

Booz | Allen | Hamilton

Thought Leadership

2008 Annual Report

Thought Leadership

When an organization delivers value through the excellence of its people and ideas, rather than a manufactured product, then what the firm says, knows, designs, creates, reports upon, and innovates—in all, its intellectual capital—uniquely distinguishes it. At Booz Allen Hamilton, intellectual capital is a distinctive core asset that greatly enhances the firm's value to clients.

In such critical areas as cybersecurity, healthcare systems, defense transformation, and human capital management (to name just a few), Booz Allen has turned knowledge gained from and created during real-world client engagements and innovative ideas developed in its internal research into practical but novel solutions to important, complex problems.



Booz Allen has a decades-long legacy of innovative thinking that greatly enhances the firm's value to clients.

Our thought leadership is a constant source of pride and represents well the DNA of our firm.

Throughout the past year, Booz Allen's experts built on the firm's long history of presenting its best ideas at global conferences and in white papers, reports, and books distributed and referenced on the Web; on television and radio; and in print in such renowned publications as *Harvard Business Review*, *MIT Sloan Management Review*, and *Vital Speeches of the Day*. Some examples of this range of Booz Allen's intellectual capital are featured on the pages that follow.

Unmanned and Robotic Warfare



Booz Allen has a long tradition of taking on a leadership role to help shape and inform the ideas of leaders as they prepare for potential challenges. One issue the US military is facing is an imminent revolution in warfare in which unmanned and robotic systems will assume a prominent, if not dominant, position in military doctrine, strategy, and tactics.

Last June, Booz Allen and Harvard University's John F. Kennedy School of Government convened a group of senior American military leaders (both retired and on active duty, from all service branches), senior civilian staff, Harvard professors, and

Booz Allen experts to explore the extraordinary recent developments in unmanned and robotic warfare. Over a two-day session, the 32 participants reviewed the past 10 years of progress in unmanned warfare, assessed its current state, and identified future issues, including program funding, maintenance of the US's current asymmetric advantage, ways to adapt existing platforms, and issues involving leadership, ethics, and accountability. Afterward, Harvard and Booz Allen jointly published "Unmanned and Robotic Warfare: Issues, Options, and Futures," which offers the considered views, often in remarkable consensus, of some of our nation's most experienced military and civilian leaders.

The Military Meets Generation Y



The established order of the American military is being challenged by the attitudes and tastes of so-called Generation Y,

those born after 1978. The first group to grow up with the majority of its members taking online access for granted, Gen Y has already forced the military to address, for example, attempts to use the networking site Facebook to help organize squadrons.

In the *strategy+business* article "Military of Millennials," Booz Allen Vice Presidents Art Fritzson, Lloyd W. Howell Jr., and Dov S. Zakheim offer policies and management reforms that can invigorate the relationship between established organizations and a generation shaped by iTunes and the desire for a better work-life balance.

The authors point to the posi-

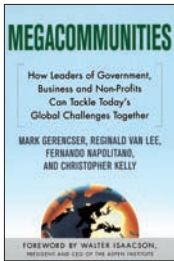
tives: With a greater emphasis on family than the divorce-plagued Generation X that preceded it, Generation Y (or the millennials, as its members are also known) most closely resembles its grandparents' World War II generation. Millennials are committed to community and teamwork; they enjoy volunteering for nonprofit activities. "If the current leadership in the public and private sectors learns to accept, deploy, and manage Generation Y effectively, the millennials could even provide an echo of the grit and selfless heroism that inspired journalist Tom Brokaw to label their grandparents 'the greatest generation,'" the authors contend.

To reach Generation Y, use of the Internet is a must. This fact is well known to the US Navy, which places recruitment videos on YouTube, and the Central Intelligence Agency, which advertises on Facebook. In fact, the qualities of openness and voluminous commu-

nication fostered in a generation in which if you breathe, you blog—or at least text message or IM—suggest strongly that Gen Y reacts well to management styles that foster creativity, initiative, and group work. Moreover, these qualities speak well to the group's ability to make decisions in a decentralized environment.

Although this network-savvy generation could be the perfect antidote to the asymmetric enemy that the world faces in loosely organized terrorist groups, the military must be careful not to weaken its linear command-and-control structure as it morphs around this new generation of leaders. In the best of all worlds, the authors note, Generation Y's inherent strengths will make the military more nimble and flexible and less stratified, while the military will give Generation Y the overlay of structure and direction that it most needs.

The Age of Megacommunities



Efforts to solve large and seemingly intractable problems—those involving, for example, social policy, health-care, geopolitical instability, and globalization—demand resources marshaled from all levels and sectors of society in a dedicated group. Known as megacommunities, these ambitious new joint ventures are made up of flexible and adaptable representatives of interested, influential organizations—public, private, and not-for-profit—working together to orches-

trate solutions to critical problems that would be too difficult for any party to tackle alone.

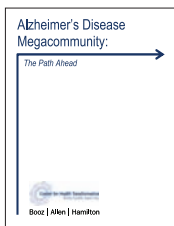
In *Megacommunities: How Leaders of Government, Business and Non-Profits Can Tackle Today's Global Challenges Together* (Palgrave Macmillan, 2008), Booz Allen Senior Vice Presidents Mark Gerencser and Reginald Van Lee and Vice President Christopher Kelly, along with Booz & Company Partner Fernando Napolitano, offer a far-reaching guide to building such networks.

The authors draw on interviews with more than 100 leaders from business, government, and nonprofit organizations, including

Bill Clinton, Henry Kissinger, Hank Paulson, Melanne Verveer, Jody Williams, Kenneth Chenault, and Richard Parsons. The book also demonstrates how megacommunities work in a variety of settings, such as in confronting HIV/AIDS in India, conserving the world's rain forests, and strengthening the community of Harlem.

In a review of *Megacommunities* published in the June 2008 issue of *Harvard Business Review*, Lew McCreary writes that the book is “an optimistic handbook for creating promising frameworks for change that balance ideals with realities, the perfect with the good.”

Alzheimer's Disease: The Path Ahead



Booz Allen and the Center for Health Transformation, founded by Newt Gingrich, convened a megacommunity of nearly 80 leaders in all sectors to participate in a strategic simulation in September 2007. The primary objective was to explore how

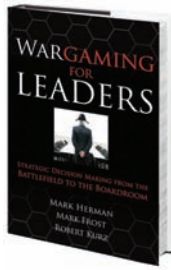
collaboration could enhance the prevention and detection of Alzheimer's disease and improve the treatment and care of those who have it, in order to mitigate the impact of the disease on patients, caregivers, and the broader society. Participants included teams representing health-care providers, pharmaceutical companies, medical equipment makers, academia, government, insurance companies, public advocates, and patients and their families.

“Participants identified and explored key challenges that might best be conquered through collaborative efforts, as well as opportunities for

working together to help find a cure for Alzheimer's disease,” says Booz Allen Vice President Susan Penfield. “In fact, the megacommunity identified four specific areas where collaboration among the members was necessary.” The four areas were efforts to increase awareness of the urgency of the Alzheimer's disease crisis, empower patients and caregivers, accelerate discovery of a cure, and transform the care model.

The insights gleaned from the strategic simulation and recommendations for the future were published in a report titled “Alzheimer's Disease Megacommunity: The Path Ahead.” Booz Allen is now helping the megacommunity move from planning to action by supporting the Alzheimer's Study Group, a task force charged with creating an Alzheimer's “national strategic plan,” and Leaders Engaged on Alzheimer's Disease, the formal name for the Alzheimer's disease megacommunity, which will execute the national strategic plan.

Wargaming for Leaders



In a world characterized by asymmetric conflict, security threats, ruthless competition, and economic uncertainty, large institutions place a

high premium on testing plans and strategies before the point of no return. Government organizations, global corporations, and groups whose members are drawn from the public, private, and civil sectors—known as megacommunities—can use the tool of wargaming to test assumptions, mitigate risk, and reveal the unintended consequences of decisions yet to

be made. *Wargaming for Leaders: Strategic Decision Making from the Battlefield to the Boardroom* (McGraw-Hill, 2008) explains how.

Wargames (also called strategic simulations) are collaborative problem-solving exercises that enable participants to work in a controlled setting to understand—in advance and in a risk-free environment—possible issues and outcomes of complex and fast-moving situations. They can then apply the findings to shape the real situation or decision with which they are grappling.

Written by Booz Allen Vice President Mark Herman and Principals Mark Frost and Robert Kurz, *Wargaming for Leaders*

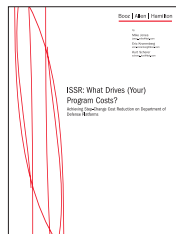
explores valuable lessons-in-advance gleaned from military wargames and wargames for business and megacommunities.

Drawing on their decades of experience in conducting strategic simulations for Booz Allen clients, the authors explain how they used wargaming to help the US military outmaneuver foes and understand the dynamics of future warfare, and to help companies such as Caterpillar and ConAgra counter competitive threats. They also show how wargames can bring together diverse constituents to forge the mutual understanding and collaborative solutions needed to respond to post-9/11 terrorism or an avian flu pandemic.



Wargames enable participants to understand in advance possible issues and outcomes of complex situations.

ISSR: Achieving Step-Change Cost Reduction



Program managers and defense manufacturers are frequently caught between opposing imperatives: delivering increasingly capable and complex systems and simultaneously reducing costs. Yet the traditional approach of squeezing out savings through incremental cost-reduction initiatives focused on such categories as labor and overhead “no longer supports the targets required by Department of Defense pro-

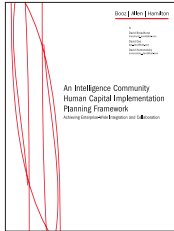
grams,” note Booz Allen Vice President Mike Jones and Senior Associate Kurt Scherer, along with Booz & Company Principal Eric Kronenberg, in their white paper “ISSR: What Drives (Your) Program Costs?” The authors show that opportunities for considerable, lasting savings can be found in how a system is designed and built.

To identify, analyze, and address a program’s cost drivers, Booz Allen applies its integrated ISSR framework. ISSR evaluates cost drivers in four categories: inherent (driven by platform

design), structural (driven by how the product is made), systemic (driven by how production is managed), and realized (driven by the actual work practices).

The rigorous and comprehensive nature of Booz Allen’s ISSR approach is collaborative, drawing together government stakeholders and suppliers, and the approach ensures that all cost-cutting measures have been explored and vetted for maximum benefit. Additionally, the focus on material and manufacturing build costs achieves enduring step-change cost reduction.

An Approach to Human Capital That Translates Policies into Practice



Human capital—the skills, insights, experience, and motivation that people bring to their jobs—is a critical contributor to an organization’s success. But many organizations find it difficult to implement and sustain change programs involving human capital, even if they are well designed.

In the fall of 2008, Booz Allen Hamilton—long recognized as a thought leader in solving organizational problems—published “An Intelligence Community Human Capital Implementation Planning Framework,” written by David Broadhurst, executive advisor to Booz Allen, and Booz Allen Principal David Dye and Vice President David Humenansky.

Tailored to the US intelligence community, which is working toward building a culture of collaboration across its numerous agencies, the framework is part of a capability developed by the firm to help organizations effectively implement

human capital initiatives by providing questions to be addressed, activities to be carried out, and methods for measuring success over time.

The intelligence community-wide framework can translate human capital strategies into implementation plans that feature a common approach for making those strategies operational while preserving the unique characteristics of each agency. It addresses the gap between policymakers and policy implementers by providing repeatable procedures for human capital initiatives. When implemented, the procedures can achieve outcomes such as collaborative planning and execution, sharing of best practices and resources, practicality, and sustained results.

The framework is being put into practice as part of the Intelligence Community Round Table Series, a structured learning forum in which information is developed and shared with agency stakeholders. Series participants use the framework and its elements as discussion items to weigh risks and rewards from different points of view.

Making Transformation Stick



The federal government is facing greater pressure to transform itself than it has ever faced before.

After the lack of disaster prepared-

ness that led to the Hurricane Katrina debacle and the faulty intelligence analysis regarding Iraq, more than 80 percent of the agencies in Washington are preparing major changes in the way they operate. With so much transformation in the air, it is fitting to ask the question, When do change efforts actually result in change,

and when do they merely devolve into more of the same?

David Humenansky, a Booz Allen Hamilton vice president, parses the difference in “The Maze of Change,” an article published in *Government Executive* magazine. Humenansky argues that change initiatives often fail because they are one- or two-dimensional. For instance, if an organization perceives a new information system to be a technology project and nothing more, the outcome will be inadequate. Technology is critical, of course, but so are the people who will oversee the system, the business

processes with which the technology must be integrated, and the workplace that the technology is designed to help manage.

None of these aspects of change can be seen as a stand-alone activity; changes in people, processes, technology, and infrastructure must all be aligned, Humenansky explains. He concludes that “no single set of instructions can produce enduring transformation in all instances.” But with Booz Allen’s holistic, multi-disciplinary Transformation Life Cycle approach to transformation, any organization can put itself in the best position to succeed.

Aspen Ideas Festival



A centerpiece of Booz Allen's commitment to inspire and participate in probing discussions about the world's most pressing chal-

lenges is the annual Aspen Ideas Festival, which the firm has sponsored for the past four years. Organized by the prestigious Aspen Institute, the weeklong July forum brings together leaders in science, business, politics, the arts, and academia for programs that touch all parts of society.

For the 2008 event, Booz Allen worked closely with the Aspen Institute to help shape thinking about key issues related to global security, health, energy, and food shortages, and to help frame the event in light of critical issues that the new US presidential administration would face.

Among the many panels in which Booz Allen participated was one titled "Web 2.0 and Beyond: What Does the Cyber Future Hold?" The panel was moderated by Booz Allen Vice President Joan Dempsey and explored many questions, including, How do we preserve the open nature of the Internet? How do we secure the Internet in a manner that protects corporate America's intellectual property and the nation's critical infrastructure, while maintaining information dominance for our military and preventing the ability of adversaries to exploit cyberspace?

Representing Booz Allen on the topic of healthcare was Vice President Robin Portman, who moderated a panel titled "Looking to the Future: Staying Healthy Is the Way to Prevent Cancer and Heart Disease." The discussion considered one unavoidable fact: We cannot effectively address the

escalation of healthcare costs in the US until we acknowledge the burden of chronic diseases.

The breadth of Booz Allen's expertise is evidenced by the other sessions at which the firm's leaders shared their perspectives and experiences: Vice President Christopher Kelly participated in a panel titled "Addressing Global Challenges through Collaborative Networks"; Vice President Gary Labovich moderated a plenary session called "Innovation Engines: Where Will the Next R&D Breakthroughs Come From?"; Vice President Bill Thoet moderated a panel titled "The Global War on Terror: Is America Fighting the Right War?"; and retired Vice President R. James Woolsey participated in a plenary session, "Climate and National Security: Impacts on Foreign Policy," and a tutorial, "Balancing Liberty and Security in a Globalized World."

Solid Connections



Good products have failed, lives have been cut short, and battles have been lost because critical resources didn't get to the right place at the right time. Logistics is the art and science of making goods and services arrive when and where they are needed—

and it is a critical capability that Booz Allen brings to its clients. Booz Allen Chairman & CEO Ralph W. Shrader captured today's logistics and leadership challenge in his keynote address, "Solid Connections in a Liquid World," at the National Defense Industrial Association's 2007 logistics conference. It was reprinted in *Vital Speeches of the Day*, and subsequently appeared as a column

in *MIT Sloan Management Review* and was commented upon in leadership blogs over the past year.

Emphasizing the interconnection of leadership, logistics, and linkages in today's fluid, unpredictable world, Shrader argued the counterintuitive premise that less is more. In leadership, less instant is more thoughtful; in logistics, less rigid is more capable; and in linkages with others, less virtual is more personal and powerful. He emphasized that a key aspect of solid leadership in a liquid world is informed decision making, so leaders need to focus attention on the most important matters. His strategy for focus is to be "minds on, but hands off," meaning leaders are *responsible* for everything important in their organizations, but shouldn't try to *do* everything important.