

SECTION E

REDUCING INSTITUTIONAL RISK

The fourth element of the Department's formal risk management framework is institutional risk. This risk stems from the management practices and controls that affect the efficiency with which resources are used and that shape the effectiveness of the Defense establishment. Just as the Department transforms its military capabilities to meet changing threats, it must also change the way it works and on what it works. The Department must do more to ensure that its people can focus their immense talents to defend America, and that they have the resources, information, and freedom to perform.

Mitigating institutional risk necessitates changing the way DoD conducts its daily business. It is a matter of urgency because left alone, the current organizational arrangements, processes, and systems will continue to drain scarce resources from training, infrastructure, operations, and housing. Left unattended, institutional risks over time will increase risks in other areas—force management, operational, and risks related to future challenges.

While the revolution in technology has transformed private sector organizations, DoD has fallen behind the times in recent years. The Department, in short, has been tangled in its anchor chain. DoD's financial systems are decades old and incompatible with one another. They were designed to produce reports for Congress on specific problems rather than constructed as a unified system to help DoD leaders manage the world's largest organization. DoD also has 20 to 25 percent more base infrastructure than it needs to support its forces. This wastes \$3–4 billion per year that could be used elsewhere. DoD suffers from excessive layers of bureaucracy. It conducts too many non-core support functions that would be better outsourced. No business in the private sector could remain solvent if it followed such practices.

DoD's outdated processes also have driven up institutional risk to unacceptable levels in recent years. Processes designed before the age of

computers still dominate how the Department develops the Defense Program.

During the past year, the Department has begun the process of systematically analyzing and addressing the sources of institutional risk. The problems are so deep and so widespread that this Herculean task will take many, many years to accomplish. As with all substantial change initiatives, support of many individuals and groups—in the Administration, the Congress, and in the private sector—is necessary. However, the required course of action is becoming clear. Over the past year, the Department has taken a series of initial steps to reduce waste and improve operational efficiency, such as modernizing DoD financial systems, the efficient facilities initiative, private-public partnerships in military housing, the privatization of utility services, the elimination of almost half of the acquisition-related advisory boards, the introduction of realistic budgeting, and the reform of the PPBS. These efforts represent a first step of what must be a sustained effort to reduce institutional risks and increase effectiveness through greater accountability and efficiency.