

Part 2:

Performance Information

Performance Information

Annual Performance Goals and Results

As discussed in Part 1, “Management Discussion and Analysis,” the Department established fiscal year 2003 performance goals that display leading performance trends and demonstrate how well the Department is progressing toward achieving its strategic performance goals. These measures meet the conditions of the Government Performance and Results Act of 1993. Key performance results for fiscal year 2003 are provided below. Part 5, “Appendix A,” of this report displays detailed information on these measures.

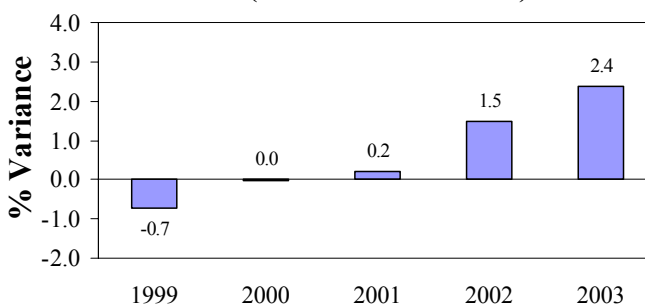
The performance goals, measures, and results mentioned below portray only some of the Department’s fiscal year 2003 performance measures used to manage risk during the year. Performance results for all measures were not available in time for publication. However, they will be included in next year’s report. In addition, the 2003 Annual Defense Report (<http://www.defenselink.mil/execsec/adr2003/>) describes the Department’s ongoing efforts to develop additional performance measures and to further refine and improve the suite of metrics used to manage DoD’s performance.

Reducing Force Management Risk

Outcome Goal: Maintain Manning Levels of Military Forces. The following graph displays the percentage variance for the number of military personnel—both active

duty and reserves—authorized and those actually on-board. Consistent with statutory requirements, the Department’s goal is to be within 2% of the number of military personnel authorized by Congress. The Department met this goal the past 4 years, but did not meet the goal for fiscal year 2003. By authority granted by executive order and law, the statutory requirements were waived, and Services exceeded the authorized number of personnel in order to have sufficient forces to fight the Global War on Terror.

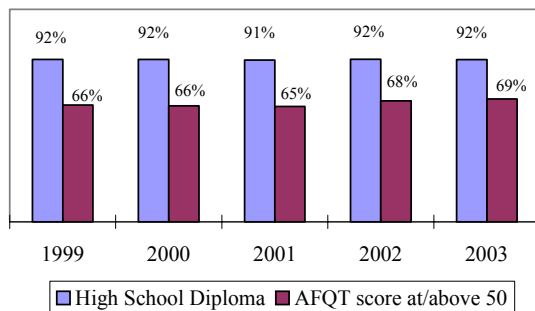
**Military Personnel
(Actual vs. Authorized)**



Outcome Goal: Meet Military Recruiting Goals. The Department’s goal is that at least 90% of new military recruits have a high school diploma and that at least 60% have an Armed Forces Qualification Test (AFQT) score at or above the average score of 50. In the aggregate, the Department met these goals for fiscal year 2003, which is the 12th year in a row that the Department has met its aggregate level goals. The Military Departments’ Active Component exceeded the high school diploma graduates goal and the AFQT score goal for fiscal year 2003. The Reserve Component did meet the AFQT score goal, but the Army National Guard

and Naval Reserve achieved only 84% high school diploma graduates, and the Air National Guard was unable to report a satisfactory rate of high school diploma graduates due to data system difficulties.

Military Recruiting



Outcome Goal: Meet Military Retention Goals. To maintain adequate force levels the Department actively monitors military retention trends. In the Active Component, the Department measures the retention rates, which is generally defined as the number of service members who elect to extend their commitments as a percentage of those eligible to reenlist. In the Reserve Component, the Department tracks attrition rates, which is the total number of Reserve Component personnel who leave service during the year divided by the average number of personnel on board for the year.

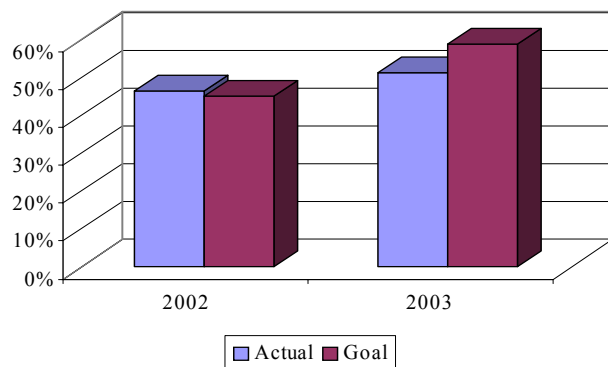
In fiscal year 2003, the Army and Navy met or exceeded all of their retention goals, but the Air Force and Marine Corps missed some of their goals. We expect the effects of an improving economy and the waning emotional patriotic high of decisive victory in Operation Iraqi Freedom will combine to increase pressure on our retention programs.

In addition, the Department met its fiscal year 2003 Reserve Component attrition

goals, in the aggregate, with an overall attrition rate of 18.4%—the lowest since 1991. This was primarily due to the Reserve Component’s ongoing support of the war on terrorism, as well as the implementation of “stop loss” programs that minimize attrition in certain military positions.

Outcome Goal: Satisfaction with Military Health Care. The Department’s fiscal year 2003 goal was to meet or exceed the private sector civilian average for satisfaction with health plan (59%). While there has been substantial improvement in DoD’s health plan satisfaction in fiscal year 2003 (from 46% to 51%), it did not meet the private sector civilian average, which also increased significantly during fiscal year 2003. One significant reason for DoD’s improvement is better performance in the area of claims processing, where 99% of the claims are being processed within 30 days, compared to 97% for fiscal year 2002. In addition to claims processing, customer service and access to medical service improvements will be needed to achieve the ultimate goal of meeting and exceeding the civilian average.

"Very Satisfied" with Military Health Plan



Reducing Operational Risk

Outcome Goal: Joint Operations

Concepts. The Joint Operations Concepts will describe how the Joint Force, to include the Army, Navy, Air Force, Marines and Special Operations forces, intends to operate across the entire range of military operations within the next 15 to 20 years. The Joint Operations Concepts were chartered to identify seven desired attributes and eight common core capabilities of the future joint military force. It links the strategy to capability-based planning, creates joint experimentation and transformation roadmaps, and is the foundation for developing and improving capabilities across the domains of air, land, sea, space, and information.

During 2003, the Department's Joint Operations Concepts were approved and four subordinate Joint Operating Concepts were developed: major combat operations, stability operations, homeland security, and strategic deterrence. The Department also defined five joint functional concepts: battlespace awareness, joint command and control, force application, focused logistics, and protection. These concepts will be sent to the Secretary of Defense for final approval in February 2004.

Outcome Goal: Security Cooperation.

Prior to 2001, program plans for conducting overseas security cooperation activities, such as combined military exercises and military-to-military exchanges, were collected in Theater Engagement Plans prepared by the regional Combatant Commands. Theater Engagement Plan activities were linked to resources via a database that was only fiscally quantitative

in nature. The Theater Engagement Plans did not describe how Combatant Command activities aligned with activities managed by the Defense Agencies. Accordingly, two years ago, the Department decided to restructure this approach and refocus the efforts of the Combatant Commands, the Military Departments, and Defense Agencies around a set of common regional security cooperation goals.

In April 2003, the Department issued new security cooperation guidance intended to guide the Department—and specifically the Combatant Commands—in developing fiscal year 2004 strategies that include qualitative performance goals. The Department will also develop quantitative measures of effectiveness that will be incorporated into the security cooperation strategies by fiscal year 2005.

Outcome Goal: Defense Readiness

Reporting System: For many years, we have relied primarily on the classified Global Status of Resources and Training System reports maintained by all the military departments to track actual personnel levels, equipment stocks, and training performance against Military Department identified benchmarks. However, this System does not capture performance information for joint missions or for the full range of missions beyond a major regional contingency, such as those required to prosecute a successful war on terrorism.

Accordingly, the Department has undertaken a fundamental overhaul of its readiness reporting process. The Defense Readiness Reporting System successfully completed a proof-of-concept demonstration in fiscal year 2003, which prompted the Department to issue implementing guidance for these

modern readiness assessment tools. This guidance contains specific activities for all DoD Components to begin implementing the vision behind Department-wide readiness.

The Department also began testing several automated tools to assess operational risk and measure shortfalls. These tools further highlight the shortcomings of current readiness systems. The results from these assessments, performed in days rather than the weeks needed by current processes, demonstrate significant promise in shaping the Department's readiness discussions in preparation for future contingencies. The Department selected a prime contractor to develop and implement the Enhanced Status of Resources and Training System with initial operational capability in fiscal year 2004 and full operational capability during fiscal year 2007. The Department has established performance goals to track the activities required to successfully implement this system Department-wide.

Reducing Future Challenges Risk

Outcome Goal: Experiment with New Warfare Concepts. The Department is crafting a Joint Experimentation Campaign Plan that will explore concepts developed both inside and outside of the Department that could improve how the Department commands and controls joint forces across the battle space in cities, jungles, mountains, or forests. Our goal is to set in motion a process of continuing transformation and a culture that will keep the United States several steps ahead of any potential adversaries.

In March 2003, we completed a Department-wide evaluation of the lessons-learned from Millennium Challenge 2000, the first joint exercise conducted by U.S. Joint Forces Command. In June 2003, the Chairman of the Joint Chiefs of Staff published joint experiment performance goals for fiscal years 2004 and 2005.

Also during fiscal year 2003, the Department's lead for joint experimentation, the U.S. Joint Forces Command, co-sponsored wargames and experiments with the Navy and the Army. In addition, U.S. Joint Forces Command conducted its own joint experiment. Each of these events focused on new warfighting concepts—the joint operational concepts and joint functional concepts described under Operational Risk earlier—that are part of the Department's transformation process. In December 2003, the Department completed its draft update of the Joint Experimentation Campaign Plan for fiscal year 2004.

Outcome Goal: Establish a Standing Joint Force Headquarters. The concept of organizing forces under a joint task force commander has been used to great effect since the Gulf War of 1990. However, each time we respond to a crisis, we must create these joint organizations from scratch, siphoning people and equipment from other commands—and when the emergency is over, these high-functioning units disband.

The Department is in the process of creating permanent joint headquarters for each of our combatant commands worldwide. These headquarters will be equipped with the most capable command, control, computers, communications, intelligence, and surveillance assets we have available. The permanent staff will be trained to a common

standard and be expert about how joint forces function in battle.

In fiscal year 2003, the Department established a Functional Capability Review board, chaired by the Commander, U.S. Joint Forces Command to oversee implementation of the Standing Joint Force Headquarters. The U.S. Joint Forces Command developed a prototype and defined standard operating procedures for the Standing Joint Force Headquarters. The model concept for a Standing Joint Force Headquarters will be ready for testing by the end of fiscal year 2004, with the goal of fielding the model globally to regional Combatant Commands during fiscal year 2005.

Outcome Goal: Transform DoD Training. The dramatic transformation of America's strategic environment demands an equally dramatic transformation in how we prepare the force. Accordingly, the Department must also transform the methods used to train its military forces. On June 10, 2003, the Deputy Secretary of Defense signed the training transformation implementation plan (www.t2net.org). This plan provides a road map to developing and fielding dynamic, capabilities-based training to Active and Reserve Components; federal, state, and local agencies; and our international security partners, including nongovernmental organizations.

The Department completed one of three tasks scheduled for fiscal year 2003 by restructuring the implementation plan to focus on measuring training outputs instead of tracking ongoing developmental activities. Accordingly, beginning in fiscal year 2004, the Department will begin using output-oriented performance metrics to track

progress toward achieving the goals outlined in the training transformation plan.

Outcome Goal: Monitor the Status of Defense Technology Objectives.

Technological superiority has been, and continues to be, a cornerstone of the national military strategy. Technologies such as radar, jet engines, nuclear weapons, night vision, smart weapons, stealth, the Global Positioning System, and vastly more capable information management systems have changed warfare dramatically. Maintaining this technological edge has become even more important as the size of U.S. forces decreases and high-technology weapons are now readily available on the world market.

The Department's investments in science and technology are focused and guided through a series of Defense Technology Objectives. Each of these objectives highlights a specific technological advancement that will be developed or demonstrated, the anticipated date the technology will be available, and the specific benefits that should result from the technological advance.

Every two years, independent peer review panels composed of approximately six experts in relevant technical fields assess the Defense Technology Objectives for each program. At least two-thirds of the team members are from academia, private industry, and other U.S. Government agencies. The reviews are conducted openly; observation by stakeholders is welcomed. The teams assess progress against three factors—technical approach, funding, and technical progress.

The independent peer review panel rated 96% of the Department's Defense Technology Objectives as progressing

satisfactorily for fiscal year 2003. This is well above the Department's goal of 70%. The Department has greatly exceeded this goal for several years now, however, due to the inherent high risk of failure in technology development, the goal will be maintained at 70%.

Reducing Institutional Risk

Outcome Goal: Reduce Major Defense Acquisition Program Cycle Time.

Acquisition cycle time is the elapsed time, in months, from program initiation until the system attains initial operational capability—that is, when the product works as designed and is fielded to operational units. The Department measures the average cycle time across all major defense acquisition programs (new equipment or material systems that cost more than \$365 million in fiscal year 2000 constant dollars to research and develop, and more than \$2 billion to procure and field). Since more than a third of the annual defense budget goes to buying and operating major weapons systems, the Department must understand how quickly new technologies are moving from the drawing board to the field. This performance measure is a leading indicator of technology transfer—typically, the faster a program moves toward fielding, the quicker associated operational improvements can be introduced to the force, and the easier it is to control overall program costs.

During the 1960s, a typical acquisition took 7 years (84 months) from initiating research and development activities to achieving initial operating capability. By 1996, a similar acquisition required 11 years (132

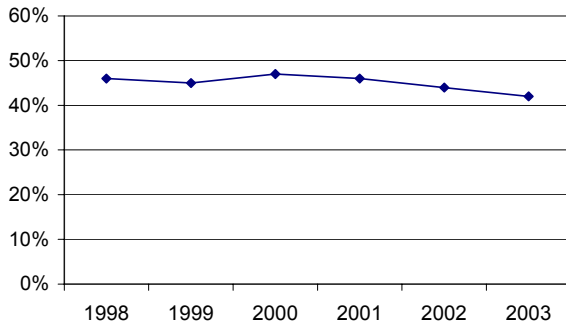
months) from program start to initial operating capability. To reverse this trend, we have set a goal for reducing the average acquisition cycle time for major defense acquisition programs started since 1992. The goal is to reduce the cycle by 25%—to less than 99 months or about 8 years. Over the long term, we want to cut average cycle time to less than 5-1/2 years (66 months) for all major defense acquisition programs started after fiscal year 2001. To achieve that objective, the Department is introducing improvements to development and production schedules similar to those it initiated for managing system performance and cost.

The Department restructured a significant number of programs during fiscal year 2003. In addition, during the program and budget reviews, several programs, such as the Black Hawk helicopter upgrade, Land Warrior soldier system, and the Wideband Gapfiller Satellite, were realigned to improve schedule estimates, which extended their cycle times. Although only a few such programs were extended, this caused the Department's overall average cycle time to increase from 103 months in fiscal year 2002 to 104 months in fiscal year 2003.

Outcome Goal: Reduce Percentage of DoD Budget Spent on Infrastructure.

The share of the defense budget devoted to infrastructure is one of the principal measures the Department uses to gauge progress toward achieving its infrastructure reduction goals. A downward trend in this metric indicates that the balance is shifting toward less infrastructure and more mission programs. The Department estimates that it allocated about 42% of the defense's budget to infrastructure activities in fiscal year 2003, down from 44% last year.

Percentage of DoD Budget Spent on Infrastructure (lagged indicator)



(Note: This is a lagged indicator since the Department updates the percentage of the budget spent on infrastructure each time the President’s budget projections are revised. Also, the Department normalizes previous years’ data to adjust for the effect of definitional changes that may generate inaccurate data. Because of these adjustments, there may be slight shifts upward or downward in previously reported results.)

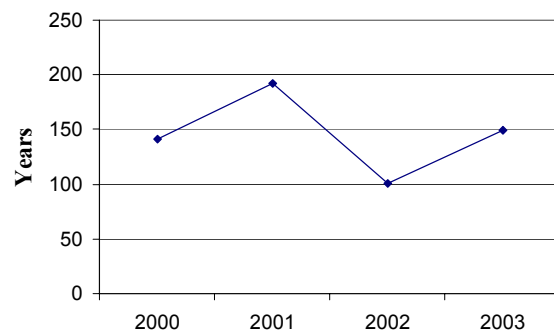
Outcome Goal: Fund to a 67-Year Recapitalization Rate by 2007. The Facilities Recapitalization Metric measures the rate at which an inventory of facilities is being “recapitalized”—that is, modernized or restored. Recapitalization may mean a facility has been totally replaced or recapitalization can occur in increments over time, until the facility is upgraded sufficiently to meet acceptable standards.

The Department’s recapitalization performance goal is based on the average expected service life of its overall facilities inventory. For example, the expected service life of a pier is 75 years, and the expected service life of a dental clinic is 50 years—provided the facilities are fully sustained during that time. The average of

all expected service life benchmarks, weighted by the value of the facilities represented by each benchmark, is 67 years.

The Department had a recapitalization rate of 149 years for fiscal year 2003 and has made progress in reducing the 200+ year recapitalization rate average in 1999. However, it is still well above the goal of a 67-year recapitalization rate.

Facilities Recapitalization Rate



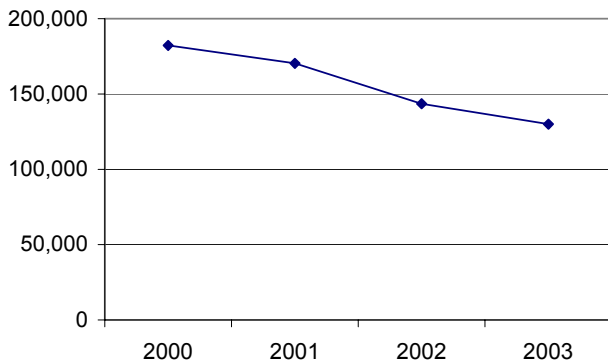
Outcome Goal: Eliminate Inadequate Family Housing by 2007. As part of our commitment to improving the quality of life for service members and their families, the Army, Navy, and Marine Corps are committed to eliminating inadequate family housing by the end of fiscal year 2007; the Air Force will reach that goal within the continental United States in 2008 and overseas by 2009.

Each military department has developed a Family Housing Master Plan that outlines, by year, what needs to happen to achieve these goals within the Department’s \$4 billion annual budget for military housing.

To date, the Department has upgraded about 38,000 family housing units through

privatization. During fiscal year 2003, more than 14,000 family housing units were revitalized, demolished, or placed in the hands of private-sector firms for refurbishment and management. However, 129,955 (51%) of all family housing units lived in by service members during fiscal year 2003 rate as “inadequate” because they needed a major repair, a key component (like a furnace or kitchen) replaced, or were so rundown they needed complete renovation.

Number of Inadquate Family Housing Units



Outcome Goal: Reduce Customer Wait Time to 15 days, on Average, by fiscal year 2004. In the past, good logistics performance meant holding large inventories—today, all Military Departments have agreed on a common set of business rules for monitoring the performance of the entire logistics enterprise. As part of this common set of business rules, the Department measures internal DoD customer wait time to assess its logistics performance. Customer wait time is modeled after commercial industry best practices. Customer wait time is measured as the elapsed time from order to receipt when a customer orders supplies or materials. This measure allows the

Department to monitor the time it takes to fulfill these orders, which indicates the entire logistics system’s responsiveness to internal DoD customers’ needs.

As of June 30, 2003, the Department’s fiscal year 2003 customer wait time was 19 days. The Department projects that it will not meet its 16 days goal for fiscal year 2003. This is mainly due to the increase in demand for critical items and delays in closing out transactions caused by Operation Iraqi Freedom.

Customer Wait Time

