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In March 2018, John Gibson, the Pentagon's first full-time Chief Management Officer, endorsed a Defense Business Board Study that suggested that the Department of Defense could save as much as $125 billion by becoming more efficient. Gibson established nine business reform teams that covered every aspect of defense management and support and boasted that "we actually added three areas" to the lines of business suggested by the Board. In May, Gibson committed to a lesser but still ambitious goal of achieving $46 billion in savings over a five-year period. By the end of the year, Gibson was out of office, apparently fired by the Secretary of Defense for "lack of performance."

Gibson's successor, Lisa Hershman, has taken a different approach. Confronted with a congressional objective of achieving 25 percent cost savings in a single year by streamlining the Department's management functions, Hershman developed a targeted plan that focused on three key management areas—human resources, supply chain and logistics, and category management—and proposed a limited number of concrete initiatives in each area. The plan identified needed investments without committing to any specific level of savings to be achieved. Instead of starting with a savings bucket to be filled with reform initiatives, the Department would start with the initiatives and accept any savings that resulted.

The Department has been swinging back and forth between these two approaches to business reform for years. Secretary Cheney's Defense Management Review started with a set of policies and principles but quickly degenerated into an effort to scrounge for savings needed to meet post-Cold War budget objectives. Secretary Cohen's Defense Reform Initiative and Secretary Rumsfeld's business transformation initiative started with new management concepts and worked toward efficiencies and savings. Secretary Hagel's Strategic Choices and Management Review and Secretary Gates' efficiencies initiatives, driven by the threat of deep budget cuts, started with the goal of saving money and worked back toward reforms.

The swinging pendulum leads to an obvious question: are mandated savings requirements a helpful tool to drive defense management reform, or are they counterproductive?

Advocates for savings-driven reforms contend that in the absence of strong savings goals, the Department is unlikely to take serious action. One former Department of Defense Comptroller told Congress that he had never found a better way to drive management improvements than "tightening up a bit on the money that is available," while a second argued that steep reductions in civilian personnel are likely to "act as a catalyst" for defense efficiencies. Some experts have argued that even "unreasonable" goals can motivate change by demonstrating to employees that "today's reality isn't fixed and what they can accomplish isn't fixed either."

Others counter that savings goals lead to mindless reductions that undermine the Department's ability to attract new talent, provide needed services to warfighters, and address new challenges. When the Pentagon's acquisition workforce was cut by 50 percent in the 1990s, for example, the Department defunded key organizations and lost critical capabilities. Similarly, in 2015, the Pentagon warned that "the scale and timeline" of proposed headquarters reductions would "preclude DOD from implementing them through streamlining and process improvements. Instead, DOD would be required to make deep, across-the-board cuts which would undermine critical functions that support the warfighter." And some private sector experts seem to agree, arguing that excessive goal-setting can drive unproductive behavior.

I freely admit to having been on both sides of the savings goal issue over the years. As a congressional staffer in 2001, I worked to require a 5 percent reduction in Pentagon spending for contract services, with an associated budget reduction of more than $1.6 billion. In 2018, on the other hand, I testified that while many of the functions of the defense agencies collectively known as the Fourth Estate could be performed more efficiently, a proposed 25% cut was unrealistic and would be counterproductive. In between, I played a role in the repeal of old headquarters reductions requirements and in the implementation of new headquarters reductions.

This may sound like a confused mess, but it can be navigated with a few key guideposts.

First, far too often, the Pentagon measures its work in terms of actions taken rather than objectives achieved. The Department's 2020 Annual Performance Plan, for example, establishes dozens of milestones for forming working groups, identifying requirements, and publishing plans. In a building that is known for its resistance to change, metrics of this kind guarantee that the wheels of the bureaucracy will keep spinning but provide little assurance that anything will actually change.

A savings metric, by contrast, measures the impact of actions taken and is closely associated with outcome and efficiency measures like total cost and cost per unit of production. However, savings are not the same as cost or efficiency. For example, the Department could achieve immediate savings of several hundred million dollars a year by eliminating the Office of the Inspector General. However, the Inspector General's work resulted in almost a billion dollars of civil judgements and criminal fines last year, and wasteful activity in the Department would undoubtedly increase in the absence of enforcement. The bottom line may be even more complicated, as savings claimed by the Inspector General may be offset by costs imposed on the Department in the form of added procedures and requirements. The point is not that savings should never be used as a metric but that they should be weighed against other outcomes.

Second, there is always a risk that arbitrary reductions in management and overhead accounts will reduce important activities along with management waste. This is particularly true because of the Pentagon's tendency to spread such cuts equally across covered accounts rather than making difficult decisions and establishing management priorities. In an ideal world, the Chief Management Officer would focus on adding value by driving process and organizational improvements, and savings would be driven by streamlining, rather than the other way around. Other senior Pentagon officials might then come to the office for assistance in solving difficult management programs rather than seeking to avoid outside meddling by an official whose goal is to reduce their funding.

In many cases, savings may not even be the most important objective of management reform. For example, Secretary Carter's Force of the Future program was not intended to produce savings but continues to generate management improvements that will improve the Department's access to needed talent for decades to come. Similarly, management improvements in the Department's logistics systems may pay off in the form of improved support to the warfighter rather than as savings. The Department of Defense is not a corporation and cannot afford to be driven exclusively by the bottom line. For this reason, a management approach that relies exclusively on savings to drive reforms risks missing opportunities for other critical improvements.

Third, budget reductions nonetheless remain an important driver for management reform because the Department is fundamentally incapable of achieving savings in the absence of such a requirement. Almost 30 years ago, Paul Francis of the General Accounting Office pointed out that defense acquisition decisions are driven, in large part, by built-in incentives for program offices to hold on to funding at all costs. Nobody in the Pentagon willingly gives up budget or billets—not only because they may be needed later, but also because they are primary indications of success in a bureaucratic environment. I was occasionally able to identify positions or functions in my Pentagon offices that were no longer needed; however, I got pushback if I suggested that we could simply eliminate the billets or reduce the budget because there were always other claimants ready to grab the resources that were freed up.

Similarly, projected savings used to justify the acquisition of new business systems are rarely realized because Pentagon offices, in the absence of a firm requirement, repurpose obsolete employee positions rather than giving them up. When I served as Deputy Chief Management Officer, I initiated a program that saved hundreds of millions of dollars through what we called "disciplined implementation of business systems improvements," but it was really nothing more than holding offices to their original downsizing commitments. Savings requirements may not be the ideal mechanism to drive reform, but, in many cases, they are an essential element of a streamlining program.

Finally, cuts in budgets and personnel strengths work as a motivational mechanism only if they are set at achievable levels and applied in a flexible, deliberative manner. Some proposed cuts appear to be mathematically impossible. In 2015, the Senate proposed a 30 percent reduction to headquarters organizations. However, the Senate prohibited reductions to the budgets of some of the largest defense organizations, leaving the remaining agencies to face an 87 percent cut—on top of a 20 percent cut that that had previously been imposed by the Department. Three years later, the House proposed a 25 percent cut to the so-called "Fourth Estate" of defense agencies and field activities but prohibited reductions to organizations that accounted for three-quarters of the spending, so that the remaining agencies faced complete elimination. Fortunately, neither of these provisions was enacted in its original form.

Goals that are set at unrealistic levels can lead to cheating, evasion, and other counterproductive behavior. For example, excessive cuts in civilian personnel may lead to assigning work to more expensive military personnel or to an undesirable reliance on contractors to perform essential government functions. Excessive headquarters cuts may make it difficult to address new challenges such as software development, operations in the electromagnetic spectrum, and cyber security, all of which require headquarters elements to be effective. And deep cuts to the Fourth Estate may require breaking up functions that have been consolidated in the interest of efficiency—raising overhead costs rather than lowering them.

The best approach is to set savings goals that are informed by a specific reform agenda and an understanding of what the agenda can be reasonably expected to achieve. When I served as Deputy Chief Management Officer in the Pentagon, Deputy Secretary of Defense Bob Work gave me several weeks to develop a reform agenda and consider the art of the possible *before* he asked me how much money I thought I could save for the Department. Even then, the savings objective was not a fixed point. We spent months refining our streamlining program and adjusting our goal as we learned more about the organizations and processes that we were trying to improve.

Many career employees in the Pentagon complain of "efficiencies fatigue" due to repeated rounds of reform initiatives that hit the same targets over and over again as headquarters reductions are piled on top of headquarters reductions, civilian workforce cuts on top of workforce cuts, and service contracting cuts on top of contracting cuts. The urge to cut is not likely to go away, because the size of the Pentagon budget makes it an attractive target and an organization as large and bureaucratic as the Department of Defense will always have room for improvement. Future streamlining efforts will be far more productive, however, if savings goals are informed by an inclusive process and a thorough knowledge of what has gone before and what remains to be done rather than being established on the basis of wishful thinking.