

**TOWARDS A U.S. ARMY OFFICER CORPS
STRATEGY FOR SUCCESS:
RETAINING TALENT**

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This monograph is the third in a series of six monographs that analyze the development of an Officer Corps strategy. Previous volumes are:

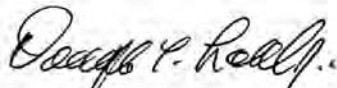
- 1 - *Towards A U.S. Army Officer Corps Strategy for Success: A Proposed Human Capital Model Focused Upon Talent*, by Colonel Casey Wardynski, Major David S. Lyle, and Lieutenant Colonel (Ret.) Michael J. Colarusso, April 2009.
- 2 - *Talent: Implications for a U.S. Army Officer Corps Strategy*, by Colonel Casey Wardynski, Major David S. Lyle, and Lieutenant Colonel (Ret.) Michael J. Colarusso, November 2009.

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FOREWORD

In *Towards a U.S. Army Officer Corps Strategy for Success: Retaining Talent*, Colonel Casey Wardynski, Major David S. Lyle, and Lieutenant Colonel (Ret.) Michael J. Colarusso continue their examination of how the U.S. Army accesses, develops, retains, and employs officer talent. In this third of six monographs, the authors focus upon the significant decline in junior officer retention rates since the 1980s and the long-term implications for the Officer Corps. More importantly, they identify failed responses to the challenge, provide a theoretical framework upon which to build successful talent retention programs, and make specific recommendations for restoring rates to previously healthy levels.

As the flight of talented young officers engenders significant risk to both the Army and to U.S. national security, studies of this kind are critical to the creation of a successful Officer Corps strategy.



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SUMMARY

The U.S. Army has made significant investments in its future, especially in its leadership. In particular, the Army has devoted billions of dollars to officer undergraduate-level education, world class training, and developmental experiences. Since the late 1980s, however, prospects for the Officer Corps' future have been darkened by an ever-diminishing return on this investment, as evidenced by plummeting company-grade officer retention rates. Significantly, this leakage includes a large share of high-performing officers, many of them developed via a fully-funded undergraduate education.

In the last few years, the Army has responded to this challenge with unprecedented retention incentives, to include broadly offered cash payments. The objective has been to retain as many junior officers on active duty as possible. However, such quantity-focused incentive programs run counter to a talent-focused Officer Corps strategy. The objective should not be merely to retain all officers, but to retain talented officers while simultaneously culling out those lacking distributions of skills, knowledge, and behaviors in demand across the force.

Retaining *sufficient* rather than optimally performing officers may have dire consequences for the Army's future. New officer cohorts of high-potential talent may be driven away by the prospects of serving under lackluster leadership, while those continuing their service may experience stunted development due to a dearth of talented mentors.

Low junior-officer retention increases risks to the well-being and capabilities of the Officer Corps in other ways as well. It strips away the Army's ability to screen,

vet, and cull for talent, forcing it instead to over-access, increase promotion rates and compress promotion timing. It degrades the developmental experiences of junior officers and undercuts the Army's ability to discern which officers possess the talent it needs. Left unchecked, such developments could significantly undermine the Officer Corps' performance levels, taking perhaps a generation to rectify.

Given that the Army is competing in the American labor market for its officers, its retention strategy must be built upon sound theoretical concepts. It must focus upon talent, guard against systematic decisionmaking errors, redress market failures, and create an employment climate that powerfully meets the expectations of officers with talents that are in demand. It must also be continuously resourced, executed, measured, and adjusted across several years and budget cycles. Absent this, systemic policy and decisionmaking failures will continue to confound Army efforts to create a talent-focused Officer Corps strategy for success. With mutually supporting practices in the realm of accessions, development, and employment, however, a sound officer retention strategy can forestall a talent crisis, allowing the Army to select its leaders rather than settle for them.

TOWARDS A U.S. ARMY OFFICER CORPS STRATEGY FOR SUCCESS: RETAINING TALENT

INTRODUCTION

The latest global economic downturn has destroyed American wealth to an alarming extent. Declining real estate values have reduced home equity by \$5.1 trillion nationally, and millions of people have lost trillions of dollars in the stock market.¹ This grim news holds our attention because we expect our investments to yield healthy returns, not daunting losses. Inadequate or failed investments curtail our prospects for a successful future.

Much like the citizens it serves and protects, the U.S. Army has also made significant investments in its future, especially in its leadership. In particular, the Army has devoted billions of dollars to officer undergraduate-level education, world class training, and developmental experiences. Since the late 1980s, however, prospects for the Officer Corps' future have been darkened by an ever-diminishing return on this investment, as company-grade officer retention rates have plummeted. Significantly, this leakage includes a large share of high-performing officers, many of them developed via a fully-funded undergraduate education.

In the last few years, the Army has responded to this challenge with unprecedented retention incentives, to include broadly offered cash payments. The objective has been to retain as many junior officers on active duty as possible. However, such quantity-focused incentive programs run counter to a talent-focused Officer Corps strategy. The objective should not be merely to

retain all officers, but to retain *talented* officers while simultaneously culling out those lacking distributions of skills, knowledge, and behaviors in demand across the force.

Given the hierarchical nature of the Army's organizations, retaining "sufficient" rather than optimally performing officers could have adverse consequences for the Army's future. New officer cohorts of high-potential talent may be driven away by the prospects of serving under lackluster leadership, while those continuing their service may experience stunted development due to a dearth of talented mentors. Left unchecked, such developments could cascade across all ranks, requiring a generation to rectify and meanwhile significantly undermining the Officer Corps' performance levels. With mutually supporting practices in the realm of accessions, development, and employment, however, a sound officer retention strategy can forestall this talent crisis, allowing the Army to *select* its leaders rather than *settle* for them.

TALENT RETENTION GENERATES BENEFITS AND MITIGATES RISKS

In previous works, we have argued that every person has talent that can be liberated and extended if they are properly employed. This is not to say that all people can or should be retained, however. What kind of officer should the Army seek to keep? The answer is those officers whose individual talent sets best align with current and future requirements.

This is easy to say but tough to deliver, particularly as today's operating environment is increasingly characterized by high levels of task interdependence,

skill specificity, and uncertainty. It is made even tougher by the fact that, in its core warfighting competencies, the Army cannot “buy” talent from outside. The profession of arms is indeed a demanding profession, requiring a distribution of skills, knowledge, and behaviors that takes years to assemble.

A 35-year-old project manager at Microsoft, for example, may possess an abundance of the general skills demanded by the Army in its core talent segment of field grade officers. He or she will not, however, command the specific knowledge and behaviors required to plan a battalion hasty defense, effectively represent the Army to the news media, predict enemy courses of action, or care for the family of a fallen comrade. Nor will he or she immediately acculturate to a profession unlike any in the private sector, one that employs deadly force within a moral-ethical framework as sanctioned by responsible civil authorities. The officer ethos is honed across a series of progressive entry-level experiences, allowing the Army to observe the degree to which its junior leaders embody it while the scope of their authority is still relatively narrow.

Therefore, whether the Army seeks to expand lateral entry in some areas or not, it is clear that there will always be significant limits on its ability to buy talent from outside.² New accessions and internal development processes will continue to generate an outsized portion of the Officer Corps’ talent pool. This entails a significant investment that can yield enhanced force capability and national security, provided the Army retains the talent it needs.

Given that the Army is competing in the American labor market for its officers, its retention strategy must focus upon talent, guard against systematic

decisionmaking errors, redress market failures, and create an employment climate that powerfully meets the expectations of officers with *talents that are in demand*. Figure 1 demonstrates the consequences of failing to balance service expectations against external opportunities in a limited lateral entry organization:

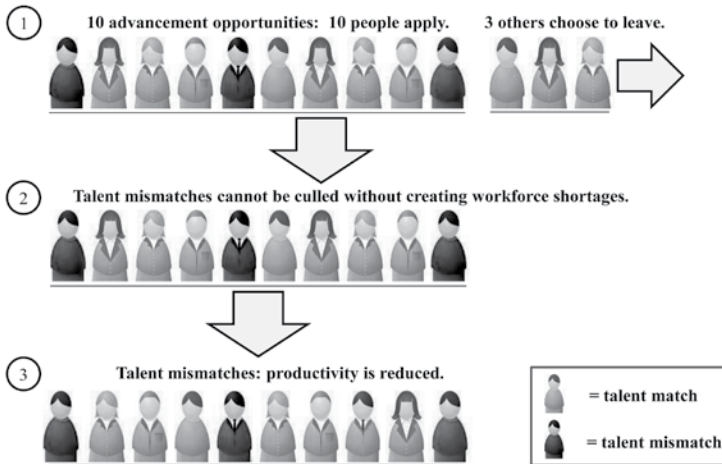


Figure 1. Talent Flight Reduces Workforce Productivity.

As we see in Figure 1, talent flight occurs, leading to employment mismatches. This not only reduces productivity, but also lowers morale, raises costs, increases personnel turbulence, and results in *quantity-focused* rather than talent-focused practices. It runs counter to good talent management.

In contrast, Figure 2 highlights the benefits to an organization of meeting the expectations of its talented workers. The ability to screen, vet, and cull for talent is restored, and optimal productivity ensues.

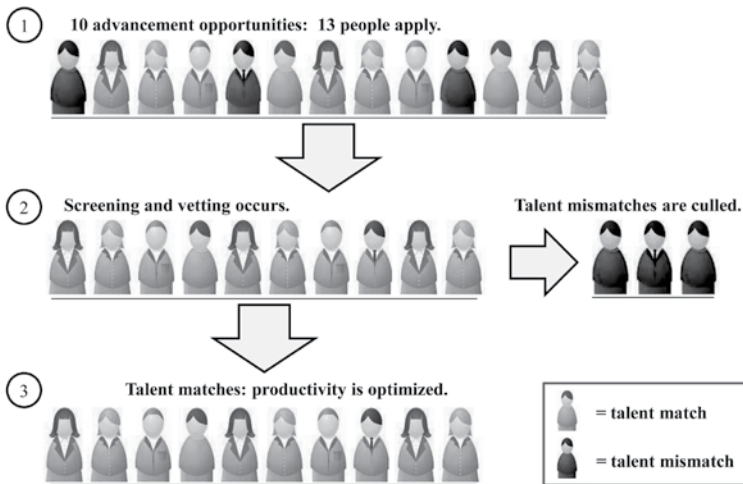


Figure 2. Talent Retention Optimizes Workforce Productivity.

In addition to optimizing productivity, talent retention dramatically lowers the costs of internal talent development. The longer talented officers continue their service, the more time the Army has to recoup the costs of their development. Relative to the value of their performance, developmental costs are particularly steep in the first 3 to 5 years of officers' careers, when they receive significant education and training, as well as indirect benefits that are generally on par with those of more experienced (and thus more productive) officers. Retaining talented officers beyond the 5-year mark (seasoned captains) offsets development costs via increased productivity. It also reduces retraining costs, the administrative costs associated with higher personnel turnover, and the costs of increased accessions to make up for seasoned captain shortfalls.

This last point is particularly important. As the Army has increased lieutenant production to replace the talented captains lost to the private sector, the number of new officers waiting to fill a finite number of platoon leader and company executive officer positions has increased.³ As job queues have grown, ideal developmental experiences have declined, and more lieutenants are given make-work duties that deflate their career enthusiasm. Furthermore, as the Army tries to cycle its new officers through a finite number of developmental opportunities, the average number of months served in key positions is being significantly compressed (see Figure 3). This trend compounds the challenge, reducing opportunities for young officers to benefit from experiential learning, mentorship, and development. Reduced developmental opportunities also mean fewer evaluative opportunities for the Army, making it increasingly difficult to screen, vet, and cull for talent.

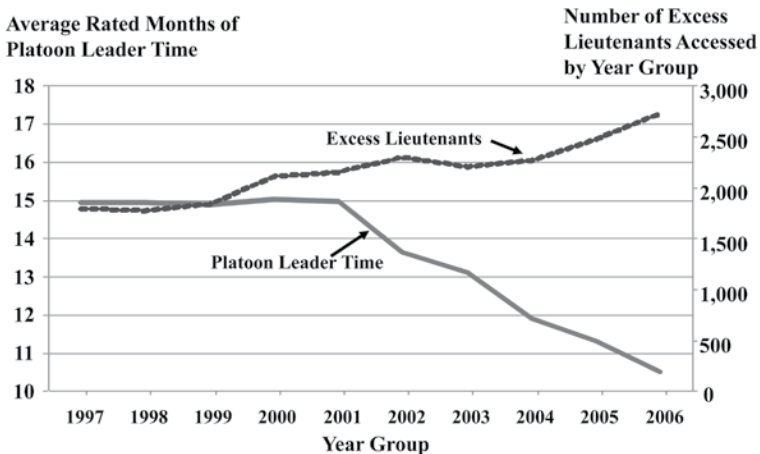
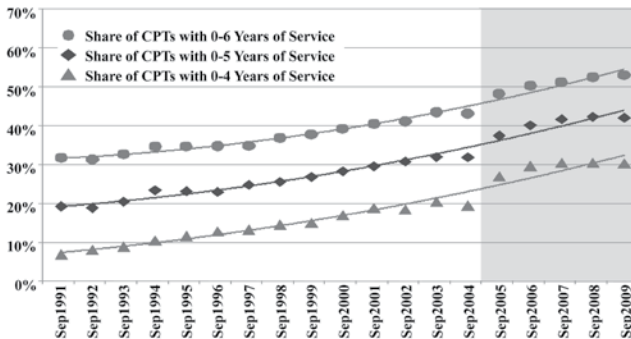


Figure 3. Over-Accessing Officers Is Undercutting Developmental Opportunities for Lieutenants.

A closely related development has been compressed promotion timing. As the Army commissioned thousands of excess lieutenants to replace the captains it failed to retain, it simultaneously shortened time-in-grade requirements for promotion of these lieutenants to captain. As a result, between 1992 and 2004, the share of captains with less than 4 years of active federal commissioned service rose from 8 percent to 30 percent, and fewer than half of all captains had over 6 years of commissioned service (see Figure 4).⁴ As captain experience levels declined, the Army simultaneously redesignated hundreds of former captain's duties as major's duties, perhaps in part because a captain was now increasingly unlikely to possess the experience needed in certain jobs. Increased losses among high potential junior officers has thus significantly shifted the distribution of captains in the direction of less experience.

Increased Losses Among High-Potential Junior Officers has Significantly Shifted the Distribution of Captains in the Direction of Less Experience



Notes. In FY 2005, the Army changed the Pin On Point to Captain from 4 Years to 3 Years. In FY 2005, Year Group 1994 and ½ of Year Group 1995 were promoted to Major. In FY 2006, ½ of Year Group 1995 and Year Group 1996 were promoted to Major.

Figure 4. Changing Experience Levels of Captains (in Terms of Years of Service).

In short, low junior-officer retention increases risks to the well-being and capabilities of the Officer Corps. It strips away the Army's ability to screen, vet, and cull for talent, forcing it instead to over-access, increase promotion rates, and compress time-in-grade requirements. It degrades the developmental experiences of junior officers and undercuts the Army's ability to discern which officers possess the talent it needs. In part, these challenges are due to the continuation of human capital management practices from a bygone era.

“COMPANY MAN” EMPLOYMENT PRACTICES CANNOT COMPETE IN TODAY’S LABOR MARKET

The TV show *Mad Men* is a pop culture phenomenon. Set in the Kennedy era, it chronicles life inside a fictional Madison Avenue advertising firm. In 3 years, the show has won several Emmy awards and critical acclaim for its historical authenticity. While audiences are enthralled with the show's accurate depiction of social mores in the 1960s, it does equally well in capturing the corporate culture of the time. This culture includes an ethos of lifetime service to the firm by its employees, part of the “organization” or “company” man system that held sway in America into the 1980s.⁵

Under that system, companies sought to employ the same workers throughout their entire careers in an effort to recapture training costs and preserve loyalty and continuity. Internal managerial development and advancement were key elements of the system, as were rotational assignments designed to broaden the corporation's highest-potential members, who served

as feedstock for its future leadership. Employment decisions were made largely by employers, not employees. Intercompany movement was not unheard of, but it was rare compared to today's fluid labor market. When it did occur, it was often the result of a business failure, merger, takeover, or perhaps a senior management acquisition from an arch competitor to capture business intelligence and clients from the "enemy."

As a rule, however, poaching junior or mid-level talent from competitors was the exception rather than the rule. The DuPont man who showed up at IBM or Pfizer would be viewed skeptically, his loyalty under question for having left the firm that had invested so much in his initial development. Even if the newcomer had understandable reasons for seeking new employment, there was always the question of whether he could surrender the cultural baggage of his last firm to fit in at a new one.

Given such cultural realities, young executives generally sought continuing professional opportunities with their initial corporate employer rather than elsewhere. Healthy pension plans and the generally excellent promotion opportunities of the post-World War II boom period were additional disincentives to flight. Industrial era firms were highly specialized, creating additional barriers to intercompany talent migration. Because of the low personnel turnover inherent in this business climate, employers' biggest personnel concern was whether they had a sufficient supply of talented employees, and how much internal developmental effort should be expended.

In sum, the company man system embodied human capital management practices far different from those demanded by the information-age economy which

emerged in the 1980s. As a result, today's employment market is characterized by high levels of *intercompany* and *innercompany* mobility. Talented employees have far greater control over their career options than ever before, a situation made possible by the overwhelming demand for highly educated employees with talents for conceptualization and knowledge creation.

Because the Army must necessarily limit lateral entry, it will always retain some of the hierarchical and bureaucratic elements of the company man era. As labor market conditions began to change in the 1970s, however, the Army could have jettisoned many of its inefficient industrial era practices and introduced elements of an internal talent market (see our discussion of the Officer Career Satisfaction Program later in this monograph). Giving officers greater voice in their assignments increases both employment longevity and productivity. The Army's failure to do so, however, in large part accounts for declining retention among officers commissioned since 1983.

For example, about 60 percent of officers commissioned in the late 1970s via Reserve Officer Training Corps (ROTC) and West Point scholarship programs remained on active duty through 8 years of service. As a result, the Army enjoyed an ample supply of seasoned captains to fill key staff positions and could be highly selective as it considered captains for promotion to major. By the mid 1980s, however, only 40 percent of officers being commissioned from these scholarship sources remained on active duty through 8 years of service. As a result, seasoned captains were in increasingly short supply.

Why did the Army's talent management practices remain trapped in the past? How did it move from a senior captain surplus, then to shortage, then to crisis

in the decade following the end of the Cold War? In part, it may be because some of the Army's personnel managers missed the epochal innovation embodied by the rise of information technology in the 1980s. Having come of age in the industrial era, perhaps these officers had imbibed too deeply from the company man system. Regardless, as they directed the Army's restructuring in the late 1980s and early 1990s, personnel managers continued to manage talent via outmoded techniques, to include generic forecasting models and indiscriminate quality control tools.

For example, officer strength forecasting models failed to account for the economy's increased appetite for highly-educated workers. Army undergraduate scholarship programs had created talented young officers who were in greater demand than ever before, and corporate America undertook an aggressive talent recruitment campaign to poach them (a practice which continues today). In particular, this demand for highly educated talent drew increasing numbers of West Point and ROTC scholarship officers out of the Army, and by 2001 the captain retention situation was becoming untenable.

The Army had always been mindful of officer retention rates as a function of *commissioning source*— i.e., West Point, ROTC, or Officers' Candidate School (OCS). Such analysis indicated that West Point officers remained in the Army at the lowest rates; ROTC officers remained at middling rates, and OCS officers remained at high rates (see the grey-shaded panel in Figure 5).

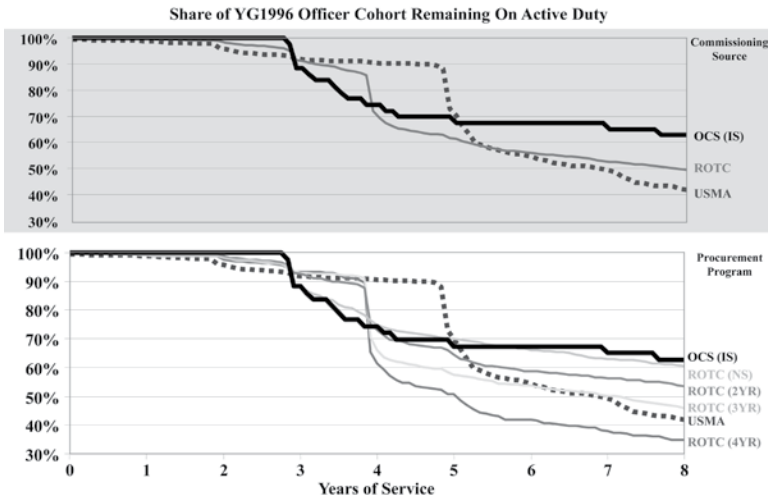


Figure 5. Officer Retention Rates: Commissioning Source vs. Procurement Program.

However, when officer retention rates were analyzed according to *procurement program*—i.e., particular commissioning programs with distinct directives, resourcing, and contractual obligations—a very different picture emerged (see the white-shaded panel in Figure 5). Four-year scholarship officers from ROTC and West Point remained in the Army at the lowest rates, followed in order by 3-year and 2-year ROTC scholarship officers, nonscholarship ROTC officers (NS ROTC), and OCS officers drawn from the enlisted ranks (OCS-IS).⁶ By failing to anticipate the effect that the information age would have on scholarship officer retention, Army forecasts grossly underestimated the downturn in junior-officer continuation rates that would begin with those commissioned in the late 1980s.

Use of such personnel management practices as voluntary separation further exacerbated the challenge.

In the industrial era, voluntary separation policies usually engendered a self-culling by employees who were poor talent matches for their organization. This softened their separation from the company, saved them the embarrassment of eventual removal, relieved them from existing contractual obligations, and often provided a modest financial cushion to ease their transition. In the context of the information age, however, such incentives had a much different effect when offered to Army officers. They opened the door for an exodus of highly educated, high-performing leaders, those the Army had invested the most in and whose talents aligned well with critical employment requirements.

Consider. Beginning with those commissioned in the mid-1980s and continuing through today, West Point and ROTC's 3- and 4-year scholarship officers have remained in the Army at about two-thirds to half the rate of OCS officers from the ranks and ROTC officers without scholarships. Years of peacetime and wartime performance data, however, clearly demonstrate that, once commissioned, the scholarship officers are disproportionately likely to possess the conceptual and problem-solving talent demanded by jobs such as commander, executive officer, or operations officer. Because high-quality education amplifies experiential learning capacity, this talent advantage grows as these officers move from company grade to field grade assignments of increasing scope and complexity (see Figure 6).



Figure 6. Officer Procurement Program.

In other words, the diligent screening inherent in the Army’s scholarship programs, coupled with the quality of education generally embodied by those programs, produces officers whose talents align extremely well with complex jobs at the senior company and field grade levels.

Let us be clear – we are *not* arguing that scholarship officers are more talented than others, nor are we interpreting these data to say that individual OCS and ROTC nonscholarship officers cannot perform optimally in these jobs. What we are saying is that as a population, the performance data for scholarship officers is significant enough to predict their success in jobs the Army deems critical. They are not being retained in sufficient numbers, however, creating talent gaps that simply cannot be filled with “just-in-time” increases in accessions or changes in the accessions mix.

To this day, the root causes of the current officer shortage are still misunderstood by some. To be sure, reduced officer accessions in the mid-1990s and officer structure growth beginning in 2004 did not help matters, but the Army continues to leak officer talent at rates commensurate with those cohorts affected by the 1990s drawdown.⁷ Low talent retention is the actual root cause of the challenge. In fact, by 2004, the retention challenge was already well-entrenched, as demonstrated by increased promotion rates, compressed time in grade, increased accessions, and shifts in the accessions mix.⁸

Each of these developments had undesirable ripple effects. Rising promotion rates reduced Army opportunities to vet officers for advancement. Accelerating promotions limited the time available for junior officers to develop at each rank. Rising accessions against a fixed number of entry-level officer positions reduced the likelihood that job opportunities available to lieutenants would match their developmental needs or expectations (recall declining platoon leader time in Figure 3). Finally, the shift in the accessions mix away from scholarship officers and towards OCS epitomized “time-inconsistent” behavior (pursuing short-term benefits in the face of serious long-term risk, a concept we will elaborate upon shortly). This all but ensured an enduring mid-ranks talent gap, as OCS officers typically retire from the Army after serving 10 to 15 years of active federal commissioned service.

In retrospect, an effective retention strategy would have provided the Army with a hedge against the dual risks of an increasingly competitive labor market and the vagaries of wartime demand. For example, if such a strategy had maintained officer retention rates at industrial-era levels, the Army would enjoy full

manning in its field grade ranks and could reduce new officer accessions by 20 percent.⁹ The potential to generate such positive outcomes exists, but to do so the retention component of any Officer Corps strategy must rest upon sound theoretical underpinnings.

THE ARMY MUST BUILD TALENT RETENTION POLICIES UPON SOUND THEORY

Both employers and employees face critical decisions bearing upon talent retention in an organization. For employers to successfully retain talent over the long term, they must avoid *time-inconsistent* decisionmaking. For employees to make sound career decisions, they must assess the value of the next best alternative to their current employment, also known as *opportunity cost*. Lastly, both employers and employees need a mechanism for efficiently exchanging commodities, but *market failures* often confound their ability to do so. Discussing each of these theoretical concepts within the context of the Army's officer retention challenges should help clarify them.

The Army's Time-Inconsistent Behavior.

As opposed to the rank-stratified representations of the Officer Corps used by Army personnel strength managers, we view officers as talented people moving across time through a funnel-shaped pipeline (see Figure 7). Time is the critical component of this model, the unifying aspect of a successful long-term officer strategy. *Accessions* decisions made today affect *development* efforts over a 30-year horizon, are closely connected to *retention* rates, and ultimately shape the *employment* of talent in the senior leader ranks some 25 years later. The length of time between officer strategy

decisions and their outcomes may at first blush seem irrelevant, but the implications are often far-reaching. In the 1970s, economists and Nobel Laureates Finn Kydland and Edward Prescott characterized these implications as the “time inconsistency” problem.¹⁰

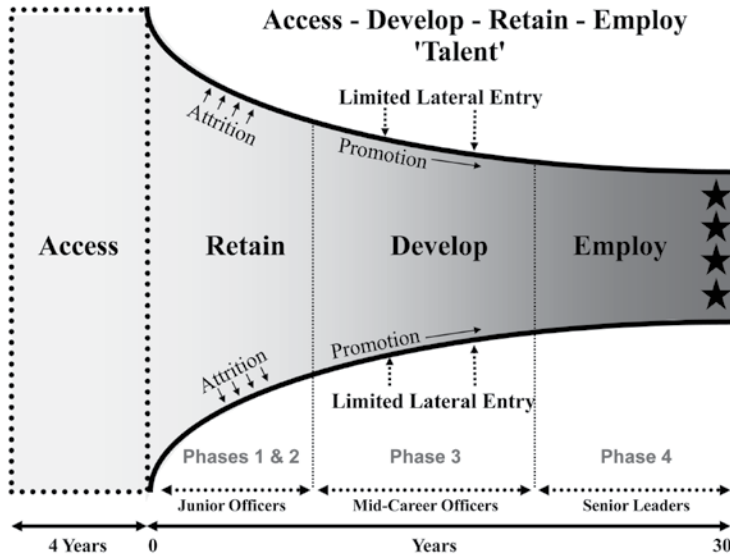


Figure 7. Army Officer Human Capital Model.

Time inconsistency refers to the irrational reordering of preferences as the consequences of our choices become more proximate in time. For example, smokers may plan to enjoy smoking today but quit tomorrow to improve their health. The next day, however, their plan is the same; enjoy smoking today and quit tomorrow. This goes on, and they may never quit even though they want to, hence the inconsistency. The risks of this behavior are tremendous because while benefits accrue immediately (the pleasure of smoking), costs accrue well into the future (lung or heart disease, death).

Similarly, because it unfolds across decades, the business of building an Officer Corps is ripe for time-inconsistent behavior, and the Army has fallen victim to it. In fact, for the last several years, the Army has implicitly accepted near-term benefits in exchange for long-term risks to the Officer Corps. One example was the end of forced distribution ratings for lieutenants and captains, which occurred in 2004. Eliminating forced distribution ratings made it extremely difficult to distinguish high-potential officers from the others, the same challenge the Army faced on the eve of World War II.¹¹

Another example of time-inconsistent behavior was a significant increase in officer promotion rates. When these increases were briefed in the Pentagon in 2004, a senior Army leader responded, "It's a great time to be a captain." In his estimation, the Army's mounting near-term officer shortage clearly trumped the need to vet and cull talent for the future.

By promoting and advancing officers who previously would have been culled from service, however, the Army only accelerated talent flight. Officers forced to serve under lackluster leaders will seek opportunities elsewhere, preferably where talent matters. As retention rates continue to fall, short-term demands will force the Army into additional time-inconsistent behavior, further exacerbating the retention challenge. Eventually the Army could reach a tipping point where the downward spiral accelerates, and its talent core collapses. Much like an individual's time-inconsistent behavior of smoking, the true costs hit unexpectedly in the form of a total breakdown. By then it is too late.

Guarding against time-inconsistent behavior requires significant discipline. In the current environment, most Army strategic leaders direct

manpower policy for fewer than three years.¹² This places an inherent emphasis on the now, creating an ideal breeding ground for manpower challenges that will emerge 5, 10, or 20 years into the future.

An Officer's Opportunity Cost.

While it is important to understand how the Army's decisions shape officer retention, it is equally important to understand how individual officers make the decision to stay or to leave. Although economic decision theory has many dimensions, it really boils down to a very simple principle: people choose the option they believe will provide the highest satisfaction. Each of us does this daily: Coke or Pepsi, cream or sugar, stairs or elevator?

The same is true of far weightier decisions. Each officer, whether they realize it or not, routinely weighs the opportunity cost of his or her service in the Army. In the context of our discussion, "opportunity cost" is the value of an officer's next best employment alternative outside of the Army, an opportunity that is forfeited by the decision to continue commissioned service (see Figure 8).

Factors that may affect an officer's opportunity cost include unemployment rates in the civilian sector, educational opportunities, potential civilian compensation, job satisfaction, and spousal employment opportunities. For the most part, the Army can do very little to influence an officer's opportunity cost—each person's is different, governed by the intersection of his or her talent set with current market conditions. Those with the highest opportunity costs are the ones with the most to gain by leaving the Army. Generally speaking, these officers possess the talent needed to

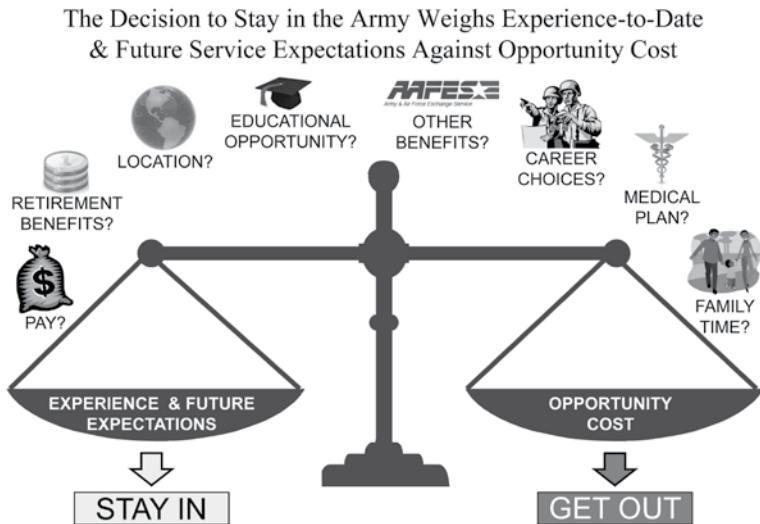


Figure 8. Individual Retention Decision.

perform well at the Army’s highest levels because, as we have seen, there is a high correlation between the talents sought by the Army and those sought by the marketplace.

Just as officers’ unique talent sets shape their opportunity costs, so too do they shape their expectations of military service. As Figure 8 illustrates, an officer weighs his or her opportunity cost against these expectations, which the Army *can* shape via sound policies. Expectations run the gamut from current or anticipated job satisfaction and promotion potential to the value of retirement and insurance benefits, commissary privileges, the scope and quality of family medical care, fully-funded educational opportunities for oneself and one’s family, etc. For some, job satisfaction may trump any earnings differential. For others, education benefits may matter most.

While weighing service expectations against opportunity cost seems a fairly straightforward affair, the element of time complicates matters. Market conditions are dynamic. Information is imperfect. Family needs change. For the most part, however, the relative stability of Army policies allows officers to visualize their career trajectories with some accuracy, whereas forecasting civilian sector opportunities is much more difficult. That very predictability gives commissioned Army service a slight advantage in head-to-head competition with potential alternatives. This is why the Army must thoughtfully consider all officer personnel policies—if it unthinkingly introduces career uncertainty, it may forfeit one of its key advantages in today’s labor market.

Market Failures and Talent Retention.

A market failure exists when there is an inefficient use of goods or services and a better outcome is possible. Correcting market failures via thoughtful policies often yields tremendous efficiencies, with gains far outweighing losses. One example of a market failure is a *missing market*, the lack of an efficient way to exchange a service. Bureaucratic organizations such as the Army are often riddled with missing markets, but the one most germane to our discussion is the missing officer talent market.

Most officers desire an assignment that leverages their unique talent set. At the same time, the Army would benefit tremendously if it could successfully match individual officer talents against requirements. Productivity would soar. Satisfaction would improve, leading to higher retention. Currently, however, there is no talent matching market mechanism, no way for

Army strength managers and officers to make efficient talent transactions. As a result, the officer talent market fails to function optimally – in other words, assignment transactions still occur, but there is a significant mismatch in talent supply and demand.

Markets can also fail from *asymmetric* information challenges, where one party has more or better information than the other.¹³ This is true of the officer talent market. All officers have more information than the Army regarding both their opportunity cost and their expectations of military service. Because the Army knows relatively little about each officer’s particular desires and capabilities, and because it treats individuals as interchangeable parts, it can do little more than offer generic retention incentives. When it does so, this information imbalance ensures that officers who intend to stay in the Army are more likely to opt for retention bonuses than those who intend to leave.

Another form of market failures is *externalities* – impacts upon people outside of the transaction. These can be positive or negative. For example, when a talented officer decides to stay in the Army, that action produces a positive externality that may influence others to continue their service. Conversely, when the Army mismatches an officer with a requirement, that mismatch creates a negative externality that may cause several peers or subordinates to leave the service.

FROM THEORY TO PRACTICE: BUILDING SUCCESSFUL RETENTION POLICIES

Improving officer talent retention requires far more than dramatic pay raises or other financial incentives. First, it calls for a mutually reinforcing mix of sound *accession, retention, development, and employment*

policies. By employing all individuals in the right place and time, and by providing them with the type and amount of developmental opportunities best suited to their needs, the Army can engender a virtuous cycle that ensures the highest possible retention of the officer talent it requires.

Second, these policies must acknowledge the distinct career phases which comprise an officer's career. This is critical because each phase is associated with different opportunity costs and service expectations. As a result, it takes differentiated policies to positively affect officer continuation rates across a career. There are four career phases to consider (refer back to Figure 7).

Phase I: Receipt of Commission to End Active Duty Service Obligation (ADSO).

Contingent upon their commissioning source, all newly commissioned officers incur an ADSO of 3 to 5 years. More than half of each year group's 20-year attrition rate occurs within 6 months of completing an ADSO. Since the mid-1990s, for example, only 55 percent of West Point graduates, who incur a 5-year service obligation, remain on active duty to 5 1/2 years of service.¹⁴ Therefore, retention strategies in this phase must focus on creating positive company grade experiences, as well as positive expectations for future field grade service.

Phase II: End of ADSO to 10 Years of Service.

As they approach 10 years of service, the probability that officers will remain on active duty until retirement eligibility climbs to more than 80 percent. In

this phase, an officer’s career calculations often include higher education goals and whether those goals can be met in the Army. Service to this point often mitigates the effect of having earlier served under a lackluster leader, increasing the odds that officers will encounter talented professionals who can instill in them a desire for continued service. To get them here, however, the Army must create positive expectations regarding continued employment within their talent set, selection to field grade rank, and rewarding service to the 20-year point (see Figure 9).

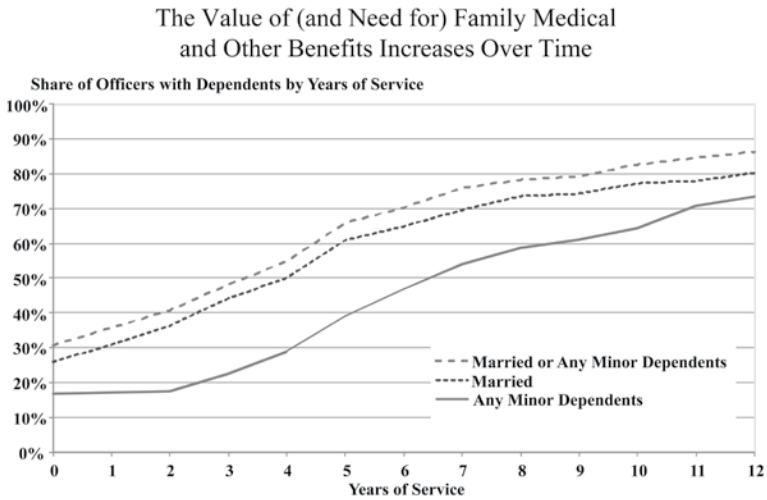


Figure 9. Growth in the Value of Family Benefits by Years of Service.

Phase III: 10 Years to 20 Years of Service.

At this point, most officers are committed to a 20-year or longer career. They understand their profession, they have a strong sense of what they can accomplish as an officer, they have a growing need for family

medical and other benefits as indicated in Figure 9, and they are more focused upon possible retirement benefits. The Army's defined benefit pension plan is nothing to dismiss lightly—a 20-year retirement is worth approximately \$1.4 million.¹⁵

Phase IV: 20 Years of Service to Mandatory Retirement.

This is when officers typically enter the Army's strategic talent segment. At this point, they have heavily leveraged most material and fiscal benefits of active duty. They are already vested in their retirement plan and incur little additional financial advantage for each day they serve beyond the 20-year mark. As a group, their service expectations shift markedly toward a desire to influence significant outcomes and to enjoy their work. Since lateral entry into the Army at this point is, of course, impossible, the Army must diligently guard against talent leakage. Opportunity costs for these officers tend to rise due to their experiences and accomplishments, which are valued in the marketplace.

EVALUATING EXISTING RETENTION PROGRAMS

Evaluating officer retention programs within the context of the theories outlined to this point is illuminating. It demonstrates the perils of ignoring market principles as well as the benefits of heeding them. Two recent retention programs that lend themselves to comparison are the Critical Skills Retention Bonus (CSRB) and the Officer Career Satisfaction Program (OCSP).

In fiscal year 2007-2008, the Army faced a substantial shortage of seasoned captains. As a remedy, it offered the CSRB to all competitive category (and Medical Service) active duty officers commissioned between 1999 and 2005. The key elements of this program ran counter to the sound market principles that should underpin any retention policy. As a result, CSRB may actually have done more harm than good. The CSRB offered \$25,000, \$30,000, and \$35,000 lump sum payments to officers in exchange for 3 years of service.¹⁶ With a cost to taxpayers of \$500 million, there is no evidence that it improved retention.¹⁷ In fact, the incentive was capitalized upon by a population that did not require it—77 percent of those captains who requested the incentive in the autumn of 2007 had previously indicated an intention to stay on active duty beyond their initial service obligation.¹⁸

The program's flaws were many. First, CSRB made no effort to retain talented officers—its focus was on quantity. Second, programs such as CSRB can cause some to forgo other retention incentives in the belief that they will eventually be offered a second bite of the retention incentive apple. This effect is counter to that desired, epitomizing time-inconsistent behavior. Third, the bonus reflected no consideration of career phase effects upon officer continuation rates—by offering the incentive so broadly (from ADSO completion all the way to 8 years of service), the Army exacerbated its retention challenge for officers between 5 and 10 years of service.¹⁹

In terms of a lifetime earnings comparison, even the high-end CSRB benefit of \$35,000 was not enough to forestall service departure by officers already planning to leave due to high opportunity costs. At best, the bonus would retain officers with much lower

opportunity costs, thus producing talent mismatches for the increasingly complex jobs awaiting them. At worst, it would pay enormous economic rent to officers who were planning to stay in the Army anyway.²⁰ It is a textbook example of a lagging or reactive policy, triggered because a disproportionate share of high-performing junior officers had already left the Army.²¹

Instead of throwing money at its challenges and hoping for some benefit, the Army should instead build its officer retention programs upon the same principles governing the labor market in which it competes. These programs must be forward-looking, expending resources where they will create the highest talent return on investment. They should recognize the linkage between accessions, retention, employment, and development policies. Perhaps most importantly, the Army's officer retention programs should specifically target officers possessing talent that is actually in demand across its formations and institutions. There is no need for the Army to accept talent mismatches.

The Officer Career Satisfaction Program (OCSP) is a retention initiative designed with these principles in mind. For year groups 2006 and beyond, OCSP is offered to ROTC and USMA cadets prior to commissioning. Cadets can obtain their branch of choice, post of choice, or a guaranteed option to attend graduate school in exchange for extending their commissioning ADSO by an additional 3 years. Once commissioned, participating ROTC scholarship officers will serve 7 years of their 8-year Military Service Obligation (MSO) on active duty, while participating West Point graduates will serve all 8. The graduate school option allows these officers to attend the school of their choice with study in the discipline of their choice. Because

it is an option, officers may attend graduate school, leave the Army upon completion of their 3-year ADSO extension, or forgo exercising the option and remain in service.

Unlike the CSRB, the OCSP is not a reactive policy designed to entice *everyone* to stay. Instead, it is squarely focused upon a large, poorly retaining population with talents the Army deems critical.²² Recall that these officers are more likely to possess the conceptual and problem-solving talents demanded by jobs such as commander, executive officer, or operations officer, and that their talent advantage grows as they move from company grade to field grade assignments of increasing scope and complexity (refer back to Figure 5). By offering this program to ROTC and West Point cadets, the Army aims a significant portion of the retention incentive at officers who would otherwise leave active duty prior to year 8. As an additional benefit, the Army avoids any issues of fairness because the offer is made at the source of commission, for which any aspiring applicants can compete.

OCSP generates significant benefits precisely because it heeds market principles. For example, it avoids a time inconsistency problem by committing the Army and the individual to a service contract which is executed 4 to 8 years into the future. OCSP also addresses market failures by providing markets that had been missing. Previously, many cadets were unable to secure their branch or post of choice because branching and posting algorithms are based primarily on academic standing. Over the past 4 years, however, more than 4,000 cadets participated in OCSP to secure their branch or post of choice, guaranteeing the Army more than 12,000 obligated man-years of service at no cost to the Army. Quite clearly, giving new officers

some voice in their assignment process immediately increases their satisfaction and helps meet their expectations of service.²³

Another missing market was for graduate school. In light of the 175 percent wage premium the typical graduate degree holder garners over a college graduate, it is not surprising that scholarship officers view graduate education as an important career objective. Indeed, a majority of officers who remain in the Army beyond 10 years of service but do not participate in the Army's existing Advanced Civil Schooling (ACS) program obtain graduate degrees on their own.²⁴ In addition, many officers who earned a graduate degree via ACS report that, absent this opportunity, they would have departed the Army.²⁵ This demonstrates how powerfully graduate-level educational opportunities can affect service expectations.

Until the OCSP was instituted, the odds of attending graduate school under ACS auspices were less than 1 in 10 for the thousands of new officers commissioned annually. The program made only 415 graduate school slots available per year. More than half of these required officers to immediately follow school with an instructor tour at West Point, pulling them out of the operational force for a total of 5 or more years. Many others required a post-graduation functional area utilization tour. OCSP's graduate school incentive has no post-graduation teaching or utilization tour requirement, however, allowing many more officers to attend graduate school for up to 2 years and then immediately return to an operational assignment.²⁶ For the Army, its return on investment is 3 days of operating force service per officer for each day spent in graduate school.

OCSP's graduate school incentive also takes into account the way officer career phases affect retention

behavior and is designed accordingly. Once selected, the incentive moves officers through their first career phase by extending their Active Duty Service Obligation to 7 or 8 years of service.²⁷ Their attendance at graduate school takes them through their second career phase to approximately 10 years of commissioned service. The average additional service obligation incurred in graduate school brings them squarely into their third career phase, to 15-16 years of service. Based upon historical retention patterns, 96 percent of officers who reach this level of longevity continue to 20 years of service. There would likely be some retention lift in the fourth career phase as well (20 years to mandatory retirement), because graduate-level education not only enhances career satisfaction but also extends the talent advantage critical to strategic-level leadership.

The power of the OCSP incentives to secure thousands of years of obligated service while simultaneously creating a more agile, satisfied, and educated Officer Corps is inarguable. For example, as shown in Figure 10, extending the branch, post, and graduate education option to officers in year groups 2006-09 stands to increase 8-year continuation rates from 47 percent to above 69 percent—levels akin to those in the industrial era. By offering the OCSP prior to commissioning, the Army also eliminates an information asymmetry, as cadets are unable to predict at commissioning whether or not they will stay on duty past their ADSO.²⁸

The post-September 11, 2001 (9-11) GI Bill only adds to the OCSP's appeal. By electing OCSP's graduate school for service option and extending their service obligation by 3 additional years, cadets are guaranteed fully funded graduate school whether they use the

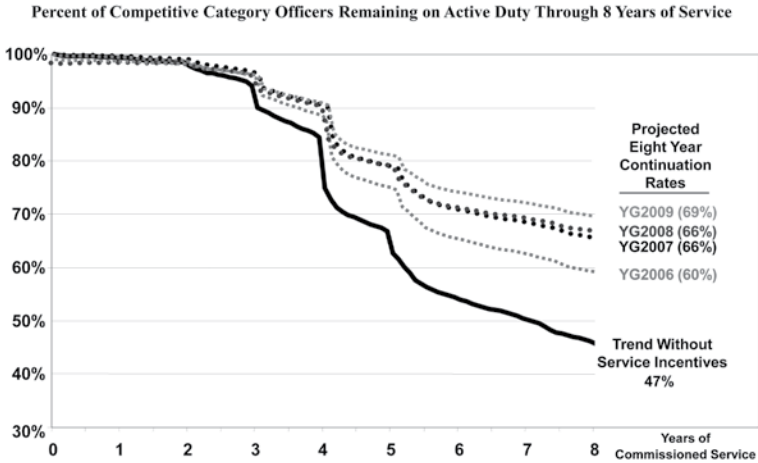


Figure 10. OCSP Raises Officer Retention Rates by 50 Percent.

option or walk away from it. If they depart the Army after completing their extended ADSO, they can use their GI Bill benefits to further their own education. If they stay in the Army, however, they not only can continue on to graduate school via OCSP, but they gain transferability of their GI Bill benefits to a dependent.²⁹

The differences between programs such as the Career Service Retention Bonus and the OCSP are fairly stark, but perhaps the most important difference is that OCSP represents an investment in human capital. As we know, education has value. It increases worker productivity. It expands knowledge and thus extends the talent advantage of an individual. Because officers who participate in the OCSP are much more likely to reach 20 or more years of service, the Army's return on its educational investment is therefore quite significant. Even when this incentive is made available to officers who would have remained in the Army

without it, it does not amount to economic rent, as additional education still yields the benefit of increased productivity.

Of course, such is not the case with cash retention incentives. These entail no investment in human capital and therefore yield no productivity gains. Buying service with cash payments simply garners a windfall for officers who would have remained in service anyway and saddles taxpayers with an unnecessary expense.

CONCLUSION

Over the last 3 decades, dramatic labor market changes and well-intentioned but unsound policies have created significant officer talent flight, engendering significant risk for the Army. Poor retention impedes the Army's ability to screen, vet, and cull officers, undermining its ability to properly access, develop, and employ talent. Therefore, the Army cannot undertake thoughtful policy decisions in these areas if its officer talent pipeline continues to leak at current rates. High talent retention is a necessary precondition to creating the most capable Officer Corps possible.

The Army cannot insulate itself from labor market forces as it tries to retain talent. Therefore, the retention component of its officer strategy must rest upon sound market principles. It must also be continuously resourced, executed, measured, and adjusted across several years and budget cycles. Absent this, systemic policy and decisionmaking failures will continue to confound Army efforts to create a talent-focused Officer Corps strategy for success.

ENDNOTES

1. Figures are from the National Bureau of Economic Research as reported in the *Wall Street Journal*, July 28, 2009, available from finance.yahoo.com/career-work/article/107419/the-great-recession-a-downturn-sized-up.html?mod=career-salary_negotiation.

2. In a few cases such as the legal and medical fields, the Army makes exceptions to its limited lateral entry policy. As officer branches and Army missions evolve, the Army may be able to expand its reliance on lateral entry. However, for branches that focus on leading Soldiers, lateral entry runs counter to important Army culture.

3. We calculate the number of excess lieutenants accessed by a year group in Figure 3 as follows. First we calculate the total number of lieutenant requirements from the PMAD for each of the 3 years that a cohort serves at the rank of lieutenant and divide that number by 3. This gives us the number of lieutenant requirements that a year group faces each year they serve as a lieutenant. Next, we subtract the total number of lieutenant requirements for a year group for each of the 3 years from the actual number accessed. This gives us three values for the excess accessions. We average those three values to get the average number of excess lieutenants accessed for a year group across the 3 years a year group serves as a lieutenant. We use Officer Evaluation Report (OER) data to estimate average platoon leader time. We validate this OER trend analysis by checking it against TAPDB data. There is a similar trend, but the TAPDB shows a slightly higher level by about a month or two. We rely upon OER data because there are many inconsistencies with duty titles in the TAPDB.

4. Shifts in experience levels of officers are a result of multiple policy changes. Some causes of decreases in average captain experience include early promotion of lieutenants to captain, early promotion of captains to majors, increases in accession cohort size for officers who reach the rank of captain, shifts in accession mix towards sources that continue at low rates, and declining officer retention.

5. For a thorough discussion of this system, see William H. Whyte's classic exploration of the American corporate ethos, *The*

Organization Man, New York: Doubleday, 1956. For a contemporary discussion of the same subject matter, see Peter Cappelli's *Talent on Demand*, Boston, MA: Harvard Business Press, 2008.

6. The analysis by procurement program successfully reframed the retention discussion among senior leaders, but the terrorist attacks on September 11, 2001 (9/11) drew their attention elsewhere and forestalled substantive efforts to raise officer retention until 2004. By then, the captain retention crisis was fully entrenched. Among Year Group 1995 to 2001 officers, it was hollowing out the ranks of junior officers and leaving inadequate numbers of seasoned captains available for advancement to major. See Appendices A and B for a further discussion of officer retention forecasting and analysis challenges.

7. Beginning in 2004, the Army increased structural requirements for majors by 2,802 billets. This growth in field grade structure exacerbated officer shortages accumulated during a decade or more of low captain retention. By adding thousands of new field grade officer requirements to its structure, the Army brought its shortage of seasoned officers into such stark relief that in some quarters, growth rather than retention became the dominant construct for addressing officer shortages. Adherents to this view argue that to accommodate officer structure growth, the Army naturally turned to OCS accessions as it had when growth was required during earlier conflicts. However, such comparisons are misleading. Unlike prior conflicts, the Army now incorporated *all* OCS growth into the Army's corps of regular, tenured officers. Given current promotion rates, these OCS officers can be expected to serve at will until retirement. In prior conflicts OCS growth came in the form of reserve officer commissions. As such, following hostilities, the majority of these officers were typically released from officer ranks during postwar demobilization and downsizing. Finally, while prior events can cause subsequent reactions, the reverse cannot be true. Specifically, increases in officer accessions, promotion rates, shifts in the accession mix, and reduced time to promotion preceded officer structure growth. Therefore, the latter cannot have been the cause of the former.

8. See Appendix C for an extensive root-cause analysis of the retention challenge.

9. See Appendix D for the methods and calculations that support a 20 percent reduction in accessions.

10. See F. E. Kydland and E. C. Prescott, "Rules Rather than Discretion: The Inconsistency of Optimal Plans," *The Journal of Political Economy*, Vol. 85, No. 3, 1977, pp. 473-492.

11. At the beginning of the war, rapid expansion of the Army required promotion of large numbers of officers to senior grades. When the Army reviewed existing officer efficiency ratings (its Form 67 report, which lacked a forced distribution component), it discovered that "of 4,000 ground officers of suitable general officer age, [over] 2,000 were [rated] superior and best. As such a showing was perfectly worthless for the purpose [of screening and vetting], the selecting authorities reluctantly fell back on personal knowledge, which is exactly what the Army thought it was getting away from when . . . it inaugurated the [Form 67]. . . ." It seems that raters typically used only superlatives in describing their men or damned them with "faint praise." See E. Donald Sisson, "Forced Choice: The New Army Ratings," *Personnel Psychology*, Vol. 1, No. 3, Autumn 1948, pp. 365-382.

12. By comparison, in 2008 the average tenure of CEOs in North American firms was almost 8 years. Booz & Co. , available from www.booz.com/global/home/press/article/45711808.

13. Wikipedia, available from en.wikipedia.org/wiki/Information_asymmetry. Examples of asymmetries include moral hazard, adverse selection, and principal-agent problems. In all cases an individual has better information than the organization, which leads to changes in behavior, poor screening and signaling, and misaligned incentives for optimal performance.

14. U.S. Army Office of Economic and Manpower Analysis (OEMA) analysis of data contained in the Total Army Personnel Database (TAPBD).

15. This net present value calculation assumes a 4 percent discount rate, 3 percent inflation rate, is valued at 10 years of service, and assumes a life expectancy of 75 years of age.

16. The cash size of the incentive sorted by Army basic branches, with more money being offered to some "shortage

branch” officers than others. With the right bonus levels, it is possible to induce the required number of officers to extend their service with such just-in-time retention tools. However, bonus and incentive pay strategies entail substantial inefficiencies and adverse second and third order effects. Note: Graduate school and professional military schools were also offered as part of the program but had low acceptance rates.

17. Army G1 analysis of CSRB program indicates that “there is insufficient evidence to prove we have changed retention behavior.” At best, the CSRB program placed a floor under historical retention rates.

18. U.S. Army Research Institute (ARI) analysis dated March 25, 2008.

19. Offering the CSRB to officers up to 8 years of commissioned service (YG 1999) only deepened the Army’s asymmetric disadvantage. By this point in their careers, officers have served as platoon leaders, company commanders, and staff officers. Data shows that officers with 8 years of service have above a 80 percent probability of continuing their careers to at least the 20-year mark. Therefore, of the money paid to YG 1999, at best 20 percent of it would go to retaining officers. In contrast, YG 2005 had only 3 years of service. As a result, they had much greater uncertainty regarding their Army and private sector career options. For these younger officers, committing them to 3 more years of service may have had some benefit.

20. “Economic rent” is a distribution in excess of the amount required to sustain a production process.

21. In an ideal world, one might hope to distribute incentives only to desirable officers who exhibit intentions to leave the Army. However, once officers have explored the external labor market, the cost of “buying them back” rises dramatically—in other words, it is too late for an efficient incentive. Additionally, officers exhibiting intentions of leaving may stop making the types of investments in their career necessary to maintain their competitiveness for key assignments or advancement. Lastly, offering incentives to those who exhibit intentions of leaving the Army can create perverse incentives for “gaming” the system. In other words, officers might explore outside opportunities, or

create the appearance of doing so, to trigger more Army retention incentives.

22. Since the Army's 3- and 4-year scholarship programs also comprise about 40 percent of officer accessions, they afford the Army its greatest scope to both raise officer retention and deepen its bench of officer talent.

23. Analysis indicates that not receiving a branch or post of choice has little impact upon post-commissioning retention behavior. Source: OEMA.

24. For example, 65 percent of competitive category USMA source officers, Year Groups 1980 to 1993, not attending ACS, obtained a graduate degree on their own time.

25. OEMA survey of USMA faculty, September 15, 2004.

26. Of course, use of an educational incentive engenders both budgetary and overhead (TTHS) costs. In steady state—the estimated cost of this program is \$90 million. However, as opposed to other strategies, where payments would be made concurrent with extended officer service, the educational incentive calls for payments to begin, on average, 8 years into the future.

27. At year 8, participants in such a career education option could allow their option to expire and depart the Army, or they could exercise their educational option by remaining on active duty.

28. Regardless of stated intentions prior to commissioning, cadets are unable to predict their eventual service length. Some 23 percent of cadets plan to serve beyond ADSO, yet half of those leave. Some 34 percent of cadets plan to leave at the completion of their ADSO, yet half of those end up staying. Of the remaining 43 percent who are unsure, half of them end up leaving.

29. See Appendix E for a discussion of Officer Career Satisfaction Program implementation challenges. Participation rates in the OCSP prior to the Webb GI Bill were high as shown in Appendix E.

APPENDIX A

FORECASTING – THE CHALLENGE OF UNSTABLE STRUCTURES SUCH AS SOURCE OF COMMISSION PROGRAM CHANGES

During the 1990s, the Army disaggregated officer strength forecasts by commissioning programs.¹ These include West Point (USMA), ROTC Distinguished Military Graduate, ROTC Non-Distinguished Military Graduate, OCS Distinguished Military Graduate, and OCS Non-Distinguished Military Graduate. Prior to the mid-1990s, the distinction between Distinguished and Non-Distinguished Military Graduate had been an important commissioning consideration. West Point officers and Distinguished Military Graduates from ROTC and OCS received a Regular Army commission, while officers who were not Distinguished Military Graduates received an “Other than Regular Army” (OTRA) active duty commission. In other words, all West Point officers were considered Distinguished Military Graduates, whereas only a small fixed share of each ROTC and OCS cohort received the same designation.²

Within these groupings, the Army linked accession missions with expected loss rates to estimate the future strength of officer cohorts. They used these figures to establish the length of time officers should remain in a given grade, to establish the rate at which they should be promoted, and to estimate accessions required in subsequent cohorts to backfill entry level vacancies. So long as officer retention relationships within these commissioning program groupings remained constant, accurate forecasting was possible. However, the

problem with predictive forecasts is that their accuracy depends upon the stability of key structures and continuation rate relationships which are derived from historical data. In the presence of shocks, these factors can vary widely from historical trends before the lapse of time allows sufficient new data to accumulate and reveal new structures and relationships.

When personnel managers began to take note of falling officer retention in the early 2000s, they did not return to first principles and evaluate the need to act. Rather, they saw this challenge through the structures and relationships available from historical Army manpower data. The Army saw low retentions of West Point officers rather than low retentions among 3- and 4-year scholarship officers from West Point and ROTC.

Unfortunately, the actual stability of officer retention rates within and across officer groups is a retrospective issue that can be judged only in the fullness of time. Since all officers enter the Army with a minimum active duty service obligation (ADSO) of 3 years, and scholarship officers from ROTC and West Point enter with 4- and 5-year ADSOs respectively, the lag in detecting a change from historical retention rates can be 3 to 5 years or longer. Thereafter, compensatory adjustments to officer accession programs can entail an added lag of as short as a few months in the case of OCS, to 5 years in the case of West Point, and 2 to 5 years in the case of ROTC.

Additional lags in gauging the severity and persistence of changes in retention patterns, and in taking action to redress these changes, can entail further years of delay. We estimate the effective sum of these lags to be about 7 years. Due to the effects of compounding, small variations in officer retention rates during this lag period can lead to widely disparate

outcomes. For example, a persistent 1 percentage point decrease in year-over-year junior officer retention rates for an initial cohort of 6,000 officers can accrue a cumulative decrease of over 1,400 officers available for advancement to major.³ In commerce, when vagaries of market turbulence present such downside risk, prudent managers purchase insurance. Unfortunately, as it restructured, the Army did not insure against the risk of an anticipated decline in junior officer retention rates. As a result, the Army is currently confronted with a significant officer shortage.

During the 1990s and into the early 2000s, the Army increasingly relied upon commissioning sources which were associated with relatively high officer retention rates through 10 years of service. OCS accessions increased from 9 percent to 40 percent of total commissions during this period. However, over this period the mix of procurement programs within these commissioning sources changed dramatically and in ways that required new frames of reference to detect.

A generic model that uses average retention rates and accessions numbers for each source of commission illustrates how this situation unfolded across Year Group 1991 to 2002 officer cohorts. Figure A.1 contains approximate accession levels and 7-year officer retention rates by source of commission for Year Group 1991 and 2002 officers.

Using the product of accession levels from the left column and continuation rates from the middle column one can estimate the number of officers continuing to 7 years of service. As indicated in the right column, the size of continuing cohorts between 1991 and 2002 would have been expected to increase by 530 officers, given the 630 officer increase in accessions over this period.

| Accession Source | Number of Accessions 1991 to 2002 | Source of Commission | 7-Year Continuation Rate | Interactions & Expected Year Group Strength Seven Years After Accessions |
|------------------|---|--------------------------------|---|--|
| USMA | Fairly Constant: 900 | USMA | Low 44% | 400: No Change |
| ROTC | Down Slightly 2,800 to 2,720: Down 80 | ROTC DMG (x% of ROTC) | Medium 55% | |
| | | ROTC Non-DMG (1-x)% of ROTC | Medium 55% | |
| OCS | Rising 320 to 1,030: Up 710 | OCS DMG x% of OCS | High 81% | 1,540 to 1,500: Down 40 |
| | | OCS Non-DMG (1-x)% of OCS | High 81% | |
| Accessions: | 4,020 to 4,650: Up 630 | | Expected Year Group Strength 7 Years After Accessioning: | 2,200 to 2,730: Up 530 |

**Figure A.1. Expected Officer Year Group Strength
7 Years after Accessioning
Based upon Commissioning Source Retention
Behavior
(Army Competitive Category and Medical Service
Corps officers [ACC+MSC]).**

However, as illustrated in Figure A.2, a much different picture emerges when viewed through the lenses of officer procurement programs in lieu of sources of commission. Rather than retaining 2,730 Year Group 2002 officers as indicated in Figure A.1, retained officers declined to 2,450. This reduced estimate is due to the low retention rates and the influence of structural accession program changes that ensued between 1991 and 2002. Specifically, while the number of DMG officers commissioned remained constant, the mix of procurement programs from which these officers entered the officer corps changed dramatically. For example, within ROTC, the number

of scholarship cadets grew by about 25 percent while the group of nonscholarship cadets fell by about 40 percent.

| Accession Source | Number of Accessions 1991 to 2002 | Procurement Program | Number of Accessions | 7-Year Continuation Rate | Interactions & Expected Year Group Strength Seven Years After Accessions |
|------------------|-----------------------------------|-----------------------------|--|--------------------------|--|
| USMA | Fairly Constant | USMA | Fairly Constant 900 | Low 44% | 400: No Change |
| ROTC | Down Slightly: Down 80 | ROTC Scholarship Cadets | Rising 1,600 to 2,000: Up 400 | Low 47% [42%-52%] | 750 to 940: Up 190 |
| | | ROTC Non-Scholarship Cadets | Falling 1,200 to 720: Down 480 | Medium High 61% | 730 to 440: Down 290 |
| OCS | Rising: Up 680 | OCS In-Service | Rising 260 to 620: Up 260 | High 81% | 210 to 500: Up 290 |
| | | OCS Enlistment Option | Rising 60 to 410: Up 350 | Low 42% | 25 to 170: Up 145 |
| Accessions: | 4,020 to 4,650: Up 630 | | Expected Year Group Strength 7 Years After Accessioning: | | 2,115 to 2,450: Up 335 |

Figure A.2. Expected Officer Year Group Strength 7 Years After Accessioning as Based Upon Procurement Program Retention Behavior (Army Competitive Category and Medical Service Corps Officers [ACC+MSC]).

Since officers from ROTC scholarship programs continue at about 70 percent of the rate typical of nonscholarship officers, the new mix of scholarship and nonscholarship cadets yields an estimate of ROTC continuations that is 120 per year lower than arrived at using the source of commission framework. That framework assumed the underlying mix of ROTC scholarship and nonscholarship officers would remain fixed. A similar situation occurs when estimating continuations for OCS source officers. In this case, a divergence of 160 fewer retained officers ensues

between the two methods. This is due to the greatly increased share of Enlistment-Option officers as a share of OCS accessions. As revealed over time, OCS Enlistment-Option officers have departed the Army at much higher rates than OCS-In Service officers. As a result, OCS officers reaching 7 years of service would not increase by 570 officers between Year Group 1991 and 2002 as predicted in Figure A.1. Rather, since OCS Enlistment-Option officers separated at higher-than-expected rates, the increase in expected year group strength was only 435 additional officers as illustrated in Figure A.2.

Although accessions increased by about 630 officers per year between 1991 and 2002, the number of officers completing 7 years of active federal commissioned service grew by far fewer officers per year group than the Army expected. Accumulated over 7 year groups of officers comprising the Army's corps of majors, this feature of Army forecasting methods would result in about 1,400 fewer officers than predicted by the time the Army increased its officer structure in 2004. As addressed above, the time lag engendered in detecting and acting upon this situation was also about 7 years. Due to the length of precommissioning programs and post-commissioning ADSOs, this lag is an unavoidable aspect of the Army's officer accession pipeline for which an effective strategy must account.

ENDNOTES - APPENDIX A

1. In the Total Army Personnel Database, this data is captured in an officer's source of commission (SOC). Key levels of this variable are USMA, ROTC DMG, ROTC, OCS DMG, OCS.

2. Typically, the top 15 percent of each ROTC and OCS cohort earn the DMG distinction based upon their standing on ROTC and OCS order of merit lists.

3. Reducing year-over-year retention rates in Column A by 1 percentage point, we obtain the year-over-year rates indicated in Column C. Multiplying the rates contained in Columns A and C by the cumulative retention rate at 36 months of service, 93.3 percent, we obtain the base and adjusted cumulative retention rates indicated in Columns B and D. At the end of 120 months of service, 46.8 percent of the starting population of 6,000 officers, or 2,811 officers, would remain on active duty using retention rates exhibited by Year Group 1999 officers. Using the adjusted retention rates, the continuing population would fall to 2,600 officers. Over seven officer-year groups comprising the Army's population of majors, this 211 officer difference accumulates to 1,472 fewer officers available for advancement to the grade of major.

| Months of Service | Column A Base Year-Over-Year Retention Rate | Column B Cumulative Retention Rate | Column C Adjusted Year-Over-Year Retention Rate | Column D Adjusted Cumulative Retention Rate |
|---|--|---------------------------------------|--|--|
| 36 | | 93.3% | | 93.3% |
| 48 | 91.3% | 85.2% | 90.3% | 84.3% |
| 60 | 83.5% | 71.2% | 82.5% | 69.6% |
| 72 | 89.7% | 63.9% | 88.7% | 61.7% |
| 84 | 88.9% | 56.8% | 87.9% | 54.3% |
| 96 | 91.3% | 51.9% | 90.3% | 49.0% |
| 108 | 93.5% | 48.5% | 92.5% | 45.3% |
| 120 | 96.6% | 46.8% | 95.6% | 43.3% |
| Number of Officers Remaining from a Starting Accession Population of 6,000 Officers | | | | |
| 2,811 | | | 2,600 | |

APPENDIX B

DEFECTIVE MEASURES AND OTHER CONFOUNDING CHALLENGES

One of the reasons the Army has trouble tracking and understanding its captains retention challenge is that its retention metrics are deeply flawed. Within the Army, the most frequently cited officer retention metric is the company grade attrition rate (see Figure B.1).

Company Grade Voluntary Losses, Army Competitive Category

NOTES:

- FY05 loss rates are projections using data through May 2005
- Captains and Lieutenants are grouped together as Company Grade due to the shifting pin on point to Captain

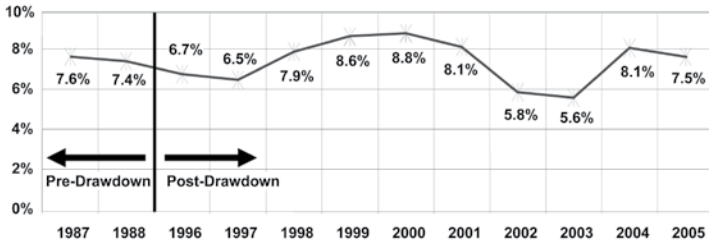


Figure B.1. Standard Company Grade Attrition Rates.

This rate is calculated by dividing the number of company grade officers who leave the Army in a given year by the number of company grade officers in the Army that year. The reason this method is problematic is that the denominator (the number of company grade officers in the Army in a year) is not a consistent frame of reference. Rather, as shown in Figure B.2, it fluctuates

with promotion timelines, variations in commissioning sources and seasonality, and changes in accession cohort sizes. While the number of captains who depart the Army could be exactly the same from month to month, changes in any one of these dimensions results in a completely different company grade attrition rate. For example, if the Army decides to promote officers to the rank of major a year earlier than normal (as it did in 2004), the attributes of officers at separation risk will be fundamentally different than in prior years, and thus not directly comparable. Moreover, the population of officers at risk will be smaller relative to the total company grade officer population. This is because the group of officers still under a commissioning service obligation will remain fixed, while the total population of company grade officers will shrink. The rate will remain high in steady state as long as the Army continues early promotions of company grade officers to field grade rank.

| Factors | Effect on Junior Officer Continuation Rate | | Effect on Operating Strength (OS) at 10 YOS |
|--|--|--------------|---|
| | Immediate | Steady State | |
| Increase Time in Service to Major | ↑ | ↑ | None |
| Decrease Time in Service to Major | ↓ | ↓ | None |
| Vary the Source of Commission Mix (Increase In-Service OCS Accessions) | ↑ | ↑ | Operating Strength ↑ Potential & Performance ↓ |
| Annual Seasonality | ↕ | None | None |
| Increase Accessions | ↑ | None | ↑ |
| Decrease Accessions | ↓ | None | ↓ |

Figure B.2. Factors that Affect Junior Officer Continuation Rates and Operating Strength at 10 Years of Service.

Alternatively, an increase in the number of accessions will drive down company grade attrition rates. As shown in Figure B.3, an increase from 100 to 200 officers accessed, all else being equal, results in a .8 percentage point reduction (7.0 percent minus 6.2 percent) in the company grade attrition rate. But when accessions reach a steady state of 200 officers per year, attrition resumes its former rate of 7.0 percent, a rise of .8 percent. While this may seem inconsequential, compounded across a decade the annual shortfall of officers to be advanced to major is considerable.

| | | Steady-State Accessions at 100 Officers per Year | | 1st Year Effect of a Permanent Doubling of Accessions | | Steady State Accessions at 200 Officers per Year | | |
|-------------------|----------------------------------|--|-------------------|---|-------------------|--|-------------------|-----|
| Years of Service | Year-Over-Year Continuation Rate | Starting Population | Ending Population | Starting Population | Ending Population | Starting Population | Ending Population | |
| Obligated Service | 0 to 1 | 100 | 100 | 200 | 200 | 200 | 200 | |
| | 1 to 2 | 100 | 100 | 100 | 100 | 200 | 200 | |
| | 2 to 3 | 100 | 100 | 100 | 100 | 200 | 200 | |
| | 3 to 4 | 100 | 100 | 100 | 100 | 200 | 200 | |
| | 4 to 5 | 85% | 100 | 85 | 100 | 85 | 200 | 170 |
| | 5 to 6 | 75% | 85 | 64 | 85 | 64 | 170 | 128 |
| | 6 to 7 | 85% | 64 | 54 | 64 | 54 | 128 | 108 |
| | 7 to 8 | 90% | 54 | 49 | 54 | 49 | 108 | 98 |
| | 8 to 9 | 95% | 49 | 46 | 49 | 46 | 98 | 93 |
| | 9 to 10 | 95% | 46 | 44 | 46 | 44 | 93 | 88 |
| Total Population | | 798 | 742 | 898 | 842 | 1597 | 1485 | |
| Attrition Rate | | | 7.0% | | 6.2% | | 7.0% | |

Figure B.3. Increased Officer Accessions Yield a Transitory Reduction in Company Grade Attrition Rates that Disappears When the Officer “Pipeline” Returns to Steady State.

With regard to variations in time in grade, Figure B.4 demonstrates how changing promotion points can also affect company grade attrition rates.

| | | Steady-State Accessions at 100 Officers per Year | | Permanent 2-Year Reduction in Time in Service to Major | | |
|-------------------|----------------------------------|--|-------------------|--|----------------------------------|----|
| Years of Service | Year Over Year Continuation Rate | Starting Population | Ending Population | Starting Population | Ending Population | |
| Obligated Service | 0 to 1 | 100 | 100 | 100 | 100 | |
| | 1 to 2 | 100 | 100 | 100 | 100 | |
| | 2 to 3 | 100 | 100 | 100 | 100 | |
| | 3 to 4 | 100 | 100 | 100 | 100 | |
| | 4 to 5 | 82% | 100 | 82 | 100 | 82 |
| | 5 to 6 | 70% | 82 | 57 | 82 | 57 |
| | 6 to 7 | 75% | 57 | 43 | 57 | 43 |
| | 7 to 8 | 90% | 43 | 39 | 43 | 39 |
| | 8 to 9 | 95% | 39 | 37 | Reduced Time in Service to Major | |
| | 9 to 10 | 98% | 37 | 36 | | |
| Total Population | | 758 | 694 | 682 | 621 | |
| Attrition Rate | | | 8.4% | | 9.0% | |

Figure B.4. A 2-Year Reduction in Time in Service to Major Yields a Permanent Increase in Company Grade Attrition Rates while Leaving Operating Strength Unchanged.

APPENDIX C

AN ACCOUNT OF THE ARMY'S FAILURE TO UNDERSTAND THE ROOT CAUSES OF ITS RETENTION CHALLENGES

In the mid 1990s, Army personnel managers identified West Point graduates as central to the junior officer retention problem. They found that a high number of these officers departed the Army as soon as they fulfilled their active duty service obligation (ADSO). In contrast, their analysis revealed that ROTC and OCS officers stayed in the Army at higher rates. Given the substantial costs to educate and train each West Point graduate, this raised questions about the developmental environment at West Point, the service propensity of cadets entering the Academy, the size of the Corps of Cadets, the academic program, the quality of cadets entering West Point, and the preference afforded to West Point graduates in selecting their branch of service upon graduation.

Troubled by this situation, some West Point alumni identified what they saw to be the crux of the low-retention problem. Having offered long service, and having entered the Army prior to the doubling of the size of the Corps during Vietnam, they recommended halving the Corps of Cadets to increase cohesion and narrow admission to those with a high propensity for a lifetime of service in the Army. Some of these retired officers also felt that the West Point Association of Graduates (AOG) had run amok in helping graduates find civilian careers during the drawdown of the mid 1990s. Still other West Point alumni suggested that the Army created an expectation of short service among cadets during the 1990s by offering officers early separation benefits during the drawdown.

This focus on West Point led one high ranking officer to suggest that the Army should reduce its investment in an “institution that taught its cadets to get out of the Army.” In this same vein, some leadership development experts argued that the problem of low retention was an artifact of toxic leaders and a zero defect culture in the Army. Finally, perhaps more closely approaching the likely nub of the problem, one senior leader jokingly suggested that “expanding the football team” would help retention. His expectation was that by lowering cadet academic quality the Army could moderate officer attrition. That is, cadet quality was perhaps too high for Army needs and it confronted West Point graduates with substantial opportunities outside the Army.

Each of the foregoing “hypotheses” was speculative rather than grounded in hard data, and none offered a satisfactory explanation for what is, in fact, low junior officer retention extending well beyond West Point graduates. To get to the root of the problem, it is necessary to analyze in depth the incentive structures that bring new officers into the Army. Specifically, officer accession programs entail two general categories of incentives. These are a career as an officer for OCS and nonscholarship ROTC graduates, and, for West Point and ROTC scholarship officers, the additional incentive of a fully funded undergraduate education. As shown in the bottom panel of Figure 5, when examining officer retention along these dimensions, a clear pattern emerges.

Nonscholarship ROTC and OCS officers remain in the Army through 8 years of service at relatively high rates. Two-year scholarship officers continue at the next highest rate, followed by 3-year scholarship officers, West Point graduates, and then 4-year scholarship officers. Observed in this light, the locus of low officer

retention can properly be seen to lie with the 50-plus percent of officers who enter the Army on the offer of an education and a career. Consequently, low officer retention to 8 years of service afflicts a much larger officer population than just West Point graduates. Those who stay in the longest came to the Army on the promise of a job. Those who came into the Army on the promise of a job and education stay at lower rates.

In light of this, it is clear that West Point's program is not uniquely linked to low officer retention. Rather, low retention rates extend to ROTC scholarship graduates from a wide variety of schools. The same logic applies to notions that USMA as an institution in some way conditions its graduates to leave the Army at high rates. Such conditioning could hardly extend to 3- and 4-year ROTC scholarship officers.

Reference to historical West Point continuation rates also counter notions that West Point graduate retention rates are linked to the size of the Corps. Due to the need to scale class size to gradually increasing new barracks availability and other Academy infrastructure, the doubling of the size of the Corps was an evolutionary process rather than a sudden consummation, a growth rather than a creation. This process extended from 1964 to 1975, embracing the Classes of 1968 through 1975. Ten-year retention rates began to decline *prior* to the start of the transition to a larger Corps, bottoming at 35 percent in 1968. Thereafter, 10-year retention rates recovered to their pre-Vietnam War averages (in the 60 to 65 percent range) in the period during which the Corps grew to its new higher strength. Ten-year retention rates then stabilized at these high levels until the end of the Cold War and the rise of the information economy, peaking at 67 percent in 1979.

Today's low retention rates are a recent

phenomenon, afflicting those classes reaching 10 years of service since the rise of the information age economy in the mid to late 1980s. Moreover, while the West Point AOG may facilitate out-placement of Academy graduates departing active service, perceived AOG mischief in this regard cannot be the basis of the low retention exhibited by ROTC 3- and 4-year scholarship officers. Similarly, Army separation policies during the 1990s drawdown could not have engendered enduring expectations of short service among West Point and ROTC graduates because such expectations do not have appeared to have shaped the behavior of 2-year scholarship and nonscholarship officers.

Absent a broad anti-West Point or anti-intellectual bias, the suggestion that low retentions among West Point graduates is uniquely attributable to toxic leaders is counterintuitive. All else equal, such a situation would require that by some enigmatic process, West Point graduates are disproportionately likely to fall under the tutelage of toxic leaders. Otherwise, one must inquire why such leaders would induce USMA graduates to remain in the Army at half the rate of nonscholarship officers.

Although West Point cadets exhibit very high and homogeneous potential for service, recruited athletes do fall disproportionately into the lower half of the cadet academic order of merit. This reality is the likely genesis of tongue-in-cheek suggestions that “increasing the size of the football team” would yield higher officer retention. In other words, cadets high in order of merit are presumed to exit the Army at disproportionately high rates after their ADSO expiration. However, for a variety of reasons, the opposite is, in fact, the case. Based upon College Board scores and cadet order-of-merit standing, those USMA cadets with the highest

potential and performance as an undergraduate remain in the Army to their 10th year of service at higher rates than cadets exhibiting lower potential and performance. In particular, they remain at higher rates than recruited athletes. In part, this situation is an outgrowth of physical commissioning standards required. Specifically, after graduation, West Point cadets who participate in intercollegiate athletics exhibit higher than normal separation rates from the Army for disability. Intercollegiate athletes are also less likely to meet USMA graduation requirements. Consequently, leavening the Corps by “expanding the football team” would not only lower average cadet academic quality, it would also lower USMA’s graduate yield and reduce average USMA graduate retention in the Army.

We thus return to the one reason for the recent retention challenges. The nub of the problem lies with the fact that high-potential ROTC scholarship officers and USMA graduates have a great deal to offer potential employers, be that employer the Army or a civilian enterprise. In part, the lower retention rates exhibited by 3- and 4-year scholarship program officers can be seen as the outcome of their having entered the Officer Corps via an Army scholarship program. This is due to the eloquent message that such scholarships send to college-shopping high school graduates as well as to potential employers outside the Army. The Army screens young adults for its scholarship programs based upon their demonstrated intellectual, athletic, and leadership prowess. Because these officer candidates embody exceptional potential for service, the Army offers them exceptional scholarship opportunities. The Army would not make such attractive offers if the level of talent embodied in these candidates could be had at a lower cost.

During their tenure as ROTC and West Point cadets, the Army develops these young adults through systems characterized by extensive vetting and culling within academic, athletic, and military programs that include developmental leadership experiences. By providing young adults such scholarships after extensive screening, the Army in effect brands them as exceptional future leaders when compared to other young adults. This brand can then be expected to figure into their career expectations and aspirations as they approach the crucial decision threshold falling at the end of their mandatory service. By hiring these scholarship officers, future employers outside the Army can gain access to prescreened talent in which the Army has made substantial investments, thereby reducing the risk entailed in hiring a new and untried junior manager. For this reason, during the 1990s and early 2000s, firms ranging from International Paper to Nalco Chemical targeted such officers for recruitment into their junior executive programs.

APPENDIX D

FORECASTING – THE CHALLENGE OF UNSTABLE RELATIONSHIPS SUCH AS INPUTS VIS-Á-VIS OUTPUTS

Beyond accounting for the impact of structural changes in forecasting models as described in Appendix A, forecasts must also account for changing relationships between inputs and outputs. Some of these relationships or factors are retention rates, promotion rates, time in grade, increases in officer requirements, and changes in institutional training requirements. In the analysis to follow, we shall aim to estimate officer accessions required to staff the Army structure in 2004 and its enlarged structure in 2009. Specifically, using current officer retention rates and rates typical of the “company man” era, we can quantify the linkage between officer retention and officer accessions. In fact, we find that with retention rates typical of the “company man” era and officer accession levels reached prior to the onset of structure growth approved in 2004, the Army could fully staff all 16,381 major billets authorized in its 2009 manning documents. If one elects to build developmental opportunities into Army structure, rather than taking them out of its hide as an overhead cost, as is the current approach, the Army could fill 82 percent of all major assignments including advanced civil schooling and Intermediate Level Education (ILE).¹ However, in a steady state, using current officer retention rates and 2004 accession levels, the Army could fill only 75 percent of its 16,381 major billets. To fill all of these billets under current retention rates, the Army would need to access 6,400 officers each year.² These added acces-

sions would create added costs in ROTC and OCS. Additionally, as seen in Figure 3, they would further congest junior officers' opportunities for developmental assignments as platoon leaders, company executive officers, and company commanders. Whereas junior officer access to such key developmental opportunities plays into their career satisfaction, such congestion could be expected to further undermine officer retention and create added impetus to increase accessions yet again.³ From this perspective, the linkage between retention, accessions, and officer development is quite apparent.

Beyond the direct cost of increased accessions, low officer retention also raised the Army's personnel overhead costs.⁴ Under retention rates from the company man era, about 17 percent of total man-years comprising the Army's structure of lieutenants, captains, and majors would be consumed by officer training and education outside of units. Under current retention rates, and with accessions set to fill all 16,381 major billets, the overhead account would rise to 23 percent of officer man-years between commissioning and 17 years of service (the period during which officers serve as lieutenants, captains, and majors). Of this six point increase, 89 percent would be accounted for in training additional officers needed to ensure that at least 2,700 captains reach 10 years of service and thus become available to fill Army billets for majors (this calculation assumes current promotion rates in the range of 95 percent).

Since officer retention rates akin to those typical of the company man era could eliminate the need for this expense, this portion of the Army's overhead bill can properly be viewed as a cost rather than an investment,⁵ low officer retention being a "gift" that keeps on giving. We can extend this analysis back

into the Army's accession programs. Assuming the Army intends to provide to its officers institutional training and advanced civil schooling opportunities and is willing to continue to accept an operating strength deviation of 18 percent,⁶ required steady-state accessions to fill 16,381 major billets would be about 4,800 officers under company man era retention rates.

Given current low officer retentions however, the Army is now accessing approximately 6,500 officers per year to achieve a similar level of fill. These additional 1,700 accessions entail hundreds of millions of dollars in recruiting, development, and infrastructure costs. Since company grade officer talent leakage remains high, however, that investment is never recouped in the form of higher productivity (mean performance) by the Officer Corps. Raising continuation rates among low retaining officer segments can redress this problem and reduce future leadership risk.⁷

However, rather than focusing upon retention, a recent Congressional Research Service (CRS) study provides key insights into the sort of Army thinking that continues to afflict analysis of the Army's officer shortages.

During [1991-96] and immediately following [1997-99] the post-Cold War drawdown, the Army under-accessed officers in an effort to meet congressionally mandated strength levels. To sustain a total Army end strength of 482,000, the accession target should have been approximately 4,300 new officers a year, according to Army analysts and accessions modeling. Instead the Army accessed between 3,605 and 4,218 during this period.⁸

Deriving from what is missing rather than from what is stated, insights to be gained from the foregoing come in two parts. First, the foregoing statement omits any mention of officer retention and thereby leaves one to view accessions as the key policy lever. We contend, however, that the Army must target retention as a key policy lever in order to reduce accession and development costs as well as to open new pathways for screening, vetting, and culling officer talent. We have demonstrated that had the Army retained junior officers at rates typical of the company man era, it could have staffed its officer ranks in the early 2000s. Over time, given the Army's laissez-faire approach to officer retention and 1990s accession levels, officer retention rates ultimately fell below those required to fill the Army's requirements for majors and senior captains.

Second, figures provided to the CRS by the Army address only accessions for Army Competitive Category officers (ACC). While it is convenient to employ data as it dumps from Army databases, it is more informative to group data according to underlying relationships. Thus, rather than viewing officer retention through the lens of categories in which officers compete for promotion, we should look to incentives, culture, and procurement programs to identify useful groupings. Fewer than 5 percent of ACC officers enter the Army via lateral entry.⁹ For ACC branches and other branches characterized by low rates of lateral entry, attention to officer retention becomes paramount because of shortages up the rank structure. Beyond ACC branches, the Army accesses large numbers of officers into branches in which officers separately compete for promotion. These include chaplains, lawyers, doctors, dentists, nurses, veterinarians, medical specialists, and Medical

Service Corps officers (MSC).¹⁰ Unique amongst these branches, the MSC embodies substantial troop leading responsibilities and very low levels of lateral entry. MSC officers lead medical platoons and command medical companies within combat brigades. These officers can also rise to command larger formations in direct support of combat operations. Moreover, the Army assigns approximately 240 (5 percent) of its new lieutenants each year to the MSC from West Point, ROTC, and OCS. Therefore, we propose that, where officers are substantially involved in troop leading and thus substantive reliance on lateral entry is not acceptable, the Army must assiduously ride herd on officer retention. As officer branches and Army missions evolve, opportunities may arise to increase Army reliance on lateral entry. However, for the present, officer retention must be the subject of continuing focus by the Army in managing the troop leading MSC and ACC branches unless suitable lateral entry candidates can be found in the civil sector at an acceptable cost.¹¹

ENDNOTES - APPENDIX D

1. Officer force structure does not include billets for officer education and development outside of units. Instead, the Army accepts an operating strength deviation between billets in its force structure and personnel to staff these billets. This deviation includes trainees, transients, holdees, and separatees (TTHS). This approach implicitly classifies the time Soldiers spend in schools and away from operational units as an overhead cost. Unless the Army intends to send civilians and untrained personnel into its combat formations it should account for the time invested in developing Soldiers at each stage of their career. This time bears a clear relationship to the Army's force structure. For example, assuming all officers will attend CGSC soon after becoming a major, this developmental experience represents an investment of

2,200 man-years of major time each year. To avoid shortchanging field units, the Army should account for these man-years in its force structure, creating a requirement for 18,581 majors rather than the 16,381 now reflected in manning documents. Alternatively, the Army could reduce major billets in its operating units by 2,200.

2. If the Army added developmental assignments in advanced civil schooling and ILE to its structure, it would need to access approximately 7,700 officers each year given current retention rates.

3. Peter Cappelli, *Talent on Demand*, Boston, MA: Harvard Business Press, 2008, p. 185.

4. The overhead account is formally known as the individuals account or Transients, Holdees, and Students account. Under current Army practices, billets for students are not accounted for in Army structure. As such, any situation which yields increased numbers of permanent officer relocations between installations (transients) or increases the amount of time officers spend as students increases the deviation between unit operating strength and unit authorizations, producing adverse consequences for unit status as reflected in readiness reports.

5. We estimate this cost to be about 2,100 man-years of lieutenant and 900 man-years of captain structure.

6. HQDA briefing, "Active Army Manning Program and the Individuals Account," April 2009.

7. The continued flight of senior captains has generated approximately \$100 million of payroll lag annually, which is redirected to other manpower programs. In essence, poor retention causes the Army to divert *investments* in productivity (payroll) to cover *expenses* elsewhere.

8. Charles A. Henning, *Army Officer Shortages: Background and Issues for Congress*, Washington, DC: CRS Report for Congress, July 5, 2006, p. 3.

9. ACC accession branches are Armor, Infantry, Field Artillery, Aviation, Air Defense, Engineers, Chemical, Military Police,

Military Intelligence, Signal Corps, Ordnance, Transportation, Quartermaster, Finance, and Adjutant General.

10. Virtually all Medical Corps, Medical Specialty, Veterinarian, Dental, and Judge Advocate General Corps officers enter the Army via lateral entry. Following their entry into the Army, most of these officers serve in duties focused upon the provision of professional services and not as leaders of troop units.

11. The Army must be cognizant of branches that can be filled by lateral entry.

APPENDIX E

DESIGN AND EXECUTION OF THE OFFICER CAREER SATISFACTION PROGRAM

As opposed to post-commissioning variants subsequently devised by personnel managers, the pre-commissioning Officer Career Satisfaction Program (OCSP) incentives offered to ROTC and West Point cadets in the year prior to their commissioning embody considerable flexibility. Officers selecting this suite of pre-commissioning incentives gain the option to attend a graduate school and program of their choosing, their branch of choice, or their first posting of choice.

While all three incentives have garnered significant participation, the graduate school option is particularly appealing to many cadets as it will allow them to attend school full time between their 6th and 11th years of commissioned service. Many cadets intend to stay on active duty through company command before making the decision to stay or leave. As company command takes most officers out to 8 years of service, it makes this option virtually unfettered to such cadets. During their careers, officers can elect to exercise the graduate school option, they can remain on active duty without attending graduate school, or, at the end of their obligated service, they can leave the Army and allow the graduate school option to lapse. Once they complete their initial service obligation and any additional OCSP obligations, they can begin to “pay-ahead” service obligations associated with graduate school.

Despite its innovative approach to the Army’s officer retention problem, the implementation of the OCSP was met with significant initial resistance and

many implementation challenges. The first objection centered on the idea of offering incentives to cadets who have not done anything for the Army. Those objecting wanted some way of vetting these officers to make sure that they were of suitable quality for retention. In hindsight, this seems somewhat counterintuitive for an Army that now promotes more than 90 percent of its officers through the rank of lieutenant colonel. Moreover, these incentives were offered to cadets who were the future officers that the Army had been willing to invest the most in. To assuage such concerns, the Army stipulated that officers' graduate school options would become operative only when they advanced to the rank of captain, a threshold that 99 percent of officers meet.

The branch and post incentives also raised concerns. Devoted supporters of the ROTC and West Point Order of Merit (OML) system for allocating branches and posts objected that low OML cadets could "buy" their branch or post of choice ahead of higher OML cadets. Since branch and post assignments represent a zero sum game, the ability of cadets with a lower OML ranking to displace those above them was viewed by some as unfair or as undermining the OML system. However, rather than undermining the legacy system or creating inequities, the branch and post incentives program makes willingness to serve a measure of merit in branching and posting, thus providing *taxpayers* a fair return on their officer accessions investment.

Bureaucracies often struggle with implementing market solutions, and this program was no exception. When advertised as a way to increase retention of officers on active duty, few cadets signed up. In contrast, when advertised as a way to improve career satisfaction by expanding professional opportunities

for cadets prior to commissioning, participation was robust across the three incentives.

With each year, the program required significant tuning. After the first year, cadets requested the opportunity to serve 6 additional years to obtain two of the incentives. To keep aviation officers from taking all of the graduate school slots, the decision was made to make the service of the flight school ADSO and the graduate school option ADSO consecutive. Each change in the program required additional marketing efforts. See Figure E.1 below for a summary of the cadet participation rates across years 2006-09.

| Year Group | Branch for Service Cadets | Graduate School for Service Cadets | Post for Service Cadets | Total Participants [Eligible Cadets] (Participation Rate) | Contracted Man-Year Gain | Expected Eight-Year Continuation Rates [w/o Incentives] (with Incentives) |
|--------------|---------------------------|------------------------------------|-------------------------|---|--------------------------|---|
| 2006 | 749 | 271 | 116 | 1,133 [3,338] (34%) | 3,231 | [47%] (60%) |
| 2007 | 878 | 487 | 164 | 1,529 [3,391] (45%) | 4,485 | [47%] (66%) |
| 2008 | 840 | 564 | 191 | 1,450 [3,366] (43%) | 4,673 | [47%] (66%) |
| 2009 | 969 | 560 | 247 | 1,583 [3,547] (45%) | 5,208 | [47%] (69%) |
| TOTAL | 3,436 | 1,882 | 718 | 5,698 [13,642] (42%) | 17,596 | [47%] (67%) |

Figure E1. Officer Career Satisfaction Program Results.

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