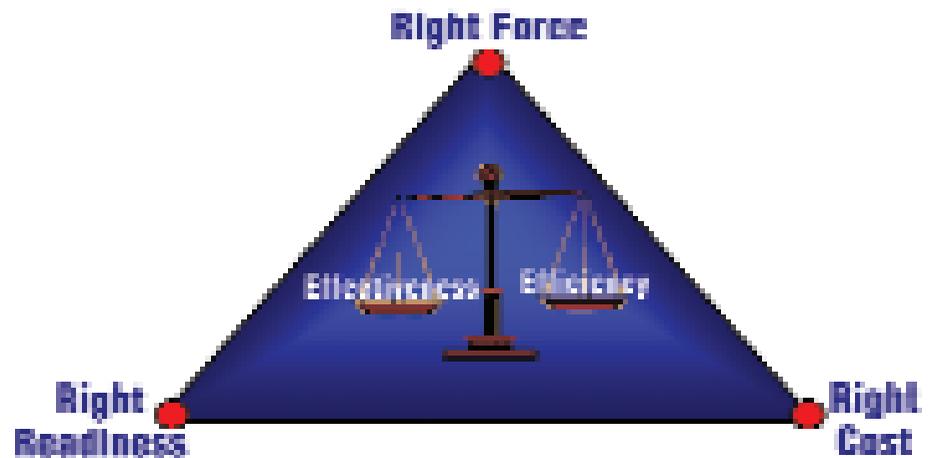


Sea Enterprise

Resourcing Tomorrow's Fleet

By Admiral Michael G. Mullen, U.S. Navy

The amount of defense dollars needed to ensure the safety and security of this nation and its citizens has been under debate throughout our history. Even more critical than how much the United States should spend, however, is how it should spend it. This is especially true today because of the strategic challenges posed by the ongoing global war on terrorism and, more acutely, because of our need to recapitalize aging, Cold War-era infrastructure and capability. Burgeoning technological and operational changes are dramatically altering the way we fight, requiring new platforms and capabilities. Revolutionizing the way our defense dollars are spent presents opportunities borne of these challenges; like the American business revolution from which the term sprang, Sea Enterprise is about creating fiscal opportunity across the Navy enterprise.



Sea Enterprise is one of the three supporting processes in “Sea Power 21.” Involving Navy headquarters, the systems commands, and every commander throughout the Navy, it seeks to improve organizational alignment, refine requirements, and reinvest the savings to help us recapitalize and transform the force. It provides a means to scrutinize the Navy’s spending practices from the top line all the way to the bottom dollar. It is not about the latest business fad, nor is it a “do more with less” message.

Sea Enterprise is about delivering the right force, with the right readiness, at the right cost. It involves deliberate decision making and a thorough understanding of the implications of every course of action the Navy undertakes. It requires alignment of these values across the Navy—from human resources to financial management, and from manpower to administration. It will improve our productivity, deliver higher return on our investments, and reduce our cycle times. In short, the Sea Enterprise process will help us foster a culture of continuous improvement, produce better products, and deliver the right force structure for our future.

Finding the funds to recapitalize the force is no simple matter. We must generate about \$10 billion annually over the next five years to improve our recapitalization investment from a projected \$228 billion to more than \$275 billion. That money almost certainly will not come from increases in the Navy budget. It will come only from our more efficient use of the resources provided us by the taxpayer. To realize these efficiencies, we must understand the example of the most competitive and agile industries in the United States. The industry standard for cost reductions is generally 5-10%. Our goals should be similar. Corporations that fail to meet these resource efficiency goals have only one fate: they cease to exist. For obvious reasons, we cannot fail in our efforts. The nation is counting on us. To achieve these efficiencies at every level of our organization, from the most junior sailor all the way to the Chief of Naval Operations, we must:

- ▶ Leverage technology to improve performance and minimize manpower costs
- ▶ Promote competition and reward innovation and efficiency
- ▶ Challenge the barriers to innovation
- ▶ Divest noncore, underperforming, or unnecessary products, services, and production capacity, especially ashore
- ▶ Merge redundant efforts to become lean and agile
- ▶ Minimize acquisition and life-cycle costs
- ▶ Maximize in-service capital equipment use
- ▶ Challenge every assumption, cost, and requirement

Our focus must be on getting the right level of readiness at the right cost so we can afford the right force for our future Navy.

— Admiral Vern Clark

This requires more than simply putting a process in place. Sea Enterprise also will require and promote a new way of acting and thinking about how to improve our effectiveness and maximize our return on investment. The first three bulleted items above are about people—bold, innovative, efficient, and competitive people. Fostering a culture that cherishes these attributes and rewards them accordingly is central to Sea Enterprise.

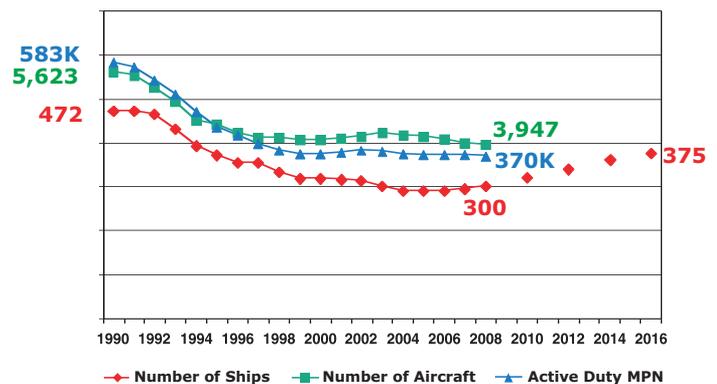
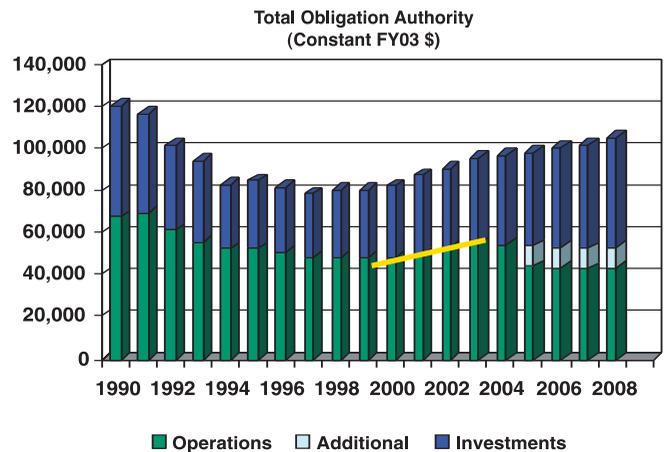
Compelling Reasons for Change

This is not about turning the Navy into a corporation. The Navy’s business remains war fighting. Nevertheless, we have a unique opportunity to fundamentally alter the business of putting combat power to sea. With readiness at an all-time high, and manning and retention on track, now is the right time. There are four principal reasons why it is imperative we seize this opportunity:

▶ *It is right for our Navy.* Since 1990, the Navy has undergone a dramatic reduction in size—37% fewer ships, 26% decrease in number of aircraft, and 35% decrease in active-duty end strength. Despite this decline, our operational costs to maintain an aging force structure continue to rise at about 7% per year (a percentage of total obligation authority) and consume critical recapitalization resources.

On our current course, with routine shifts of resources intended for recapitalization to finance current operations, we risk becoming a Navy undersized and inadequately capitalized for the many missions and responsibilities of today, and most certainly for the challenges of the future. Simultaneously, the average age of our ships (15.2 years for surface combatants, 16.5 for submarines, and 20.5 for logistic ships) and aircraft (15.4 years) continue to rise, driving up operations and support costs. Sea Enterprise will endeavor to find ways to reduce our operating costs to free additional resources to invest in the recapitalization and transformation of our “Sea Power 21” Navy.

▶ *It is right for the nation.* Operations in and around Iraq this year were the most joint operations in our history. We leveraged the combined strengths of the individual services to produce results on the battlefield that were greater than the sum of the parts. Increased interservice integration holds great promise for achieving efficiencies. Navy and Marine Corps tactical aviation (TacAir) integration, joint munitions development with the Army, Air Force, and Marine Corps, investment in the Coast Guard’s Deepwater Integrated Systems program, and joint high-speed vessel experiments with the U.S. Army are examples that will save billions of dollars, enhance our interoperability, and more fully integrate our doctrine and operational practices. Most important, they add to our bottom line by generating more combat power at less cost.



► *It is right for our people.* Central to the oft-cited, ill-fated culture of do more with less was the notion that we could pile additional work on our sailors to compensate for fewer tools and smaller budgets. That might have worked for a conscription force, but it is doomed to fail in the high-tech, competitive, all-volunteer Navy. Gone

are the days when expensive ships, submarines, and airplanes—the implements of war—were manned by a cheap and nearly inexhaustible supply of labor. Our ships, submarines, and airplanes still are expensive, to be sure, but nearly two-thirds of our total budget goes, not to sensors, networks, weapons, or these platforms, but to people. Simply put, our capital assets no longer are ships. Our capital assets

are sailors. The implications are enormous. It means that to be more efficient in producing combat power, we must reduce manpower costs by adding tools and technology rather than the reverse. It means that streamlining our organizations and eliminating unnecessary or redundant billets takes on a new urgency. It means defining more meaningful job content and ultimately delivering more job satisfaction for the bold, innovative sailors we will need to compete for in the 21st century. Think of it this way, we no longer will man our ships, our planes, or our guns; we will equip our warriors with capability.

► *It is right for the taxpayer.* As stewards of the public trust, it is our duty to optimize the resources entrusted to us and to maximize the return on taxpayer investment. As the recipient of nearly half of all government discretionary spending, the Defense Department must look internally to find more efficient and effective operating methods. Increasingly, administration and congressional leaders are demanding a results-oriented spending discipline. In addition, new post-11 September requirements in the federal budget, coupled with a rise in the expected costs of national priorities such as Social Security and Medicare, make prolonged budget growth an unrealistic expectation. An investment strategy dependent on the availability of additional revenues is not viable. Given this, the Navy must take measures now to address long-term fiscal challenges, and Sea Enterprise provides the

course to deliver the Navy of the future from within the current top line.

Governance and Process

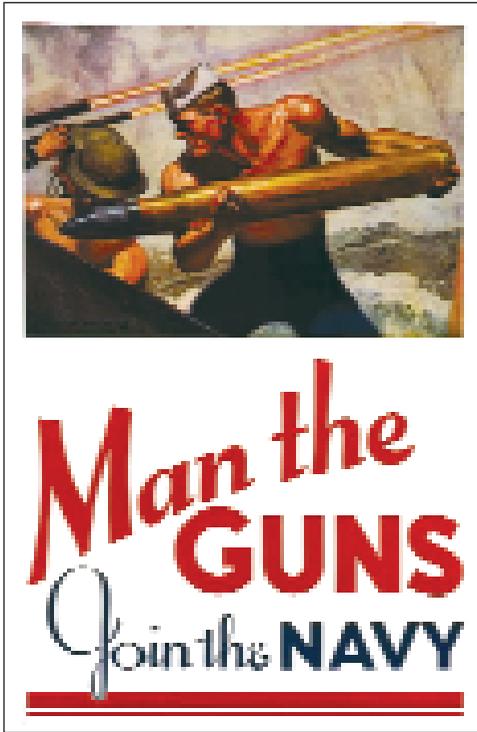
Sea Enterprise's success depends on leadership and a strong and active governance structure. The lessons learned from our corporate counterparts suggest that senior leaders must be personally engaged. It is not enough to have a sound strategy; strategy must be managed to deliver the product of the plan. Cochaired by myself, as Vice Chief of Naval Operations, and the Assistant Secretary of the Navy for Research, Development, and Acquisition, the Sea Enterprise Board of Directors is comprised of senior leaders from the Secretariat, Office of the Chief of Naval Operations, the system commands, and the fleet—those people in the best position to drive enterprise-wide change, directly influence programs and budgets, and facilitate barrier removal.

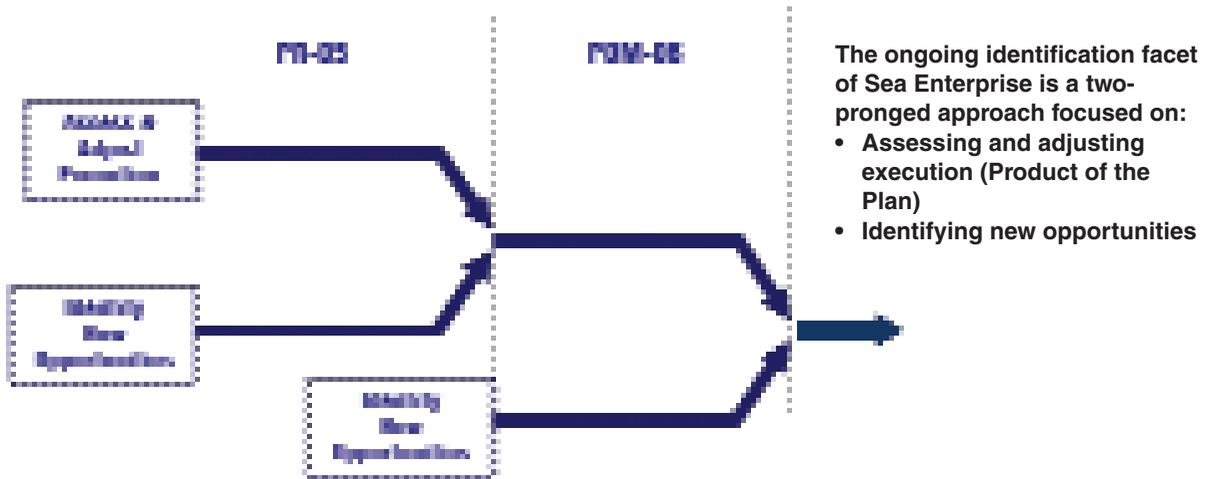
Integration with the Planning, Programming, Budgeting, and Execution System will ensure clear accountability for achievement of the elements of our business process strategies. The Sea Enterprise Board of Directors, through weekly decision-making meetings, focuses on execution to ensure the product of the plan and savings achievement. This involvement by the most senior leaders in the Navy is the fundamental difference between Sea Enterprise and previous efforts.

The initial tactical focus of Sea Enterprise is twofold: (1) assessing and adjusting the plan during execution to ensure strategic objectives are achieved and real savings are applied to recapitalization requirements, and (2) identifying new opportunities for cost savings. Sea Enterprise promotes an open process to encourage innovative ideas from the bottom up as well as the top down. A priority is to facilitate barrier removal to ensure achievement of Sea Enterprise objectives. Some of this will be legislative in nature, while other aspects will come from internal ideas for change. The Sea Enterprise Board of Directors provides the necessary drumbeat Navy-wide to ensure identification and pursuit of new opportunities for reducing operating and support costs across the enterprise. This two-pronged process provides a means for executive leaders to keep their fingers on the pulse of execution.

Opportunities for substantial cost savings often lie beyond the boundaries of any single organization, command, unit, or office. For that reason, Sea Enterprise will look across organizations to identify all opportunities. This enterprise-wide view will help create the most efficient organizational structures. It will review every structure and process with an eye toward breaching boundaries, eliminating redundancy, and reducing overhead.

For example, within the Planning, Programming, Budgeting, and Execution System, the Navy traditionally met its budget challenges by inserting a wedge—a predetermined amount of cost avoidance—into a particular capability or process funding line. It frequently served to





distribute the pain while leaders nursed the product of that capability or process along until some illusionary relief appeared, if ever. In the end, the wedge attacked the product. It was simply easier to provide less than to find a way to deliver that product at less cost by reducing overhead, streamlining processes, substituting technology for manpower, or creating the incentives needed for positive change. In effect, the culture of the wedge created challenges from opportunity rather than the reverse. Sea Enterprise seeks to change the culture of the wedge, not by changing how much, but by identifying how our defense dollars are spent to improve the naval bottom line—increased combat power.

Initial Results and Implications

As one way to look at our costs and operations, the Chief of Naval Operations and other leaders are conducting a standardized evaluation of Echelon II commands to assess budget planning and execution, manning, process and overhead costs, and return on investment based on the core missions and functions of the command. After completing several of these assessments to date, some general observations can be made.

First, a culture of readiness clearly exists, and the desire to embrace Sea Enterprise is strong. That said, we still have lots of room to grow, and further education on how to define measurable metrics will assist in quantifying return on investment and evaluating the product of the plan.

Second, we are achieving some successes. Integrating Navy-Marine Corps TacAir, implementing programs to reduce cycle times and increase maintenance efficiency, increasing aircraft readiness through Naval Air Systems Command's Naval Aviation Readiness Integrated Improvement Program, transforming the Naval Supply Systems Command, and the creation of the "virtual" systems command and establishment of Commander Navy Installations are just some of the examples. Smart, committed people challenged long-held beliefs, rewarded critical thought, and boldly breached boundaries to eliminate redundancy and reduce overhead in these efforts. Their example demonstrates that no one is too junior to make a

recommendation for change, and often times, the junior-most sailors work in the best places to see where change must occur. Sea Enterprise depends on both difficult but necessary initiatives and innovative people like these.

The Way Ahead

The Navy today is the best this nation has ever seen. But winning organizations never rest; they continually seek improvement. Adaptation in a competitive and rapidly changing world is an absolute requirement, and that means challenging basic notions like:

- ▶ Past practice guarantees future success.
- ▶ People are a free commodity.
- ▶ More money is always available.
- ▶ There is no incentive for improvement.

Indeed, there is incentive, and it is the proper defense of this nation, both now and in the future. We will do what is best for this nation.

Our culture of readiness will be preserved, but we no longer can afford readiness at *any* cost. We must deliver it at the right cost. In the weeks, months, and years ahead, we will change our culture and mind-set. We will continue to value operational and tactical excellence above all, but the Navy of the future also needs to promote and screen leaders trained and focused on understanding the cost implications of their actions. Sea Enterprise will help us identify, devise, and implement the tools that facilitate appropriate levels of risk in our business operations and undertake the types of reform and restructuring needed to significantly reduce our operating costs.

We seek bold and innovative capability for our Navy. It is dependent on us, at every level of command, seizing opportunities to improve the way we go about the "business" of generating and sustaining the world's most formidable naval force. This nation needs a Navy to take credible, persistent combat power to the far corners of the earth. Sea Enterprise, as a primary enabler of "Sea Power 21," will help us deliver that capability now and in the future.

Admiral Mullen is Vice Chief of Naval Operations.