

Financial Management and Decision Making

by Major Andrew Wallen

Imagine yourself at a deployed location. You are part of an operation at an air base on the coast of a foreign nation launching bombers, fighters, and close air support aircraft at an adjacent nation. The jets from your air base provide immense firepower that ensures the ground troops have an advantage and strategic targets are struck. You are surrounded by highly trained people—not only in the finance shop, but other support functions like contracting, supply, maintenance, and of course the operators of the aircraft at the pointy end of the spear. Your base is protected from ground attack by top-notch Army infantry and armor units a few short miles from your base perimeter. The base is also protected from missile attack by the highly trained Army specialists working the latest ground to air missiles with a very high kill ratio replacing the previous ground to air missile defense systems that had a maximum kill ratio of about 50%. You feel especially fortunate to have these new missile batteries because the enemy has the capability to use chemical weapons. Of course, if a missile does get through, you have been supplied with protective gear and a brief two-day training session on how to don the outfit. Joint STARS aircraft provide surveillance of a wide swath of territory not only on the battlefield, but also on the ground between your location and the battlefield to provide advanced warning of any possible attacks. Naval forces are also providing offensive firepower, protection from any sea attacks, and a quick way of escape if the base were overrun.

You have been extremely busy working closely with the contracting officer to make sure the operation has sufficient supplies, equipment, etc., to meet the needs of the operators and support troops.

Is now the time to worry about efficient and effective management of funds? To some extent yes, but there is an overriding concern at this point to meet the mission needs the best way you can as quickly and effectively as you can—saving American lives is more important than saving dollars.

So when then would be the time to be concerned with the efficient management of resources? Asked another way, I could say; which part of the above defensive or offensive capability would you be willing to give up?

The highly trained maintenance personnel? —The expensive equipment won't be worth much without them.

Offensive bombing capabilities? —Kind of misses the point of us all being there in the first place.

Missile defense system? —Weighing the alternatives, missile defense seems like money well spent.

Perimeter protection provided by Army units? —Now more than ever, the Army has relevance to my life.

The Naval protection and evacuation capabilities? —These capabilities also seem necessary at this point.

To answer the question directly, cost/resource management should be a high consideration **when** you are **PREPARING** for war. In the context of the above questions, good cost management should be seen as a force multiplier. In other words, expenditure of funds in the best way possible allows us to increase capability on the battlefield. The alternatives of what to give up highlight resource management decisions that must be made in preparing for battle years before the people and equipment will see the battlefield. These decisions made prior to battle can make a significant difference to the forces when they hit the ground.

Managing resources is essentially making decisions among competing priorities. In order to clearly evaluate competing priorities, we must measure cost and performance in an integrated way. To achieve this integration, we must measure and report cost by the activities we are performing and the capabilities we are purchasing. To give an example, if the mission must absorb a funding cut, the primary information given to the commander should be how capability will diminish (what product or service will not be provided) as opposed to what resource will be diminished (travel funds, supplies, civilian pay). This information needs to be available on an institutional basis to make the important decisions that will impact our war-fighting capability in the future.

Developing this capability is not easy for an organization with the size and challenges of the Department of Defense. To meet these needs, the SECDEF sponsored business architecture for the financial management modernization program (FMMP) does include cost accounting.

While the FMMP effort is worked, we as an Air Force can continue to take interim steps to improve cost visibility for commanders and senior leadership. Some of the tools we can use have been with us for quite some time and have been used successfully at many installations. Some examples include the economic analyses used to decide between major Military Construction alternatives and the job order cost accounting systems that have been used to track and develop reimbursement programs. Other tools (e.g., Activity-Based Costing) are newer to the Air Force, but have nonetheless been used to provide a wealth of information from which leaders have been able to improve operations in their organization.

The key is financial management must provide commanders with information that gives them the ability to focus on the activities and outputs (how will a cut or plus up impact battlefield capability) in addition to the inputs.

About the Author

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