



The New Trends in Defence Planning and Their Impact on the Defence Planning Systems in Transitional Countries*

УДК: 355.02 : 005.51

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The nature of the new security environment, as well as permanent pressure on scarce resources, demands the enduring refinement of the defence planning process. This paper points out that the contemporary defence planning systems are capability-based in the sense of objectives, output-oriented in the budget sense and program-based in the sense of linking available resources to desired capabilities. In order to provide support for defence management in transitional countries in an effort to improve effectiveness and efficiency in the defence planning process, this paper has proposed a generic model of the defence planning system suitable for these countries.

Key words: *defence planning, capability-based planning, output-oriented budget, defence program, transitional countries.*

Introduction

Defence planning is a complex area that seeks to ensure that a defence system has the necessary forces, assets, facilities and capabilities to fulfil its tasks throughout the full spectrum of possible missions. It is a slightly ambiguous term because it encompasses various participants, process and functions, as well as a different time horizon. It is possible to distinguish three different areas or levels of the defence-planning realm in the broader sense. These are the development of national strategies and policies or strategic planning, the development of defence programs or programmatic planning and operations or military planning. Strategic planning usually provides broad strategic goals, describes risks and threats, declares policies and defines

* Чланак представља скраћену верзију стручног рада који је аутор завршио у току школовања на Краљевском колеџу за одбрамбене студије у Великој Британији и који је одабран за објављивање у часопису „Seaford House Papers“, Лондон, за 2008. годину.

** Аутор је запослен у Генералштабу ВС.

available resources and constraints. Operations planning develop the course of action which determines how to use different military capabilities in order to achieve the declared goals. Programmatic planning is a bridge between strategic and operations planning and it is a process for balancing and integrating resources among the various defence programs in order to build the desired capabilities. It is important to point out that there are strong interdependency and soft borders between particular planning levels.

Defence planning in the narrow sense or defence resource management is associated with the creation and maintenance of military capabilities. It supports preparations for war and involves the planning necessary to recruit, organize, train, equip and provide military forces. It comprises the processes of strategic and programmatic planning and represents the main tools for the transformation of national defence objectives and available resources into the comprehensive set of military capabilities needed for the future security environment.

After the end of the Cold War, defence systems in almost every Western/NATO country as well as Central and Eastern European country were challenged by the significant changes that occurred. The nature of the contemporary security environment as well as permanent pressure on the scarce resources demands the enduring refinement of the defence planning process both in developed and transitional countries.¹ Demands for building armed forces which are under democratic control and prepared for Euro-Atlantic integration have caused radical changes in the nature of civil-military relations in the transitional countries. This is particularly poignant in the defence planning area where the autarkical systems from the socialist times should have been replaced with transparent, effective, efficient and compatible ones. Some of the transitional countries were more successful in this process than others and succeeded in building the defence planning system with the nearly required characteristics. Nevertheless, for different reasons, in the greater number of transitional countries there is significant space for consolidation and improvement in this area.

The scope of this paper is the defence planning process in the narrow sense (strategic and programmatic planning) with particular focus on the defence resources management process in the stable democratic and NATO countries and the possibilities for customization of the some solution for the defence planning systems in the transitional democratic countries. The aim is to identify the trends in the defence planning area, to analyze their impact on the defence planning process in transitional countries and to propose a generic model of the defence planning system suitable for the transitional countries.

The trends in modern defence planning systems (capability-based planning and output-oriented budgeting) are analyzed in the first chapter. In the next chapter the reflections of these trends on the defence resource management

¹ The term "transitional countries" in the context of this paper is related to the eastern European countries and the new independent states of the former Soviet Union which are taking part in the process of the Euro-Atlantic security integration.

process in USA and UK as leading NATO countries are considered. The third chapter is dedicated to the defence planning in transitional countries. The Romanian defence planning system is presented as a example of a relatively successful defence planning systems among the new NATO countries. The achievements and problems in defence reforms in the Partnership for Peace (PfP) countries and the role of defence planning in this process are shown in the Serbian case. Finally, a generic model of the defence planning system suitable for transitional countries is proposed. The main objective in developing this model has been the improvement of effectiveness and efficiency in the defence planning process and establishment of the compatibility between national and collective defence planning systems.

New trends in defence planning

The capability-based planning and output-oriented defence budgeting are two main trends in contemporary defence planning. The nature of modern conflict and uncertainties in the security environment have caused a shift from the threat-based to the capability-based planning in the Euro-Atlantic defence community. Furthermore, the need for more efficiency in the spending of public resources has initiated a change of principle in the defence budget construction. Instead of the input-oriented, the output-oriented defence budget is applied.

From the threat-based to the capability-based defence planning

There are different approaches to defence planning, but there are two of them which are well recognized. These are threat-based planning and capability-based planning. Threat-based planning was a fundamental concept during the Cold War when a very clear distinction between friends and foes was established. Threat-based planning is founded on the identification of potential adversaries and on the assessment of their current and future capabilities. Development of specific capabilities for exceeding the possible enemies is the bottom line in this type of planning. On the other hand, capability-based planning prepares a defence system for future missions, not in terms of fighting against concrete adversaries, but identifying instead the future missions and tasks of defence forces and the generic capabilities needed to accomplish them. The term “capability” understands “the ability to achieve a desired effect under specified standards and conditions through combinations of means and ways to perform specific tasks”.²

Capability-based planning “involves a functional analysis of expected future operations...The outcome of such planning is not concrete weapons systems and manning levels, but a description of the tasks force structure units should be able to perform expressed in capability terms. Once the capability inventory is defined, the most cost-effective and efficient physical force unit options to implement

² CJCSI 3170.01E, *Joint Capabilities Integration and Development System*, 2005, p. A-7.

these capabilities are derived”.³ As an alternative definition states, capability-based planning is “planning, under uncertainty, to provide capabilities suitable for a wide range of modern-day challenges and circumstances while working within an economic framework that necessitates choice”.⁴

The capability-based planning approach is adopted in several leading NATO countries. In the USA Department of Defense (DoD), this approach was promoted in the 2001 Quadrennial Defence Review with the intention to replace an integration of the single-service vision of necessary capabilities for fighting at the end of the force requirement generation process. The new approach has introduced the basic principle that the warfighting vision (how forces intend to fight) and strategic direction are “born joint” at the DoD level (top-down approach) at the start of the planning process.⁵ It does not mean that services are excluded from the process of required capabilities development.

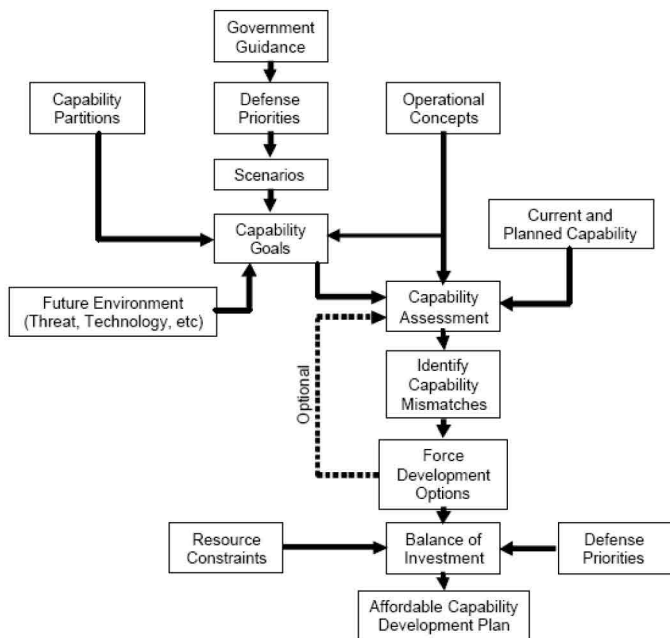


Figure 1 – Capability-based planning process⁶

³ NATO Research and Technology Board: Panel On SAS, *Handbook in Long Term Defense Planning*, 2003, p. 4.

⁴ Davis, P.K., *Analytic Architecture for Capabilities-Based Planning, Mission-System Analysis, and Transformation*, RAND MR-1513-OSD, 2002, p. 1.

⁵ Stephen Walker, *Capabilities-based planning – how it is intended to work and challenges to its successful implementation*, U.S. Army War College, Carlisle, 2005, p. 2.

⁶ The Technical Cooperation Program (TTCP), *Guide to Capability-Based Planning*, TR-JSA-TP3-2-2004, Alexandria, VA, 2004, p. 4.

As noted in The Technical Cooperation Program (TTCP)⁷ report, capability-based planning provides a more rational basis for making decisions on future acquisitions, and makes planning more responsive to uncertainty, economic constraints and risk. Capability-based planning provides a framework to support analysis and facilitate risk management. It focuses on goals and end-states and encourages innovation. It starts by asking questions regarding *what do we need to do* rather than *what equipment are we replacing*. It means that it tends to remove traditional stovepipes and provide more efficiency in the defence resource management process.

The basic steps of the capability-based planning process developed inside the TTCP between USA, UK, Australia, Canada and New Zealand are shown in Figure 1.

Depending on the approach, capabilities could encompass a different set of entities. For example, the USA DoD identified 18 Joint Capability Areas.⁸ Some of them are functional (i.e. Command and Control, Force Application, Logistics...) and some are operational (i.e. Homeland Defence, Strategic Deterrence, Special Operations...). In order to make the capability-based planning process more clear, it is recommended to divide the capability set into more small groups which are referred to as capability partitions.⁹

From the input-oriented to the output-oriented defence budgeting

Faced with a permanent demand from the public and/or international financial institutions for more transparency and efficiency in public expenditures, many countries are forced to reform their state budgeting system. Traditional budgets are usually characterized as line-item budgets¹⁰ or input-oriented budget-budgets which focus on cost items or inputs such as wages and salaries, other goods and services, spending on capital items, etc. Budgets are constructed on an annual basis following incremental principles comparing with the previous year's expenditures. This tends to favour existing programs, and new programs must compete with each other for limited resources.¹¹

An input-oriented budget constrains the budget users to purchase specific inputs, over specified time frames, and to spend no more than specified amounts¹² (according to appropriations). A little flexibility is allowed during the budget execution phase to substitute inputs, transfer investments, or increase the

⁷ Ibid, p. 2.

⁸ Kiefer, T, *Capabilities Based Planning & Concepts*, Briefing slides, Washington, D.C.: Joint Staff J-7, 2004.

⁹ TTCP, 4, p. 7.

¹⁰ Jack Diamond, "The Strategy of Budget System Reform in Emerging Economies", *Public Finance and Management* 2, no. 3 (2002), p. 358-386.

¹¹ Idem.

¹² Francois Melese, Christopher Appleby, Bob Larsen, "A Review and Update of Public Budgeting in Defense: Leveraging a New Management Model for Government", DRMI Working Papers, Monterey, CA, 2006/2007, p. 7.

quantity or quality of output in response to shifts in demand¹³ (because of a change in the environment). Besides that, the budget users are discouraged from making any cost-savings, because of the fear that it will bring a cut in future year's budget ('use-it-or-lose-it' effect).

The budget reform moves the focus from the budget inputs (what budget users buy) to budget outputs (what it does) associated with these inputs. This transition leads to program budgeting for all the state budget's users. Program budgeting requires a link between planning and budgeting, so that planning is realistic and effective and leads, rather than follows the budget. Also, it counters the splitting of the budget into recurrent and capital by recognizing that both types of spending can contribute to the same program, and that capital expenditures generate future recurrent costs.¹⁴

Furthermore 'program budgeting' introduces also the terms 'performance based budgeting' and 'public expenditure management'. Performance budgeting means that budgets allocated to the different state agencies should be related to the performances goals of their programs.¹⁵ Public expenditure management is a contemporary approach to budgeting which put an emphasis on aggregate fiscal discipline, allocative efficiency and operational efficiency.¹⁶ As Allen Schick explained, *Aggregate fiscal discipline* means that budget totals should be the result of explicit, enforced decisions and they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, and should be sustainable over the medium-term and beyond. *Allocative efficiency* expenditures should be based on government priorities and on effectiveness of public programs. The budget system should spur reallocation from lesser to higher priorities and from less to more effective programs. *Operational efficiency* agencies should produce goods and services at a cost that achieves ongoing efficiency gains and (to the extent appropriate) is competitive with market prices.¹⁷

In order to achieve these requirements, governments and budget users should make a significant shift from a control function to more of a management function, or from tracking inputs to generating outputs.¹⁸ The impact of all these changes reflects on defence budgeting as an emphasis on outputs (e.g. readiness, deterrence, command and control,...) over inputs (personnel, operations and maintenance, procurement, research and development) and the creation of a clear connection between the defence budget and the projected performance (capabilities). Furthermore, it forces defence to continually evaluate and refine

¹³ Idem.

¹⁴ Diamond, p. 358–386.

¹⁵ Premchand, A. Budgetary Management in the USA, New Zealand, and the UK, In R. Meyers (Ed.). Handbook of Government Budgeting. San Francisco, Jossey-Bass Publishers, 1999, p. 82–116.

¹⁶ Schick, Allen. *A Contemporary Approach to Public Expenditure Management*. Washington, The World Bank, 1999, p. 1.

¹⁷ Ibid. p. 2.

¹⁸ Melese et. al, p. 8.

such measures guided by a framework that emphasize outputs over inputs, encourages both “allocative” and “operational” efficiency and that can also be used for budget presentation and to ensure “fiscal discipline”.¹⁹

A solution to this is a framework which could facilitate the development of a formal structure for generating and sharing information, as well as improving efficiency among defence organisations. This could be achieved by using, for example, the Enterprise Resource Planning (ERP), a management system that integrates the core business processes of an enterprise (e.g. finance, accounting, logistics and human resources). This concept is usually implemented as software solutions which apply the database, reporting and analysis tools in an attempt to measure, monitor and integrate various functional areas through enterprise. There are several cases of ERP implementations in defense organizations. For example, the US Army use of an integrated software tool based on SAP²⁰ solutions with an expectation to improve organizational performance and business processes.²¹

Developed countries experience: usa and uk

The trends in defence planning outlined above have been most evident through the recent changes in the defence resource management systems applied in the developed countries. Prime examples are the Planning, Programming, Budgeting and Execution (PPBE) process in USA DoD and the defence planning and business management system in MOD UK.

PPBE process in USA DoD

The defence resource management system known as Planning, Programming and Budgeting System (PPBS) was introduced in DoD during the early 1960's. Before adopting the PPBS, defence budgets in DoD were largely unrelated to military strategy. Strategy development and budgeting were treated as almost independent activities²² with every Service developing their own budget without efforts to reduce costs through the decrease of force redundancy or synergy exploitation.

The original concept of PPBS was based on the ‘six basic ideas’²³ which are still valid:

– decision-making based upon explicit criteria of national interest, not on compromises among institutional forces,

¹⁹ Idem.

²⁰ SAP is the world's largest ERP software company with 38,000 customers in 120 countries (www.sap.com).

²¹ General Fund Enterprise Business System, US Army, available from <http://www.gfebs.army.mil/about/technology>.

²² Alain C. Enthoven and K. Wayne Smith, *How Much Is Enough: Shaping the Defense Program, 1961–1969*, New York: Harper & Row Publishers, 1971, p. 13.

²³ Ibid, p. 33–47.

- the simultaneous consideration of military costs and needs,
- major decisions should be made by choices among explicit, balanced, feasible alternatives,
- the Secretary of Defence should have an active analytic staff to provide him with relevant data and unbiased perspectives,
- open and explicit analysis, available to all parties, must form the basis for major decisions,
- a multiyear force and financial plan is required to project the consequences of present decisions into the future.

Planning included a description of the strategic environment, including security threats and challenges as well as economical and technological trends, the determination of national security interests and objectives and the development of military strategies for their achievement. The important outcome of this process was the specification of the military capabilities needed for a implementation of strategy.

Programming is the fundamental phase which translates planning guidance into alternative force structures with the required capabilities, taking into account the given resource constraints. The result of the programming phase is an adopted set of major defence programs which should cover all activities in the defence system through the next six years. The defence program could be developed using either functional or hierarchical concepts. The functional concept means that a program encompasses all activities connected with one or more common processes inside the defence system (e.g. logistic, command and control...). The hierarchical concept understands that a program follows the organisational structure and consists mostly of activities carried out inside one organisational entities (e.g. Army, Navy, strategic forces, reserved forces...). In the most practical solution, there is a mix of the both kind of programs.²⁴

Budgeting includes the formulation of the defence budget based on defence programs, justification of this budget to the government, as well as execution and control of the budget. The focus is on convincing legislative authorities to provide the necessary resources and then track expenditures through appropriations in order to ensure that resources are spent in accordance with the law.²⁵

Although PPBS has generally served DoD well, there were a lot of criticism and attempts to examine and improve the DoD resource management processes.²⁶ In recent years two such attempts had significant impact in bring about change. The

²⁴ For example, DoD has a eleven Major Force Programs (MFP): Strategic forces; General purpose forces; Communications, intelligence, and space; Mobility (airlift and sealift forces); Guard and reserve forces; Research and development, Central supply and maintenance; Training, health, and other personnel activities; Administration and associated activities; Support of other nations and Special operations forces (See in U.S. Army War College, *How The Army Runs: A Senior Leader Reference Handbook*, Carlisle Barracks, PA, 2005, p. 38–42).

²⁵ DoD and Army PPBE process (an executive primer), p. 3, available at: www.afms1.belvoir.army.mil/pages/primers/.

²⁶ For historic perspective of PPBS see Gordon V, “DOD’s Planning, Programming and Budgeting System (PPBS) – A Historical Perspective” MORS workshop, 2004.

first was the analysis carried out by Business Executives for National Security (BENS) organisation in 2000 which showed that because of internal practices and external demands the PPBS has become bureaucratized to the point where it was insufficiently agile to perform its intended purposes.²⁷ The second is the report²⁸ delivered by the Aldrige team in 2004 about the adjustment PPBS process to better support the capability-based planning concept. Additionally, from the perspective of public expenditure management, another problem is the fact that the intent of the original PPBS was to encourage “allocative efficiency” and ensure “fiscal discipline,” while it largely presumed “operational efficiency.”²⁹

As a result, the PPBS has recently had two significant modifications. First, the process is extended from one to two-years cycle in order to provide more time for *joint* planning and to reduce the need for detailed programming every year when there are no the considerable changes in the planning assumptions. Second, the phase named “Execution” has been introduced. This phase has a two parallel process: execution - intended to improve fiscal accountability and evaluation - aimed to improve effectiveness and efficiency through comparative analysis of planned and current performances in major defence programs. Consequently, the PPBS has changed its name to Planning, Programming, Budgeting and Execution (PPBE) process. The implementation of PPBE process in DoD is showed in Figure 2.

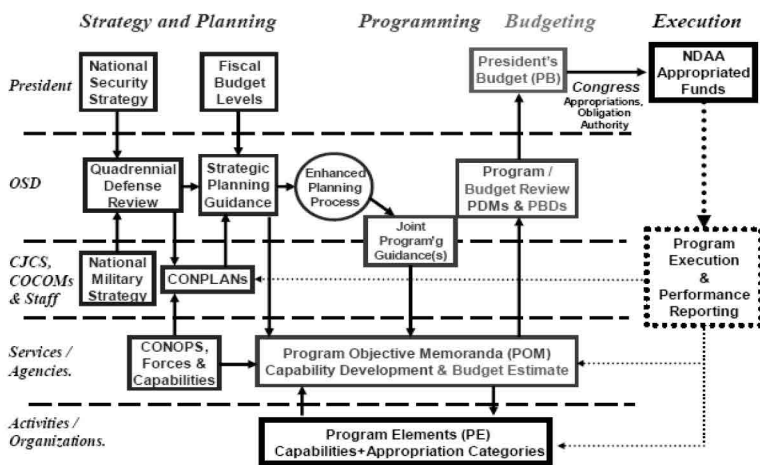


Figure 2 – PPBE process³⁰

²⁷ BENS, *Framing the Problem of PPBS and Changing the Pentagon's Planning, Programming and Budgeting System*, T. Davis (Ed), 2000, p. 1.

²⁸ Aldrige, Pete, “Joint Defense Capability Study: Improving DoD Strategic Planning, Resourcing and Execution to Satisfy Joint Capabilities,” Final Report commissioned by the U.S. Secretary of Defense, 2004.

²⁹ Melese et. al, p. 6.

³⁰ Ibid, p. 33.

There is no doubt that the PPBE process will be certainly the object of further refinement, particularly in the field of better internal management and performance measuring. One promising concept, which coupled PPBE process with a lower level government management model called SUCCESS³¹ in order to improve “operational efficiency”, was proposed.

Defence planning and business management system in MOD UK

To some extent, the new trends in defence planning have a different reflection on the defence planning system in the Ministry of Defence of the United Kingdom (MOD UK) than in the US DoD case. Namely, in order to achieve the declared defence vision “to be a force for good in the world”, MOD UK has two main outputs reflecting its roles as a Department of State and as the Headquarter of the Armed Forces. These are developing defence policy and providing military capability. The several initiatives and documents from the recent past have had significant impact on the way the MOD UK planning system currently works in order to deliver these outputs. Consequently, it is possible to recognise two main processes in this system. One is directed at delivering the needed military capabilities, the other to increasing efficiency in defence spending through application of the business management framework.

On the military capabilities side, the first important initiative and document is the Strategic Defence Review (SDR) adopted in 1998 as a part of the new Labour government policy agenda. It promoted the need for mobile, effective and sustainable armed forces equipped and supported for expeditionary operations. Subsequently, in December 2003 the Defence White Paper (DWP) concluded that UK defence planning and force structures needed to change to meet the new threats and challenges. In order to support effects-based operations, focus should be moved away from simple calculations of platform numbers to developing network enabled capabilities.³²

On the business management side, the Defence Change Programme was started in 2002. Following the Government’s Spending Review 2002, the intention has been to bring together the key business change programmes in the Department into a single, coherent and prioritised framework with strong central direction and guidance.³³ The Programme aims to maximise investment in the front-line by modernising business systems and processes in all the areas that produce operational capability. A further development was the implementation of the Business Management System (BMS) in 2005. This is a management framework designed to provide continuous improvement in all Departmental business processes.

³¹ The SUCCESS integrates three key business management frameworks that underpin many commercial ERP applications: Activity Based Costing, the Balanced Scorecard and Total Quality Management. Its implementation is in progress in the Pentagon by the Joint Staff Comptroller for the Joint Chiefs of Staff. For more details about integration the SUCCESS framework in PPBE process, see in Melese et. al.

³² MOD UK, *Delivering Security in a Changing World- Defence White Paper*, 2003, p. 19.

³³ MOD UK, *Departmental Framework*, 2006, p. 6.

The current defence planning and business management structure of the MOD UK is shown on Figure 3. At a first glance, it is clear that this is a complex system with a lot entities organised in several parallel, but interdependent strands.

On the Government level there are three documents which direct the internal MOD planning process. The Comprehensive Spending Review (CSR) is a projection of Government spending priorities in order to establish long-term aims and objectives for each Department linked to public expenditure and performance management frameworks. The Public Service Agreement is an agreement between the MOD UK and the Centre of Government (Treasury, Cabinet Office and No10). This document sets out the MOD UK objectives underpinned by performance targets and gives the spending plans based on the CSR.³⁴ The Performance Partnership Agreement is an agreement between the Cabinet Secretary and the Permanent Under Secretary of Defence. It summarises MoD's plans for change (i.e. organisational and other changes to ensure the MOD is as effective as possible in delivering its aims).³⁵

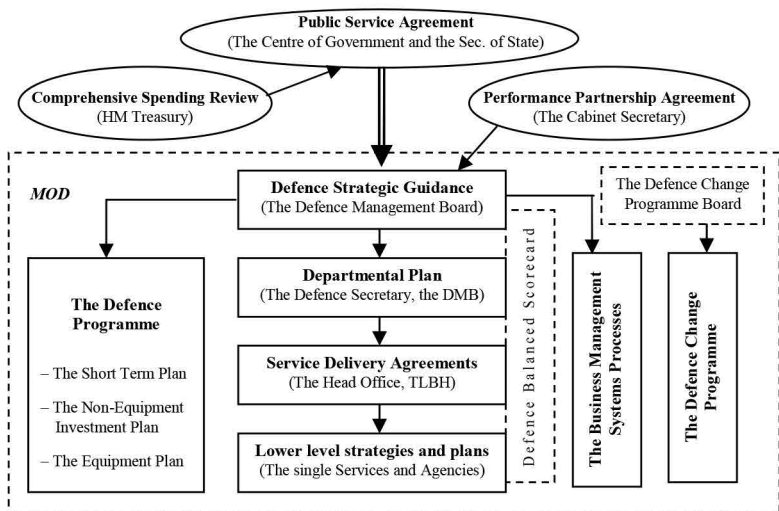


Figure 3 – Defence planning and business management structure in MOD UK

There are several internal bodies which take part in the planning process. The Defence Council is the senior committee chaired by the Defence Secretary. It comprises the other three Ministers (for Armed Forces, for Defence Procurement and for Veterans), the Permanent Under Secretary, the Chief of Defence Staff and senior Single-Service officers and senior officials from the department's major corporate functions. The Defence Management Board

³⁴ MOD UK, *Departmental Framework*, 2006, p. 10.

³⁵ MOD UK, *The Performance Partnership Agreement 2004–2006*, p. 1.

(DMB) is a central corporate board of MOD and highest non-ministerial committee chaired by the Permanent Under Secretary. The members of DMB are all non-ministerial members of the Defence Council and four, independent, non-executive directors who are brought in mainly from industry. The Single Service Chiefs are included both in the Defence Council and in the DMB. At the end of the planning chain, there are Top Level Budget Holders (TLBH) responsible for the delivery of specific outputs. There are in total eleven TLBH in three different groups: for the planning military operation and the delivery military capabilities, for recruitment and individual training of personnel and for supporting functions.

Consequently, there are also corresponding documents which follow above mentioned planning bodies' hierarchy. The Defence Strategic Guidance is the central document for the internal planning process. This is a confidential document that provides broad policy and strategic context within the defence system operates and establishes key planning parameters and priorities for resource allocation and the development of capabilities over the next 15 years. It is produced biennially and endorsed by the DMB. Based on Defence Strategic Guidance, the Departmental Plan is prepared in order to translate the broader goals contained in the Defence Strategic Guidance, into detailed objectives and targets against which the Defence Management Board and Ministers can track performance. This document is approved by the Defence Management Board and the Secretary of State. Service Delivery Agreements are agreements between the Head Office and each Top Level Budget Holder which translate Public Service Agreement targets and departmental objectives contained in the Departmental Plan into the outputs and targets to be achieved by each Top Level Budget Holder.³⁶ In order to measure the performance of TLBH against the Departmental objectives and targets, the Defence Balanced Scorecard³⁷ approach is applied. Performances are measured and reported quarterly to the DMB.

There are two additional processes designed to underpin the corporate and business part of defence planning. The first is the Defence Change Programme³⁸ aimed at linking the major business change initiatives across the MOD. The BMS is the second process. It is an overarching management framework designed to enable continuous improvement in the delivery of core defence outputs through single point accountability for their efficiency and effectiveness.³⁹ The BMS has been implemented from 2005 with six enabling processes. Each process has a Process Owner who is accountable to the Defence Management Board. The Business Management System defines the interconnections between these Processes, the roles and responsibilities of Process Owners and their relationship with Top Level Budget

³⁶ MOD UK, *Departmental Framework*, 2006, p. 12.

³⁷ The Balanced Scorecard approach is an idea taken from the private sector which helps managers at all levels monitor results in key areas with the goal of becoming a strategy-focused organization. For details about the general application of this tool in defence system see in Cavoli C, "The Balanced Scorecard and other Thoughts on Metrics", Defense AT&L, January-February 2004, p. 9-11.

³⁸ *Ibid.*, p. 6.

³⁹ *Idem.*

holders. The internal control and risk management assessment are the responsibilities of the Defence Audit Committee which regularly reports to the DMB. Financial performances are reported as required for all Governmental Departments and audited by the National Audit Office.

In conclusion, MOD UK defence planning system is established on a modern basis in order to deliver the needed military capabilities for the new security environment and, at the same time, to achieve allocative and operational efficiency. But, it seems that the main problem could be its huge complexity which creates a lack of clarity around roles, accountability and authority.⁴⁰

Comparing this system with PPBE process in DoD, it is possible to notice some similarities, but also significant differences between them. Firstly, they are both capability-based and output oriented defence planning systems. Secondly, they use programming as a main tool for translation of high level strategy in the force structure and have similar models for managing programmes (TLBH and MFP managers). Finally, they use some similar tools from civilian business management in order to increase efficiency and control defence spending. On the other hand, it seems that the planning phase in PPBE process has a more coherent framework, because there is an overarching document (the National Security Strategy). The UK government advocates 'a comprehensive approach' in dealing with security issues, but it is not a written, formal document. However, the MOD UK senior military officers are more involved in decision making (through the DMB) considering defence planning and resource allocation than in DoD where the final decision is in the hands of the OSD (mainly civilian staff). Also, it seems that the business management process in MOD UK has the higher degree of maturity than similar initiative in DoD.

The model of the defence planning system for transitional countries

The experience of some Central and Eastern European countries, which have successfully completed the transitional process and joined NATO, showed that the building of a modern defence planning system was a catalyst for the entire defence reform process. Most of these countries have established some form of the program-based defence resource management systems⁴¹ (for example, Slovakia, Romania, Bulgaria, etc.).

The Romanian defence planning system is presented below as a one illustrative example of a defence planning systems in the new NATO countries. Also, the role of the defence planning in the defence reform process in the PFP countries is showed in the Serbian case. Based on the study of the trends in the

⁴⁰ Civil Service, Capability Review of the MOD UK, 2007, p. 26.

⁴¹ Tagarev T, "Introduction to Program Based Defence Resource Management", Connections Quarterly Journal, PFP Consortium of Defence Academies and Security Studies Institutes, Vol. 5, No.1, 2006, p. 55.

Western systems of defence planning and on the best practice in the defence planning in transitional countries, a generic model of the defence planning system suitable for transitional countries is proposed.

Case study of defence planning in transitional countries

Romania

Romania was the first country to join the NATO PfP Programme in January 1994. Ten years later, Romania joined NATO and subsequently became an EU member in January 2007. An important step on this path was the adoption of the defence planning system based on DoD PPBS methodology in 2002. In order to improve co-ordination of action in the defence planning field and to run the new Planning, Programming, Budgeting and Evaluation System (PPBES), the Defence Integrated Planning Directorate (DIPD) was established at MoD level under the State Secretary for Euro-Atlantic Integration and Defence Policy.⁴²

At the planning level, the Romanians' experience talks about a necessity to establish an overarching concept for security sector reform. Because of the difficulty in achieving a national consensus, there were several unsuccessful attempts to formulate a national security strategy during 1990s which had a direct negative impact on the content and dynamics of defence reforms. The NSS was finally adopted in 1999 by Parliament creating a coherent framework for security sector reform and Euro-Atlantic integration. The further refinement of this document was in 2001 and 2006. The first NMS was adopted in 2000 and this document has established new missions for the Armed Forces in accordance with the NATO New Strategic Concept. The NMS is currently under revision with the intention to readjust the force structure following participation in full spectrum of NATO operations. The defence planning process is underpinned by the Defence Planning Law adopted in 2000. The Ministry of Finance regularly publishes a budget policy document with budget projection and allocations (including a defence budget) for next and future three years. The essential internal planning document is the Defence Planning Guidance issued by the main planning body named the Defence Council (headed by the Defence Minister).

On the programming level, the eight main defence programs were established as follows: Army, Air Force, Navy, Logistic support, Joint Staff/Strategic Command, Central Administration and Pensions, Defence Intelligence and International Representation. It could be seen that defence programs are constructed predominantly on a hierarchical basis, i.e. following the organisational structure of the defence system. But, there are also some functional based programs. In the budgeting phase, the budget draft is prepared

⁴² MOD Romania web site: www.mapn.ro.

by DIPD and reviewed by Financial Directorate and Audit Directorate before sending to the Ministry of Finance.

Taking in account a relatively short period from the start of usage of the PPBES, it is not possible to assess its achievements completely. But, the successful reform of Romanian Armed Forces, the NATO membership and active participation in multinational operations are clear signs of maturity of the Romanian defence planning. The main areas of further improvement are developing capabilities for better cost estimation, the refinement of different data bases for support of the programming phase, an introduction of the business management tools in order to improve the execution and evaluation phase and development of an adequate selection and training process for personnel involved in the defence planning process on different levels.

Serbia

The security sector reform in the Republic of Serbia started after the democratic changes in October 2000. There were a lot of internal and external obstacles in the development of this process. The biggest internal problem of the Serbian Armed Forces was a legacy of turbulent times in the Balkans at the end of 20th century characterised by: lack of civil democratic control;⁴³ lack of civilian expertise in defence issues, the issue of the war crimes and the cooperation with ICTY, oversized and wrongly-structured forces; low level of readiness; poorly motivated personnel and obsolete equipment. Among external problems, the complex nature of governmental structure,⁴⁴ the lack of real interest's by the new political elites in security and defence reforms and insufficient foreign assistance should be pointed out.

Defence reform was not considered as a primary task of the whole government, but only one of the Ministries (MOD in this concrete case). With awareness about the necessity of the defence sector reform, the Ministry of Defence of State Union took the initiative to create a normative framework for this process and, as a result, the National Defence Strategy was adopted in November 2004. It was a basic document which has clearly declared the orientation of State Union towards the Euro-Atlantic security integration, particularly through the willingness to participate in the NATO Program PfP. Subsequently, the DWP was published in April 2005.

A lot of reforms' tasks have been carried out in the past six years. It is particularly true considering the 2006 and the first half of 2007 when the new organisational structure of Serbian Armed Forces has been established. It was one

⁴³ For detailed a description of civil-military relation in Serbia see in Gow, James, "The European Exception: Civil-Military Relations in the Federal Republic of Yugoslavia (Serbia and Montenegro)" in Cottey, A. Edmunds, T. & Forster A. (eds) *Democratic Control of the Military in Postcommunist Europe: Guarding the Guards*, London Palgrave, 2002.

⁴⁴ Today's Armed Forces of the Republic of Serbia have formally changed three states and three names in this short period: the Federal Republic of Yugoslavia (until February 2003), the State Union of Serbia and Montenegro (until May 2006) and now the Republic of Serbia.

of the main reasons for inviting the Republic of Serbia to join the NATO PfP Programme in the resolution from NATO Riga Summit in November 2006, despite the fact that some political precondition were not fulfilled at that moment.

The basic deficiencies of current defence planning system in the Serbian MOD are:

- There is not an adequate normative framework. Because of the many organisational changes in MOD in the last few years, the relevant documents which regulate the defence planning process (dated from 1997) are not completely applicable since they neither recognise the current organisational structure nor are in compliance with modern defence planning trends. The last mid-term development plan was adopted for the period 1996–2000.

- The lack of a corporative culture at the senior management level (the department feudalisation phenomenon),

- There is not a straightforward and formal mechanism for translation of defence policy and long term planning objectives into implementation plans. In other words, there is not programming phase. The senior planning and resource allocation body on MOD level does not exist which results in a rivalry between the different departments among MOD for the dominant role in the whole process (this is primarily noticeable between strategic planning department and budgeting department). Tools for the planning process support are relatively poor (lack of an enterprise resource management information system, the cost assessment capabilities are inadequate...),

The defence budget is founded on incremental principle (the basis for the budget proposal is last years' budget rather than the defence reform objectives which should be reached). The defence expenditures are relatively transparent but tracked through different classifications comparing them with the standard approach (they are not formally structured as a personnel, operation and maintenance and research and development expenditures).

All these lead to the conclusion that practically an appropriate defence planning system does not exist, i.e. it is reduced to the annual budgeting only where the allocation of resources process is not, to a large extent, connected with strategic goals. Consequently, in order to implement the new defence planning system based on planning, programming, budgeting and execution methodology as declared in the SDR draft, it is necessary to develop a new defence planning concept considering trends such as capability-based planning, output-oriented budgeting as well as "best practice" in their own experience and in the experience of other transitional countries. But, the planning system has to be tailored according to specific conditions in the Serbian MOD.

Apart from the need to build up a defence planning system that is more efficient than the existing one and at the same time recognisable within the Euro-Atlantic defence community, the recent decision by the Serbian Finance Ministry to force all budgetary users to the program budgeting principles is an additional reason for urgent work on the introduction of new program-based defence planning system in the Serbian MOD.

In order to provide support for defence management in transitional countries in an effort to improve effectiveness and efficiency in the defence planning process and to establish compatibility between the national and collective defence planning systems, this dissertation proposes a generic model of the defence planning system (Figure 4). The model is based on the study of the trends in defence planning systems in US and UK as well as on the experience some of the new NATO member and aspirant countries. The names of entities and documents are also generic and should be tailored to concrete conditions in a related country.

National and governmental level

The model follows a hierarchical approach in defence policy formulation. The National Security Strategy (NSS) is the highest level document needed to create a framework for a holistic approach to security sector reform and/or transformation. It should be prepared by the central security policy body (most often named the National Security Council), issued by the President or Government and endorsed by Parliament in order to gain broader support what is necessary for the implementation phase.

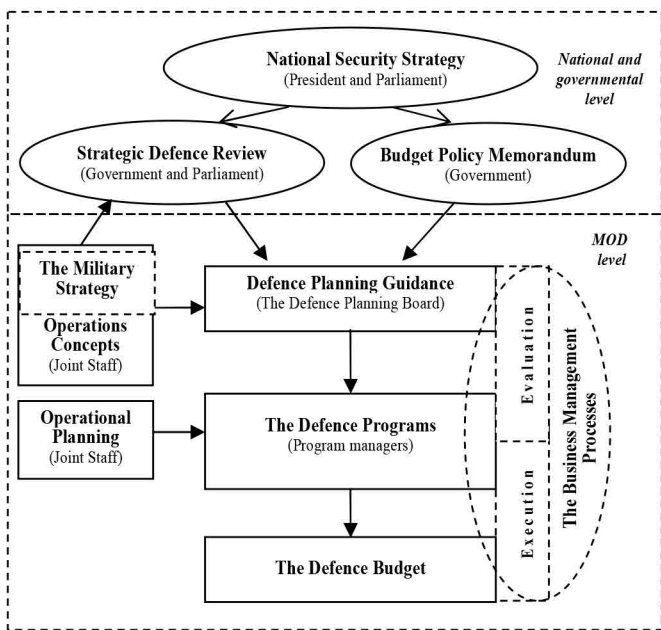


Figure 4. Generic model of defence planning system

Developing a coherent national security strategy is a very demanding task, especially in transitional countries, because of the great diversification of interests and an inherent instability of institutions involved in the process. In order to avoid unnecessary duplication of capabilities, the NSS should put forward coordination mechanisms of certain actions; define who the carrier of the actions is and who just gives the support.

Based on the NSS, several other documents should be issued at governmental level. The number of documents could vary depending on the governmental approach to executive tasks. Documents which typically follow the NSS are the National Defence Strategy (NDS) and the Defence White Paper (DWP) But from the perspective of further stages in the defence planning, the model suggests as a minimum two other documents: the Strategic Defence Review (SDR) and the Budget Policy Memorandum (BPM).

The SDR is a document based on the NSS and the National Military Strategy (also on the NDS and the WDP if they exist) that usually addresses the governmental approach to defence strategy, force structure and resource management in order to establish a framework for a defence program for 10-15 years. If the NDS is not issued before, the SDR must compensate it with a chapter (usually called defence policy framework) which describes a strategic approach to defence, missions and the tasks of the armed forces. In the preparation of the SDR, the valid methodology for long term force planning should be applied.⁴⁵ The SDR should provide a better transparency of defence related activities and establish preconditions for democratic civilian control. Beside this, the SDR serves as one of the origins for the development of the Operations Concepts family.

On resource side, the most important governmental document is the BPM aimed to set a next year budget allocation for all state budget users as well as a budget projection and allocation policy for further 3-4 years. This is crucial document for annual and mid-term defence planning, because it brings information about the available resources margins. Lack of this document, particularly the reliable projection of budget in future years, could seriously damage a formulation and an implementation of defence programs.

Ministry of Defence level

On the Ministry of Defence level, one of the basic documents which should be adopted is the National Military Strategy (NMS). Military historian Basil H. Liddell Hart defines a military strategy⁴⁶ as a “the art of distributing and applying military means to fulfil the ends of policy”. It imposes a need that the

⁴⁵ The widely accepted force planning methodology was given in: NATO RTO Board-Panel On SAS, *Handbook in Long Term Defense Planning*, 2003, p. 9. The other one was given in: D. Stojkovic, B.R. Dahl, *Methodology for Long Term Defence Planning*, Norwegian Defence Research Establishment (FFI), 2007.

⁴⁶ B. H. Liddell Hart, *Strategy*, New York, Basic Books, 1967.

first step in developing of the NMS should be a translation of national security objectives and policy guidance into clear, concise and achievable military objectives. Military objectives should answer the question what is to be achieved by the military element of power. The next step is the formulation of strategic concepts, which are broad courses of action military power might be employed to achieve the stated objective. Here is where the originality, imagination, and creativity of the strategist come into play.⁴⁷

In order to implement the capabilities-based methodology it is necessary to develop a joint operations concept. The Operations Concept is syntagm for a set of documents based on the NMS and the SDR that creates the origin for future military operations. The concepts should describe how the joint military force will operate in future years, including interagency and multinational participation. It guides the development of joint force capabilities and the development of concepts for integration of capabilities in order to bring effects. For NATO aspirants, one useful source for developing their own operations concepts could be an Operational Capabilities Concept⁴⁸ (OCC) which has been developed within the PfP process in order to improve the ability of Alliance and Partner forces to operate together in future NATO-led PfP operations. A more ambitious and comprehensive approach is Joint Operations Concept⁴⁹ (JOpsC) developed by the US DoD.

As a part of the operations concept construction, it is necessary to adopt an appropriate “capability components model” as a basis for the later defence program development. A good candidate for this is DOTMLPFI⁵⁰ (Doctrine, Organization, Training, Materiel, Leadership, Personnel, Facilities and Interoperability) model proposed by NATO Allied Command for Transformation. For transitional countries it is particularly important to identify niche capabilities that can fill gaps that exist within the NATO forces, but with the preservation of the balance between the national and collective defence needs.

Derived from the SDR, BPM and Operations Concepts, Defence Planning Guidance (DPG) is the essential MOD planning document. This document provides a programming framework on 4-6 year time horizon through establishing defence policy priorities, determination of main programs and their objectives, an estimation of defence budget and allocation of financial resources to main programs for the planning period and identification of additional analyses needed to support the future planning process. The DPG should be issued at the beginning of the annual planning cycle by the main MOD planning

⁴⁷ *Ibid*, p. 284.

⁴⁸ NATO Handbook, *Reinforcing operational capabilities* in Chapter 3: The Opening Up of the Alliance, 2001, available on: www.nato.int/docu/handbook/2001/hb030211.htm.

⁴⁹ The JOpsC is common name for a family consists of a Capstone Concept for Joint Operations (CCJO), Joint Operating Concepts (JOCs), Joint Functional Concepts (JFCs) and Joint Integrating Concepts (JICs). For further details see in: CJCS Instruction, *Joint Operations Concepts Development Process*, USADoD, 2006.

⁵⁰ For details about possible the capability models see in Tagarev T, p. 57–59.

body (in this model called the Defence Management Board-DMB) and approved by the Defence Minister. The DMB should be a mix of senior civilians (Assistants and Deputies of the Defence Minister) and military leaders (The Chief of Joint Staff and the service commander) headed by the Secretary of State for Defence.

The development of single defence programs and their integration in the consolidated Defence Programme is the most demanding phase in the whole planning cycles. The primary responsibility for the development of programs, i.e. ways of using allocated resources for obtaining the needed capabilities to achieve the DPG long-term objectives, rests on the program managers and their staff. There are two important preconditions for the success of this phase: an operational planning procedures system and the costing methodology. The formal operational planning analysis should be the basis for the capability-requirements process with an establishment of clear metrics that measure performance.⁵¹ The consistent costing methodology related to the accuracy of the data base on force structure should provide reliable current and future costing data for the single program elements.⁵² Without these tools, programming is not viable. The integration of all single defence programs in the Defence Programme should be carried out by a specialised MOD planning department and the Defence Programme should be endorsed by the DMB.

The next phase is budgeting whose outcome is a Defence Budget as a detailed plan for provision of the financial resources needed for implementing the first year of the Defence Programme. The defence budget must be based on the allocations from the DPG and reflect decisions from the programming phase expressed in the Defence Programme, especially considering the internal programs dynamics in order to develop an adequate cash flow plan. The Defence Budget draft should be prepared by a specialised MOD financial and accounting department then accepted by the DMB and signed by the Defence Minister before sending it to the Ministry of Finance in the final adjustment phase before approval by Parliament.

In the budget execution and program evaluation phase, it is recommended that MOD uses "Best Commercial Practices" to facilitate activities that have appropriate commercial counterparts such as administrative services, personnel services, education and training, medical care, information services, logistics

⁵¹ Thomas-Durell Young, "Capabilities-Based Defense Planning: Techniques Applicable to NATO and Partnership for Peace Countries", Connections Quarterly Journal, PIP Consortium of Defence Academies and Security Studies Institutes, Vol. 5, No. 1, 2006, p. 44. Author pointed that NATO uses such process (so called "Guidelines for Operational Planning (GOP)") for its member and PIP countries.

⁵² *One suitable software tools named KOSTMOD has been developed by the Norway MOD aimed to support the defence planning process with long term cost analyses. The long term cost estimation of the different force structures is based on investment cost and their escalation, operating cost and their escalation and expected lifetime of the force elements. For further details see in: Steder, F.B. 'Cost Modeling of Defence Components for Smaller Scale Contingencies' in Anex H, Handbook on the Analysis of Smaller-Scale Contingency Operations in Long Term Defence Planning, NATO, 2005.*

and civil engineering.⁵³ All these processes and activities form the integral Business Management Process. The implementation of suitable ERP software tools is absolutely vital for the support of this process. Also, an internal audit service needs to be established as a mechanism for the inner assessment of efficiency in the budget execution. Further, in order to provide the DMB with relevant information about the program implementations, it is necessary to develop adequate reporting tools which provide the measurement of performance. The balance scorecards could be one choice for it.

The proposed model of the defence planning system suggests an introduction of the Defence Programs as an instrument for medium term defence budget projections. This is in compliance with recommendations from the World Bank for budget reforms in transitional countries. Namely, the World Bank is using Medium-Term Expenditure Framework (MTEF) for budget creation which is very close to program-based defence resource management in concept and practice.⁵⁴

Finally, embedding appropriate units responsible for defence planning in the organisational structure of the MOD in order to establish a clear hierarchy and unambiguous flows of information relevant to planning process, as well as the appropriate selection and training of personnel for the handling of the new planning system are preconditions for a successful implementation of proposed model.

Conclusion

The contemporary defence planning systems are capability-based in the sense of objectives, output-oriented in the budget sense and program-based in the sense of linking available resources to desired capabilities. Also, considering the fact that the financial resources allocated for the defence needs are limited and will be even more restricted in the future, the modern defence planning should be focused to ensure allocative and operational efficiency, as well as fiscal discipline.

The experience of new NATO members has showed that introduction of the new defence planning system had a vital importance for the holistic approach to reform and preparation of a defence system to join the Euro-Atlantic security integration processes. In this paper one generic model of the defence planning system suitable for transitional countries is proposed in order to support defence management in efforts to improve effectiveness and efficiency in the current defence planning process and to establish of the compatibility between national and collective defence planning systems. The model defines entities in the defence planning process and relations among

⁵³ Frank Camm, "Adapting Best Commercial Practices to Defense" in *New challenges, new tools for defense decision-making* / edited by Stuart Johnson, RAND Corporation, 2003, p. 211.

⁵⁴ Robert M. McNab, "Public Expenditure Management Systems: An Overview", DRMI Newsletter, Issue 9, 2004.

them, the key documents and their purposes, scope and periodic, supporting tools for planning and the mechanism for evaluation. The model is based on the defence planning systems applied in developed countries and taking into account the new trends in defence planning such as capability-based planning and output-oriented budgeting. The model puts emphasis on defence program as a main instrument for a determination of ways of using allocated resources for obtaining the needed capabilities to achieve the specific long-term objectives. Apart from the need for clear strategic planning guidance, the model imposes the two other important preconditions for the successful program development: the existence of a clear operational planning procedures and the reliable costing methodology. Additionally, in order to improve operational efficiency, the model suggests the introduction of a business management framework in the budget execution and program evaluation phase. The proposed model encompasses minimum entities and could be expanded in order to fulfil some specific needs in a particular country.

Like many new management ideas, an introduction the new planning system requires the cultural and mindset changes through a whole defence organisation. This is probably most significant challenge for success and the area where the personal attitude and involvement of the strategic leadership is indispensable.

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