



DFAS STRATEGIC PLAN

Your Financial Partner @ Work

November 2001

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I. Director's Statement

To be competitive in a turbulent and rapidly changing economy, the Defense Finance and Accounting Service (DFAS) must continually strive to improve business practices within each of our major business lines (Accounting Services, Military and Civilian Pay Services, Commercial Pay Services) and within corporate support services (e.g., Resource Management, Human Resources, Information Technology). This Strategic Plan describes how we will leverage our people and technology, not only to meet and exceed expectations, but also to excel as the world's largest finance and accounting firm.

In October 2000, we set forth a plan to streamline our operations and improve customer service by restructuring the organization. The DFAS Business Evolution, or DBE, outlined steps to strengthen customer relationships and improve business processes as we deliver "best value" services to our soldiers, sailors, airmen, marines, and Defense civilians. It redefined internal DFAS executive responsibilities and relationships to better focus on customer needs and more clearly identified access to and accountability for each DFAS service. The DBE set the stage for the creation of an environment for innovation and professional growth for every DFAS employee.

Prior to the implementation of the DBE Plan, DFAS was organized by geographic location, providing finance and accounting services to military and civilian personnel across the world. Over the past year, we shifted from a geographical structure to a business line and client executive matrixed organization to better serve customers and to improve operational efficiency. This change was designed to benefit customers by focusing DFAS on our individual customer's needs, identifying clear accountability for each DFAS business service, and improving the "value" of business services provided. Business lines were established. Client Executives were designated. Feedback was encouraged. A commitment to service was reinforced.

DFAS is committed to becoming a world-class provider of finance and accounting services for its customers. To do so, we have further developed a strategy that will be supported by performance metrics to measure the impact of strategic goals. In the last several months, we developed a Balanced Scorecard that will allow everyone in the organization to understand the linkages of performance, help illuminate the importance of a strong strategy, and demonstrate the indicators of success across the business lines and throughout the organization. This current Strategic Plan takes our approach with the organization, through the DBE, to the next level by highlighting the principle priorities we will undertake in the coming years to realize our strategic goals.



Thomas R. Bloom

II. Introduction

In developing strategy, DFAS analyzed its current state, articulated its desired future state, and identified the case for change. Last year, DFAS reorganized to build on strengths and to create new synergies to advance the desire to be more customer focused. Throughout the past year, the DFAS Leadership Council has met monthly to monitor key initiatives that have begun to transform the organization. The landscape is changing and the direction of DFAS remains clearly focused. Strategic initiatives concentrate on opportunities to make DFAS outstanding in customer service. DFAS is well on its way and the strategic planning process is becoming firmly imbedded in the organizational culture.

A key initiative that DFAS embraced, the Balanced Scorecard process, was designed and implemented in Fiscal Year 2001. The Balanced Scorecard provides a consistent view of organizational performance and enables DFAS to measure the most pertinent areas supporting the mission and vision of DFAS. The first step in designing and rolling out the Balanced Scorecard was to understand and identify the four broad areas, or perspectives, to be measured: Customer, Financial, Internal Business Processes, and Growth and Learning. At the same time, feedback mechanisms were established to ensure progress in these areas and alignment to DFAS strategy.

In addition to the Balanced Scorecard, DFAS advanced strategy through other key initiatives. The new Client Executive (CE) role was established to serve DFAS customers. The CE serves as an attentive steward for customers, helping them find solutions for their needs. DFAS conducted needs analysis and customer surveys within business lines to better understand the critical areas needing improvement. Additionally, DFAS conducted end-to-end process analysis, or Activity Based Costing analysis, on major processes in order to improve quality and lower costs. As always, DFAS continues to strive toward meeting 100% of Agency Performance Contract commitments as well as the goals that are outlined in the Financial Management Improvement Plan.

DFAS understands that in order to implement the goals outlined in our Strategic Plan, each DFAS employee must acquire and develop additional skills. DFAS is committed to steering that charge by helping all employees equip themselves with the competencies they need to provide extraordinary service. To that end, DFAS is committed to spending five percent (5%) of the labor budget on training. Work is also underway to identify and develop core competencies necessary for workforce and mission success.

The Strategic Plan is an integral part of what is done at DFAS everyday. With the strategy clearly in mind and present at every operational level, DFAS continues to strengthen customer partnerships, improve quality, and reduce costs. DFAS will look for innovative solutions to maximize the potential of technology to meet customers' needs. DFAS strives to be a world-class

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organization by measuring itself against others in the industry. It is through the continued commitment to strong partnerships, highest quality, operational effectiveness and a skilled workforce that DFAS will achieve its vision and provide world-class, cost-effective services for its customers.

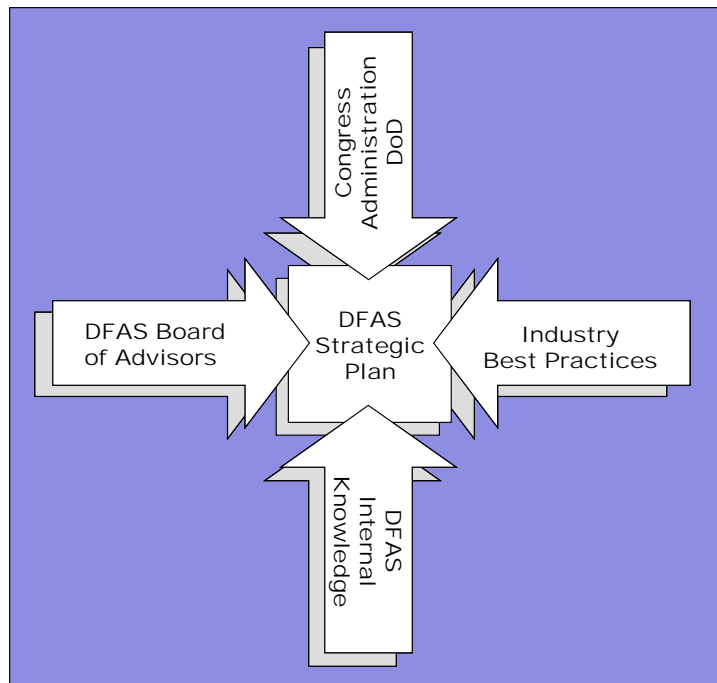
DFAS believes that the right structure is in place to implement the Strategic Plan. A clear roadmap is defined.

III. Strategic Planning Approach

The DFAS mission and vision reflects a conscious decision by DFAS to become more customer-focused. The DFAS Strategic Plan focuses on goals and objectives to advance the DFAS mission and to attain the vision. Through the Balanced Scorecard process, individual units participated in developing goals and objectives, linking all DFAS organizational initiatives together. Additionally, DFAS strives to be world-class in the finance and accounting industry. DFAS utilizes other world-class organizations and best practices as gauges to measure performance. The Strategic Plan is the product of DFAS internal expertise, external benchmarking, legal and regulatory guidance and industry consultation.

DFAS firmly believes that strategic plans and processes only work when embraced by all the employees in the organization and integrated into their day-to-day events. This Strategic Plan will be communicated in a way that enhances employees' and managers' understanding of our strategy, calling them to action. Various methods of communication including face-to-face interactions as well as electronic and print media will be employed. In addition, and most importantly, communication will be leadership driven.

The Strategic Plan is the framework that all employees and managers will use for creating their business planning processes. This plan will be monitored monthly, reviewed annually and updated every five years.



IV. Core Values

DFAS is engaged in an intensive process of strategy development, implementation and renewal. DFAS Strategy is comprised of mission, vision and goals. The goals are supported and will be achieved through their respective Balanced Scorecard objectives. All of these areas are guided and supported by a set of core values. DFAS strategy is designed to deliver the best value to the customer. Throughout the process of defining DFAS's direction, leadership has continually relied on the following core values when making decisions.

Integrity

Integrity is doing what is right.

- Uphold the laws and regulations
- Demonstrate accountability
- Communicate openly and honestly
- Treat everyone with fairness and respect
- Follow through on our commitments

Service

We are committed to be the Department's trusted financial partner.

- Partner with our customers
- Leverage technology and resources
- Strive for excellence
- Train and develop our employees
- Recognize and reward exemplary performance
- Bottom line—we exist to serve America's best!

Innovation

We embrace change and aggressively seek new ways to do business.

- Encourage best business practices
- Invest in leading-edge technology
- Reduce cost and improve quality through leadership and teamwork

V. Situation Assessment

The DFAS current state, or situation assessment, reflects an organization making strides and continuing to address needed improvements. The following success stories highlight milestones achieved along the way, while challenges accentuate the issues DFAS continues to address. Both are mapped to the DFAS vision statement to ensure a linkage to the desired future state of DFAS.

A. Success Stories

Best Value to Customer

- Increased our clients spending power
 - Reduced the number of overaged invoices
 - Increased the use of electronic commerce
- FY 2002 bill to our customers is \$140 million less than in FY 2001; our cost structure is \$120 million below budget for last two years

World-class Provider of Finance and Accounting Services

- Met client needs for more timely and accurate financial information
 - Delivered to SOCOM a system solution for better management information
 - Reduced problem disbursements by 85%
- Expanded web based capabilities
 - Self service electronic pay statements
 - Converted tools and systems to web based applications
 - Vendor pay inquiry for the contractors

Trusted, Innovative Financial Partner

- Dedicated and designated senior executives for specific clients
 - Regular and planned interaction
 - More proactive, which allows DFAS to anticipate customer needs

One Organization, One Identity

- Improved internal operations
 - Shifted to business line focus
 - Obtained unqualified opinion on DFAS financial statements

Employer of Choice, Providing a Progressive and Professional Work Environment

- Workforce expressed improved organizational climate
 - Six percentage point increase in 2001 Organizational Assessment Survey (OAS)
- Committed five percent (5%) of our labor budget to training

B. Challenges

Best Value to Customer

- Shrinking DFAS infrastructure
- Transitioning Retired and Annuitant Pay work to the private sector utilizing competitive sourcing
- Getting the DFAS message out beyond the Financial Management community
- Anticipating customer expectations and increasing customer satisfaction

World-class Provider of Finance and Accounting Services

- Reducing errors and rework
- Improving internal controls
- Identifying and applying best practices
- Improving internal financial management and practices

Trusted, Innovative Financial Partner

- Implementing and Fielding Department-wide Defense Systems
- Improving Department of Defense end-to-end processes
- Developing strategy for accounting systems

One Organization, One Identity

- Growing successful programs and expanding their usage
- Building a new DFAS image
- Communicating more thoroughly internally and externally

Employer of Choice, Providing a Progressive and Professional Work Environment

- Energizing the workforce
- Driving communication themes to all levels of DFAS
- Maintaining a motivated workforce in a competitive sourcing environment
- Building a professional workforce
- Establishing succession planning

VI. Mission, Vision and Goals

The DFAS customer and stakeholder constituencies have complex and constantly evolving requirements. DFAS is committed to effectively taking on the challenge of constant change within the framework of a continuous process of strategy renewal. DFAS strategy is comprised of:

A. Mission

Provide responsive, professional finance and accounting services for the people who defend America.

B. Vision

Best Value to Customer

- World-class Provider of Finance and Accounting Services
- One Organization, One Identity
- Trusted, Innovative Financial Partner
- Employer of Choice, Providing a Progressive and Professional Work Environment

C. Goals

Goals are the critical success enablers for DFAS to accomplish its mission and achieve its vision. The goals are directly linked to the vision of DFAS as follows:

World-class Provider of Finance and Accounting Services

Goal: Fully satisfy customer requirements and aggressively resolve problems to deliver best value services

Goal: Use performance metrics to drive best business practices and achieve high quality results

Goal: Optimize the mix of our military, civilian, and contractor workforce to achieve competitive advantage

Trusted, Innovative Financial Partner

Goal: Establish consultative relationships with leaders

Goal: Deliver business intelligence to drive better decisions

One Organization, One Identity

Goal: Ensure everyone is working toward the same vision and can connect what they are doing to make the vision a reality

Employer of Choice, Providing a Progressive and Professional Work Environment

Goal: Embrace continuous learning for our workforce to ensure critical, high quality skill sets

Goal: Develop the next generation of DFAS leadership.

VII. Strategy and Performance Measurement Linkages:

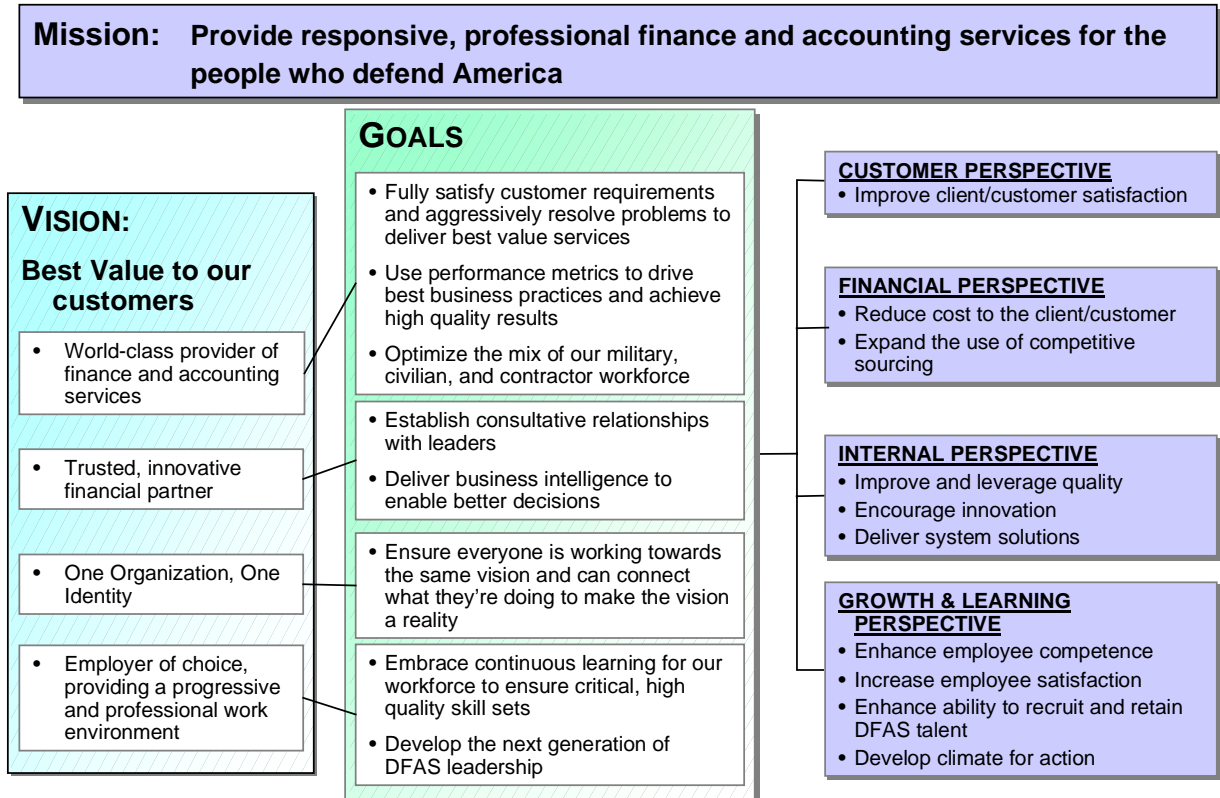
DFAS employs the Balanced Scorecard methodology to measure organizational performance and track progress in achieving its strategic goals. The various DFAS organizational units embarked on the development of individual scorecards, consistent with the goals articulated by the leadership. These individual scorecards were analyzed and a crosscutting “corporate view” scorecard was developed. This process was an iterative one that involved participants throughout the entire organization at all levels. The goals embodied in the strategy are divided into a four-perspective view of organizational performance. The perspectives are:

- **Customer**
 - Focuses on organizational performance as perceived by the customer
- **Financial**
 - Measures the traditional fiscal health associated with organizational performance
- **Internal Business Processes**
 - Measures internal business practices and system processes for efficiency and effectiveness
- **Growth and Learning**
 - Measures progress towards achieving the attraction, development and retention of DFAS employees

Each perspective contains unique objectives. Objectives are the means whereby DFAS will achieve its strategic goals. The DFAS corporate scorecard will be continuously monitored and revised based on identified priorities. The corporate scorecard will be used as the basis for other unit scorecards to cascade performance measures and track action plans throughout the entire agency.

A. Objectives Linked to Goals

DFAS will measure progress toward achieving goals through the Balanced Scorecard objectives. The goals provide linkages from the DFAS vision to objectives, and the goals are cross-linked to the objectives at the corporate level.



B. DFAS FY 2002 Corporate Balanced Scorecard Perspectives, Objectives & Measures

PERSPECTIVE	OBJECTIVE	MEASURE
Customer	Improve Client/Customer Satisfaction	1. Client/Customer Satisfaction
		2. Commitments Met – Performance Contracts
		3. Commitments Met – Client Executive Contacts
		4. Specific Billing Rates
Financial	Reduce Cost to Client/Customer	5. Total Costs
	Expand the Use of Competitive Sourcing	6. Competitive Sourcing Performance
		7. Total Workforce Ratio
Internal Business Processes	Improve and Leverage Quality	8. Quality Index
		9. Rework Identified
		10. Rework Eliminated
		11. Best Business Practices Adopted
	Encourage Innovation	12. New Products or Services Delivered
	Deliver System Solutions	13. Commitments Met – System Milestones
Growth & Learning	Enhance Employee Competence	14. Employees in Developmental Assignments
	Increase Employee Satisfaction	15. Employee Satisfaction
	Enhance Ability to Recruit and Retain DFAS Talent	16. Core Competency Profile
	Develop a Climate for Action	17. Climate for Action

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Each goal is further linked to respective objectives as outlined in this Objective to Goal Matrix. A strong link between an objective and a goal is indicated by a “✓”

Objective	Customer		Financial		Internal Business Processes			Growth & Learning			
	Improve Client/ Customer Satisfaction	Reduce Cost to Client/ Customer	Expand the Use of Competitive Sourcing	Improve and Leverage Quality	Encourage Innovation	Deliver System Solutions	Enhance Employee Competence	Increase Employee Satisfaction	Enhance Ability to Recruit and Retain DFAS Talent	Develop a Climate for Action	
Goal											
Fully satisfy customer requirements and aggressively resolve customer problems to deliver best value services	✓	✓		✓	✓	✓				✓	
Use performance metrics to drive best business practices and achieve high quality results	✓	✓		✓	✓				✓	✓	
Optimize the mix of our military, civilian, and contractor workforce	✓	✓	✓	✓	✓					✓	
Establish consultative relationships with leaders	✓				✓		✓	✓	✓	✓	
Deliver business intelligence to drive better decisions	✓			✓	✓	✓					
Ensure everyone is working toward the same vision and can connect what they are doing to make the vision a reality	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Embrace continuous learning for our workforce to ensure critical, high quality skill sets				✓	✓		✓	✓	✓	✓	
Develop the next generation of DFAS leadership				✓			✓	✓	✓	✓	

VIII. Implementation

The history of DFAS reveals that the qualities of adaptability and flexibility will enable DFAS to not simply remain viable, but also to become a best-in-class provider of finance and accounting services. DFAS recognizes that it must use its strategy as a navigational tool in order to make it manifest in every aspect of business routine. DFAS believes a strategy can only succeed through its successful implementation. In addition, unless the strategy is passionately articulated throughout the organization, it will not be actionable or measurable. The DFAS strategy will enable DFAS to ensure that the organization is aligned and focused on goals and objectives.

Every successful organization or business entity identifies and commits to three to five corporate-wide initiatives that are indicative of organizational success. These initiatives are critical to measuring the viability of an organization and require the full commitment and support of top leadership. To that end, DFAS is focused on implementing the following four key crosscutting initiatives: 1) Develop and implement a communications strategy; 2) Make Retirement and Annuitant Pay a success by ensuring that processes and systems are in place; 3) Implement Business Management Redesign by replacing select internal management and information systems; and 4) Implement Phase I of Defense Procurement and Pay System. These initiatives are critical to the success of DFAS as a world-class provider of finance and accounting services.

This Strategic Plan describes how DFAS will leverage its people, technology and processes to achieve its goals. It confirms DFAS' unwavering focus on the customer and dedication to quality. It further describes how DFAS intends to continue to find new and creative means of reducing costs, consolidating redundant systems, eliminating unnecessary processes, and improving upon existing core functions. In keeping with this plan, DFAS will strive to incorporate best practices from government and private industry to ensure success. This plan will serve as the catalyst for implementing specific actions and principles to make the vision a reality. It will guide DFAS toward improving employee satisfaction, customer retention, business development, and operational enhancement. Accordingly, this Strategic Plan unfolds another chapter in DFAS' uncompromising service to customers. It underscores accountability, through measurement, for superior performance. DFAS has the right organization, the right vision for the future, and the right strategy to achieve that vision.