquire about their issues. Before long, FCSTs ceased forwarding workload to the centralized site. The 266th FMSC wanted the workforce to behave in a new way, but the new procedure was not explained clearly since workforce reduction appeared to require centralization, reinforcing this change appeared unnecessary. The field offices had a small fraction of their former staffs, and centralization depended on successful transfer of most of the transaction processing workload out of the FCSTs.

Those leading the change effort failed to remove the ambiguity from the vision of change. The migration of workload back to community finance offices demonstrated this ambiguous vision that permitted the centralization effort to fail. Initially, the central site workers had no appreciation for the critical role they played. Centralized site workers did not understand that an error made in input usually resulted in an additional customer who often made a repeat visit trying to get one thing fixed. Additionally, most of these transactions affected pay. Mistakes often resulted in reduction of pay since every soldier

assigned to Europe received entitlements that only a small percentage of the force received before arriving to Europe.²²

The same lack of performance (effectiveness and efficiency) resulted when the centralized site simply did not process all the transactions before payday, that is, when the centralized site processed transactions, but not in a timely manner. Until the centralized office understood the direct connection between a stack of papers inaccurately or untimely input into the system with the subsequent pay problems and line of disgruntled customers, the results were predictable. Each month the transactions sent to central site for processing diminished in number because field offices understood the only way to avoid unsatisfied customers was to process the transactions themselves – in effect, reverting to the former business model.

Cultural aspects of the organization contributed to initial failures of the centralization of transaction processing. Field offices proved reluctant to cease on-site transaction processing because of a deep seated identity as part of the local community. Cultural awareness at the centralized processing site, that is the awareness described above concerning the link between timely processing of paperwork and the prevention of pay problems, was necessary, but not sufficient for success. Central site employees eventually understood that a document represented the financial welfare of a soldier or an entire family. This realization proved a valuable incentive, but growing the skills and competencies at the central staff required additional effort. The unit's director instituted a one-week technical training course to be taught quarterly for new employees that developed the skills necessary to centralize document processing

successfully. Transforming an organization, as Chip Heath and Dan Heath noted, necessitated growing people into new and different roles.²³

Chip Heath and Dan Heath; Bright Spots

The USAREUR financial management community emerged as a bright spot in Army transformation. In *Switch*, the authors define bright spots as organizations that achieve successful efforts worth emulating.²⁴ The evidence, multiple Army level award winning LSS projects by the 266th FMSC, demonstrates the organization was “achieving radically different results with the same set of resources everyone else had.”²⁵ Processes broke down through lack of adherence to established procedures. The USAREUR financial management community, through LSS projects, gradually expanded its role to tasks assigned by regulation to other organizations and agencies in certain military pay entitlement processes. In January 2014, the 266th FMSC had three ongoing LSS projects, and between 2011 and 2013, the unit completed six projects – four of those six were nominated for Army-level recognition.²⁶

The financial management role generally entails the receipt and processing of certified documentation from other organizations. Several LSS projects led to the expansion of the financial management role in the authorization and verification of selected entitlements. The ability of the finance organization to expand its role arose from the relative advantage of a workforce whose members achieved proficiency more quickly than the workforces of other support organizations that also underwent transformation. This trend was apparent in results of several LSS projects.

The success of LSS projects illustrates the 266th FMSC as a transformation “bright spot.” Financial management processes required oversight of other agencies which had degraded over time. Once the financial management organization

successfully transformed, LSS projects realized an estimated fourteen million dollars of savings in four notable projects. Consider two examples. First, the 266th FMSC obtained records of numbers of meals issued to units for field training, and tracked unit meal collection submissions until collections submitted matched the value of meals issued.

A later project focused on Foreign Language Proficiency Bonus (FLPB), an entitlement payable to service members who qualify and maintain proficiency in a designated foreign language.²⁷ The 266th FMSC created a database to track the validity of FLPB orders and reviewed payments following changes to the regulation that eliminated languages from eligibility for payment, or continued its eligibility for payment but at a lower amount. This organization adapted to transformation relatively quickly and trained, competent personnel helped improve the performance of other agencies by providing oversight to processes that were not the responsibility of the financial management community. Improved processes included collection of subsistence allowance following field training through oversight of the reconciliation of meals issued with applicable units and improving accuracy of FLPB through oversight of the order-issuing officials. This bright spot should ideally have been identified and replicated throughout the Army's support community.

John Kotter; False Promise of Technology Solution

In *Leading Change*, John Kotter provided another warning, "Developing our technology will solve all problems," is a shared value often incompatible with changes made.²⁸ Changes were effective in July 2008, and DIMHRS was scheduled for fielding the following year.²⁹ USAREUR implemented a shorter term bridging strategy with a staffing shortage of 10%, with an automation solution scheduled for fielding to follow. DIMHRS was unfortunately delayed multiple times before the entire system was

canceled in February 2010. Then-Secretary of Defense Robert Gates commented, “I would say what we’ve gotten for half a billion dollars is an unpronounceable acronym.”³⁰ Long before Secretary Gates made this statement, the Army decided that the technology of DIMHRS would solve any resource shortfall of USAREUR’s financial management transformation.

John Kotter; Declaring Victory Too Soon

Kotter also cautioned against declaring victory too soon in a major change effort. That appears to have been the case with respect to financial management transformation in USAREUR. Most troubling, even customers perceived problems with the transformation as under-resourced. Community leaders offered borrowed military manpower to supplement FCSTs and address backlogs. Some leaders even explored use of activated reservists to assist FCSTs to cover staffing shortfalls. In this case, victory was declared much too soon. The low workforce staffing level was established intentionally in anticipation of an impending automation solution.

Functioning with inadequate staffing, effectively the norm following the cancellation of DIMHRS, proved extremely difficult. The numerous errors described previously in the organizational transformation, had they been avoided, would have resulted in a functioning, high performing organization much earlier than proved to be the case. Eventually, the centralized processing section took hold, but only after personnel with experience working in the community finance offices assumed key staff positions at the central site. Field sites had to be forced to use the central site for processing. The system used to track documents had to be visible to field sites so they could locally verify receipt and processing at every step. This was an automation improvement developed locally and fielded internally. Not nearly as complicated as

DIMHRS, this document viewing and tracking system gave field sites the reassurance necessary to concentrate on their primary missions: customer service, and support to arriving and departing personnel.

This also distributed workload more in line with the organization's resources and standardized finance practices since it was easier to review transactions from central site for consistency. Processing documents in the finance system often requires research and follow up, so the successful transfer of the system input function from field sites to the central site solved a major resource shortfall. Many other changes proved necessary to meet challenges of transformation such as the centralization of travel voucher processing, separations and retirement payments, and debts. The redistribution of workload succeeded in finally eliminating backlogs. By 2010, over two years after transformation, the 266th FMSC had finally overcome the disruptions in its workforce. The unit had transitioned from a predominantly military to civilian workforce (although still led by an Army colonel), had absorbed a more than 50% reduction in personnel, moved its headquarters, and changed its fundamental business practice from onsite processing at field sites to remote, centralized site processing of almost all transactions.

During these two years, there had also been a significant overturn of personnel. Most employees were spouses of active duty military personnel, typically serving a three year assignment in Europe. Because the hiring process typically required several months, most employees served about two years in the organization. During the first two years of operations after transformation, there was high turnover as much of the workforce departed and the hiring process replaced them with a significant number of new employees. This turnover eased the transition to changes in business practices

because training new employees proved much easier than retraining seasoned employees to perform an existing task differently.

The locally developed innovations such as the one-week technical training course and the document tracking system arose from the necessity of improving operations in an untenable situation. Once finance transaction processing centralization was emplaced, the manpower reduction proved too drastic--in most field offices from 26 to five personnel. The decision to centralize military separations and other functions transferred additional workload out of the inadequately staffed FCST. These fundamental changes in the new financial management concept resulted from a premature declaration of victory, virtually at the time of transformation.

Paul Schoemaker; Success Requires a Culture of Curiosity

The USAREUR financial management community itself was not exempt from procedural errors during transformation. The center's first LSS project discovered hundreds of input errors during a review that initially hardly seemed worth the effort. The automated system supposedly included constraints that prevented such errors. Service members may receive an overseas housing allowance (OHA) for dependents residing at an overseas duty location, or the unaccompanied service member may receive a cost of living allowance for dependents in the United States. Army regulation prohibits the receipt of OHA at the with-dependent rate and dependent cost of living allowance (COLA), at least COLA for U.S. locations. Surprisingly, a review discovered hundreds of cases of service members receiving both entitlements simultaneously. This illustrates challenging a widely held assumption and the discovery of a systemic problem. Routinely challenging assumptions in the military entitlement process resulted in what Schoemaker labeled a culture of curiosity. The 266th FMSC's culture of curiosity led to

this discovery and the subsequent recovery of substantial amounts of erroneously disbursed funds. The questioning and examination of automated systems controls led to the prevention of millions of dollars in continued disbursement of erroneous entitlements.³¹

Paul Schoemaker; Brilliant Mistakes

In *Brilliant Mistakes*, Paul Schoemaker describes “brilliant mistakes,” as “a decision that’s less than optimal, given what could reasonably have been known at the time of choice.”³² A brilliant mistake is a presumed error that challenges the status quo and leads to immeasurable advantageous outcomes.³³ In retrospect, many LSS projects initiated by the 266th FMSC were, by Schoemaker’s definition, also brilliant mistakes. For example, the annual entitlement verifications required by unit commanders included FLPB. Every year, this entitlement received the certification of the unit commander that the recipient met multiple criteria for payment of FLPB.³⁴ This appeared initially to be a process operating with multiple checks and balances. To initiate FLPB, the service member received orders, signed by an official authorized to certify this entitlement. Continued receipt of this entitlement required monthly recertification through the commander’s verification of the unit commander’s finance report, and additionally required a separate annual recertification.³⁵ The search to improve efficiency required examination of the validation process and led to discovery that the process had a high rate of errors, predominantly overpayments. Subsequent implementation of program improvements led to a projected total of six million dollars of cost savings over five years.³⁶

The success of the LSS program drove the conscious re-examination of processes in the authorization and continuation of military pay entitlements. Many

processes were found to be operating in accordance with governing regulations without systemic errors, and did not merit LSS project status. Several processes, analyzed as the result of deliberate mistakes in examining processes governed by stringent and redundant regulatory controls, resulted in the total revamp of procedures. The culture that assumed flaws in the military pay entitlements process, reflects Schoemaker's assertion that challenging the status quo improves outcomes. The primary aim of deliberate mistakes is to "test the validity of hidden assumptions that are hard, if not impossible, to analyze within an expected utility framework."³⁷ A similar deliberate process guided other LSS projects. The collection of subsistence allowance during field training appeared in control from the financial management perspective. Army regulations specified a process for making collections and assigned responsibility to unit commanders to oversee the process. This project, titled "Improving Meal Collection Procedures," met the definition of a brilliant mistake and achieved over three million dollars in projected cost savings over five years.³⁸

Edgar Schein; Management Must Speed Up Cultural Change

Army transformation severely reduced the size of the workforce in the USAREUR financial management community. The more serious problem was changing the culture of the post-transformation workforce. Implementing change in business practices was complicated by embedded cultural biases. The magnitude of the task described by Schein in *Organizational Culture and Leadership* seems applicable, "culture change, in the sense of changing basic assumptions, is difficult, time-consuming, and highly anxiety provoking--a point that is especially relevant for the leader who sets out to change the culture of an organization."³⁹

Transformation demanded changes beyond the service-providing activity's organizational culture. The FCST may be viewed as a group that, according to Schein, has a culture defined as "assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems."⁴⁰ Transformation in USAREUR financial management required changes counter to the Army's own, deeply ingrained culture. No longer would uniformed soldiers provide financial management services to other service members. The 26-person financial management detachment assigned to each military community was deactivated in most cases. Typically, a FCST with strength of five mostly entry-level grade civilians replaced the detachment. Soldier customers found civilian employees in the community finance offices in place of the soldiers and took the change to say, "We no longer take care of our own." The fundamental change in business practice met with resistance from the Army culture.

The small size of the FCST necessitated a change in culture through the requirement to migrate workload away from the community, formerly responsible for processing military pay transactions. A centralized site, rather than the community's own activity, would process finance transactions, make input and oversee subsequent verification of entitlements. This also ran counter to the culture of, "We take care of our own" since the community finance office lacked involvement in any stage of transaction processing. The central processing section lacked adequate staffing at the time of transformation so the central site failed to meet standards for timely processing of transactions.⁴¹ The immediate functioning of the central processing site at

transformation was critical to the cultural change of migration of workflow away from the local community. The lack of staffing was exacerbated by the lack of technical qualification of the newly assigned staff. A centralized staff not completely manned at the time of transformation with technicians new to coding complicated transactions processed transactions at a pace that created a growing backlog.⁴²

Predictably, given the lack of staffing of the organization's central processing staff and the inadequate technical qualification of that staff once hired, the transfer of input of financial documents to the central site failed. The FCSTs, with a small fraction of previous personnel resources, continued local processing of documents. The organization had inadequate preparation for the cultural changes to transform successfully. The organization drifted back towards its pre-transformation business practices, but as Schein asserts, "If elements of the culture become dysfunctional, leadership can and must do something to speed up culture change."⁴³

Speeding up cultural change proved a challenging undertaking. The organization developed a one-week technical training course for employees. In its first year, however, only about half the workforce received training. The advancement of employees within the organization contributed to the required cultural change. Successful experience at a FCST often led to promotion and reassignment to the central site. Eventually, past experience at a community finance office of the central site staff leadership, technical training of the staff in technician positions, and the organization's communication efforts resulted in successful cultural change.

Schein; Unsolicited Information Implies Ignorance

The Army's deeply embedded culture, basic underlying assumptions taken for granted within the organization, explains why the initiatives from USAREUR financial

management failed to find traction elsewhere.⁴⁴ Schein described a similar experience with organizations he studied in which he found a lack of lateral communications between units of the organization. The culture of the organization, in this case the Army's financial management community, made the replication of improved business practices unlikely. Schein noted, "If someone provided some unsolicited information pertaining to the job, this was potentially an invasion of privacy and possibly an insult, as it implied that the manager did not already have this information or idea."⁴⁵

In his memorandum of March 4, 2013, "Audit of Basic Allowance for Subsistence (BAS) for Soldiers Participating in Field Training," the Secretary of the Army cited an Army Audit Agency (AAA) report on collecting subsistence allowance from soldiers in such status. He decried the adverse effect on the Army's fiscal posture and noted this violates federal statute and would make the DoD mandate to achieve audit readiness by 2017 problematic. The Secretary of the Army also noted the BAS meal collections have been a material weakness in the Army's annual Statement of Assurance on Management Controls submitted through DoD to Congress.⁴⁶ Unbeknownst to AAA, improvements in collection of subsistence allowance in USAREUR resulted in cost savings projections of over \$3 million. USAREUR nominated this project for improving collection procedures for meals provided during field training for Department of the Army LSS Excellence Award Program recognition for 2013.

Army-level award winning USAREUR projects from prior years, unfortunately, have not resulted in successful replication throughout the Army. These included an examination of housing allowances paid to soldiers in USAREUR. Another project, designed to improve procedures for authorizing and monitoring the disbursement of

FLPB, also received Army level recognition. Delays in implementation of policy and procedural entitlement authorization improvements Army-wide result in less efficient use of budget resources and may necessitate deeper cuts elsewhere in the Army budget. The cultural bias against unsolicited information prevented replication even during a time of serious fiscal challenges. It is possible that other financial management activities were not aware of these initiatives despite the promulgation efforts of the Army's LSS community through the Army's Office of Business Transformation. This office, a staff section of the Under Secretary of the Army/Chief Management Officer, has the mission to assist the Army in transforming to improve use of national resources.⁴⁷ It is also possible, however, that financial management activities viewed project successes as unique and not applicable to their circumstances.

Conclusion

At least one USAREUR project described above has proven potential for replication throughout the Army to address what the Secretary of the Army described as a systemic problem. This project concerning meal collection procedures and other successful projects, although acknowledged by the Army as worthy of replication, did not see implementation outside of USAREUR financial management organizations. The fact that these systemic problems developed in the first place has origins in military cultural norms and business practices that illustrate the challenge in implementation of transformational change in the Army. Without deliberate action to mitigate these challenges and overcome cultural dynamics, systemic problems will persist and military pay entitlement reviews will routinely produce, as shown in USAREUR, significant error rates. Even absent a Secretary of the Army memorandum identifying systemic problems, it seems reasonable to suspect these problems were not isolated to

USAREUR communities. A significant portion of FLPB overpayment cases, for example, involved erroneous payments in FLPB originating from stations outside USAREUR. The Army could realize significant savings – potentially hundreds of millions of dollars should the efficiencies from USAREUR projects result in similar efficiencies in other commands.

These and other projects warrant evaluation to determine potential for implementation not just in the Army, but in other services. DoD should explore replication of these process improvements in entitlement authorization processes of other services since all the entitlements examined are not unique to the Army. The Government Accountability Office (GAO) found systemic problems in 2013 implying the need for payroll improvements to all services, “DFAS [the Defense Finance and Accounting Service] needs to develop processes for detecting errors in active duty military payroll disbursements.”⁴⁸ Comparable to the Army’s Office of Business Transformation on DoD staff is the Enterprise Business Integration directorate, responsible in part for information sharing forums for transformation initiatives.⁴⁹ Independent of cost savings, the Army has another incentive for pursuing replication of successes from the USAREUR financial management organization. In 2009 Congress enacted legislation requiring DoD achieve full audit readiness by 2017.⁵⁰ The Army has acknowledged weaknesses in military payroll processes as one of the greatest threats to its ability to achieve audit readiness.⁵¹ A GAO report of 2013 cites problems throughout all services. “DoD is one of the few federal entities that cannot accurately account for its spending or assets.”⁵²

More broadly, beyond even the financial management community, the Army and other services should consider the lessons described previously in successful transformation of the 266th FMSC learned from manpower reductions and replete with cultural disruptions. In February 2014 the Secretary of Defense announced significant force reductions and the cancellation of systems and platforms that will complicate the next transformation of the defense establishment.⁵³ DoD, responsible for national defense, must not fail in this effort, despite the difficulties. John Kotter experienced failure in 10 out of 12 transformation efforts and implied the high rate of failure in transformation efforts is typical.⁵⁴

The framework developed through the examination of the USAREUR financial management transformation may be useful in the transformation of any military organization in each armed service of DoD. The DoD and the Army can learn from brilliant mistakes and past bright spots to make impending transformative changes to the Army, and throughout DoD, occur with efficiency and achieve maximum benefit from the lessons of financial management transformation of USAREUR. The American military has consistently achieved national objectives through conflict, only to be asked to serve the nation at a fraction of the cost until the next crisis. The DoD is entering just such an era. As good stewards of resources in a fiscally constrained environment, successful transformation and striving for bright spots is not just the right thing to do, this should be the goal of all professionals.

Endnotes

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³ U.S. Secretary of the Army John M. McHugh, "2013 Focus Areas," memorandum for Principal Officials of Headquarters, Department of the Army, Washington, DC, August 14, 2013.

⁴ Jim Tice, "Promotions to Stay Steady despite Plan for End Strength Cuts," *Army Times Online*, November 14, 2013, <http://www.armytimes.com/article/20131114/CAREERS/310300032/> (accessed March 2, 2014).

⁵ The Army end strength projection of 440,000 to 450,000 without sequestration, and the lower projection of 420,000 with sequestration in 2016 were announced by Secretary of Defense Hagel. U.S. Secretary of Defense Chuck Hagel, FY2015 Budget Preview, February 24, 2014, 6-7.

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⁷ U.S. Secretary of Defense Chuck Hagel, FY2015 Budget Preview, February 24, 2014, 6.

⁸ Francis J. Harvey and Peter J. Schoomaker, *Our Army at War – Relevant and Ready . . . Today and Tomorrow*, 2005, Posture Statement Presented to the 109th Cong., 1st sess. (Washington, DC: U.S. Department of the Army, 2005), ii.

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¹² Pete Geren and George W. Casey, *A Campaign Quality Army with Joint and Expeditionary Capabilities*, 2008, Posture Statement Presented to the 110th Cong., 2nd sess. (Washington, DC: U.S. Department of the Army, 2008), Defense Integrated Military Human Resources System (DIMHRS) Information Paper.

¹³ Ibid.

¹⁴ Chip Heath and Dan Heath, *Switch: How to Change Things When Change is Hard* (New York: Broadway Books, 2010), 42.

¹⁵ Ron Stanley, Operations Research Analyst, "Nomination for LEAP Project Team Award," nomination for 2011 (266 FMC Improving BAH Validation), 2012 (Improving the Implementation

and Control of FLPB Pay), and 2013 (“Streamline the Separation Process” and “Improving Meal Collection Procedures”), Kaiserslautern, Germany, 21st TSC, May 28, 2011, October 22, 2012 and June 27, 2013.

¹⁶ Heath and Heath, *Switch*, 28.

¹⁷ John P. Kotter, *Leading Change* (Boston: Harvard Business Review Press, 2012), 13.

¹⁸ Edgar H. Schein, *Organizational Culture and Leadership*, 4th ed. (San Francisco: Wiley & Sons, 2010), ix.

¹⁹ Paul J. H. Schoemaker, *Brilliant Mistakes: Finding Success on the Far Side of Failure* (Philadelphia: Wharton Digital Press, 2011), viii.

²⁰ COL Thomas J. Seelig, “FMC Director Mission Briefing,” briefing slides prepared for Chief of Staff, 21st TSC, Kaiserslautern, Germany, 266th FMSC, September 28, 2012.

²¹ Heath and Heath, *Switch*, 18.

²² Cost of living allowance for the United States (CONUS COLA) was authorized only for a few metropolitan areas in 8 states in 2011 and included no major military installations. Also, an Army sergeant would have seen over twice the housing entitlement if reassigned from Fort Hood, TX to either of two major installations in Europe. The 2011 housing allowance for Fort Hood, TX was \$831 (single) and \$1017 (with dependent) for basic allowance for housing (BAH). Those rates were \$2251 and \$2652 (Kaiserslautern) and \$3071 and \$3563 (Wiesbaden). These are found in tables at the Defense Travel Management Office (DTMO) website for CONUS COLA Locations <http://www.defensetravel.dod.mil/site/conusloc.cfm>, BAH calculator <http://www.defensetravel.dod.mil/site/bahCalc.cfm> and Overseas Housing Allowance (OHA) calculator <http://www.defensetravel.dod.mil/site/ohaCalc.cfm> (accessed March 26, 2014).

²³ Heath and Heath, *Switch*, 171.

²⁴ *Ibid.*, 28.

²⁵ *Ibid.*, 42.

²⁶ Ron Stanley, “Continuous Process Improvement (CPI) / Lean Six Sigma (LSS) Executive Steering Committee (ESC),” briefing slides, Kaiserslautern, Germany, 21st TSC, January 15, 2014.

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²⁹ Pete Geren and George W. Casey, *A Campaign Quality Army with Joint and Expeditionary Capabilities*, 2008, Posture Statement Presented to the 110th Cong., 2nd sess. (Washington, DC: U.S. Department of the Army, 2008). Defense Integrated Military Human Resources System (DIMHRS) Information Paper.

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³⁴ U.S. Department of the Army, *Army Foreign Language Program*, Army Regulation 11-6 (Washington, DC: U.S. Department of the Army, August 23, 2013), 17-18.

³⁵ U.S. Department of the Army, *Financial Administration: Military Pay and Allowances Policy*, Army Regulation 37-104-4 (Washington, DC: U.S. Department of the Army, June 8, 2005), 1 (UCFR), 7 (annual re-certification).

³⁶ Stanley, "Nomination for LEAP Project Team Award," nomination for 2012 (Improving the Implementation and Control of FLPB Pay), Kaiserslautern, Germany, 21st TSC, October 22, 2012.

³⁷ Schoemaker, *Brilliant Mistakes*, 94.

³⁸ Stanley, "Nomination for LEAP Project Team Award," nomination for 2012 (Improving the Implementation and Control of FLPB Pay).

³⁹ Schein, *Organizational Culture and Leadership*, 33.

⁴⁰ *Ibid.*, 18.

⁴¹ The timeliness standard varies depending on updates to the military pay system, the Defense Joint Military Pay System (DJMS). Transactions require input by a coder, then verification by an auditor and each occurs only upon system updates. For example, the November 2012 DJMS processing month contained 17 updates, generally one for each business day during the processing month, in this case between October 26 and November 20, 2012. See the website of the Assistant Secretary of the Army (Financial Management and Comptroller), Pay Support, Defense MilPay Joint Military Pay System (DJMS), DJMS (AC) <http://asafm.army.mil/offices/FO/UsaFincom.aspx?OfficeCode=1500> (accessed March 27, 2014).

⁴² The Department of Defense Financial Management Regulation (DODFMR), Volume 7A, Military Pay Policy – Active Duty and Reserve Pay, consists of 66 Chapters and 1036 pages. This is just one research source. See <http://comptroller.defense.gov/fmr> (accessed March 27, 2014).

⁴³ Schein, *Organizational Culture and Leadership*, ix.

⁴⁴ *Ibid.*, 24, exhibit 2.1.

⁴⁵ Ibid., 50.

⁴⁶ U.S. Secretary of the Army John M. McHugh, "Audit of Basic Allowance for Subsistence Pay for Soldiers Participating in Field Training," memorandum for Principal Officials of Headquarters, Department of the Army, Washington, DC, March 4, 2013.

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⁴⁹ U.S. Department of Defense, Office of the Chief Management Officer, "Enterprise Business Integration Directorate", <http://dcmo.defense.gov/about/mission-and-vision.html> (accessed March 27, 2014).

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⁵¹ U.S. Army Office of the Assistant Secretary of the Army for Financial Management & Comptroller, Accountability & Audit Readiness Directorate, *Army Audit Readiness Strategy FY 2012, Version 1.0* (Washington, DC: U.S. Department of the Army, October 2012), 4-5.

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⁵³ U.S. Secretary of Defense Chuck Hagel, FY2015 Budget Preview, February 24, 2014, 4-7.

⁵⁴ Kotter, *Leading Change*, 13.