



A Submission on the Defence First Principles Review

Introduction

We offered a submission to the White Paper Review Team. In that paper we looked at two issues related to Defence operational capability. This is a companion piece. It offers views formed in our work on the management of Defence. We focus on a few generic issues regarding organisation, business management and culture.

As with the White Paper submission, we pondered the wisdom of offering firm opinions as it may well attract criticism. It is a principle of our business that we seek to provide insight and do not resile from offering an opinion, nor shy from debate. To do otherwise is to be somewhat bland as an advisory business.

We are proud to have contributed to Defence outcomes. We hope that this submission further contributes to a better outcome. We offer it for public release and would be delighted to further discuss any of our observations.

John Glenn
MD Kiah Consulting

Behaving more commercially

We would not be alone in observing that the management of Defence is sub-optimal. We do not remark on operational issues but note that Defence capability is severely impacted by performance in the management of acquisition, support and sustainment. There are direct costs of course, but also management distraction, wasted effort, resourcing and the “opportunity cost of delay on operational capability”.

Out of the mouths of babes...

Recently we had a junior research assistant visit one of our teams working in the Department. Asked for first impressions:

“they seem to lack pride in themselves, which is so surprising as the job they do is so important, my friends and I quite look up to them”

It was a confounding and insightful, statement.

The best business model will not deliver the outcomes the Department seeks without developing a culture to match. Current initiatives such as the Pathways to Change program, are focused on improving individual behaviour. We doubt that it will deliver the elements necessary to ensure a high performance organisation.



On being told...

I was the manager of a large business unit inside a multinational. A team assistant, who had always been very committed and enthusiastic, started to take unusual amounts of time off. I made a special trip and organised lunch with her. I wanted to know what was wrong.

It took a while for her to relax, then she suddenly said:

"I am so disappointed in you. We worked together to produce a strategy and a plan. We all committed, we know it will deliver. You know my boss isn't up to it and you haven't done anything about it!"

My role as a leader became very clear. It was my job to make sure she had the tools and the environment in which to be successful.

John Glenn
MD Kiah Consulting

We preface our comments by remarking that it is most unusual to find someone not seeking to do the best job they can, though it is not uncommon to find people in jobs for which they are ill-suited, without the authority, tools or support to allow them to deliver. This in turn leads to disenchantment, frustration and lack of commitment. Those attitudes do not suggest an easy environment in which to achieve high performance outcomes.

Defence is large and complex, but there are many organisations larger with similar complexities. It is not unmanageable.

There is a repeating recommendation by external reviews and commentators for the organisation to "behave more commercially". It is rarely accompanied by advice on what this actually means. Implementation of that mantra often appears to be the inappropriate adoption of consulting offerings without adaptation for the environment, and adversarial contracting.

Assisting Government organisations to behave more commercially is, in essence, our service offering. The overriding public interest, fairness and disclosure obligations, use of public monies, and political issues make such a simple

statement very complex.

We believe there are some hallmarks of good commercial behaviour that could improve Defence outcomes.

Management Information

A foundation of successful commercial practice is measurement of performance, progress and outcomes. Project delivery, asset management, supply chain operations, change programs, sales and so on operate with hard, well captured measures. Attempts to carve out issues or allow exceptions are rebuffed by management.

We have formed a view that the Department lacks management information. IT systems are focussed on finance and budget management. Except where activity is under the control of a contractor, there is little attribution to activity. There is resistance to system change and the managers of delivery are fundamentally handicapped – even if they have the insight into what they need to know.

Project and sustainment plans do not have articulated spend profiles, sustainment cannot allocate costs against assets or activity. Trend analysis is consequently weak. It is difficult to know where the costs lie, where to focus attention and what is missing. Performance against plans can't be accurately measured, digression cannot be identified and remedial action cannot be initiated until the consequences are obvious and unavoidable.



A word on KPI dashboards and traffic lights. These are a prolific reporting tool throughout Defence. Our view is that they are a poor management technique often poorly implemented and serve to insidiously mask actual performance. The staff's target is to achieve green and the data and measurement adapted to allow that to happen. The tendency is to set the thresh-holds at what is achievable and the definitions too often allow favourable interpretation. We have yet to meet a Board that accepts the Finance Managers or Sales Executives report as "green- all is OK". Astute Boards and Executives demand the data, the definitions and the trends.

A solution does not need detailed analysis of business processes and a lifetime of analysis. Perfection isn't required, simply something better with a pathway to improvement. Finance managers manage funds not the business. Defence needs the foundation blocks of management data in order to manage the business.

The Organisation

Debate about "the diarchy" is unproductive. Many companies operate with complex senior arrangements. Similarly the discussion about DMO being brought into the organisation or remaining partially separate is of little value. The organisational structure is somewhat irrelevant, it will never be perfect and it is not the root cause of the problems facing Defence management.

Matrix management, similarly, is blamed for many of the ills. No complex organisation can afford silos with duplicated and independent resources. It is a myth, even on military operations, that commanders own all of the assets. Matrix organisations, however need structures to generate cooperative behaviours.

In industry this is linked to performance of individuals and organisations. One manager typically has complex performance obligations (and rewards) linked to another Manager's outcomes. If Manager B is failing then Manager A, totally in their own self-interest, steps in to assist or drive a positive outcome.

Government organisations, not solely Defence, do not have this structure. The commercial Matrix Model has been adopted without the balancing performance model. Such an individual performance model would be difficult to implement but we have had significant success with the adoption of internal Service Level Agreements (SLAs) as an organisational surrogate. These are not soft, behavioural agreements often discovered, but hard contract-like document with detailed plans, clear mutual obligations and explicit outcomes. Avoidance of responsibility is more difficult.

We observe that Department supply chains, for example, are largely composed of loosely connected activity. Individuals in charge of those activities have an allegiance to their vertical organisational imperatives. Those issues might include cost or budget pressures, project schedule success, staffing and other organisational priorities. Those imperatives may be counter to the supply chain outcome. SLAs offer the opportunity to unequivocally identify a single owner for successful integration and delivery of complex

Information

"We have sixteen ERP systems, 300+ corporate applications across 120 countries resulting from our mergers, acquisitions and devolved business. I cannot see what I need to run the business. The new CIO only has two tasks: get me a single view of my information and take \$1bn out of my IT costs. I have given him two years to do it"

Attributed to Mark Hurd CEO HP at an Executive Briefing in 2007



processes and supply chains, along with the mutual obligations and commitment from the contributing organisations.

Establishment of SLAs is challenging as they tend to highlight the weaknesses that exist: reporting isn't available, insufficient funds and resources, lack of detailed plans and poor execution. They attack the organisational "Maginot Lines". Clearly articulating requirements and then highlighting weaknesses and gaps delivers management a clear choice: either accept or address the limitations.

Procurement

Defence spends, much in DMO and much elsewhere. Our business is in assisting organisations, usually government, make better, sustainable, commercial deals. We have examined the typical processes and find them to be a product of history. A typical tendering processes – write a specification, ask industry, evaluate, down select, negotiate and close – does not engage well with industry, support innovation or allow the best deal to be negotiated. Their process is suitable for transactional procurement but less so for complex solutions. We offer two observations:

- a. If a company could offer a fully compliant response to an RFT at a competitive price, it would. Typically Government negotiations seek to change the response to look like the RFT. It would be more useful to examine why the offer is different and adapt both the RFT and the solution to improve. Deal creation starts at the Acquisition Strategy phase, creating a process for better negotiation and deal making – there are better approaches. .
- b. Why is a detailed specification necessary for a MOTS/COTS procurement? A survey of what product is available and a selection to industry participants who have the potential to create the best commercial and technical deal would be faster and cheaper – and ensure the solution remains COTS/MOTS.

Defence support arrangements are largely contracted. DMO seeks to be more involved in the project management, DSRG seeks to be less involved relying on self-assessing contractor performance. Both models appear wanting under certain circumstances. Our view is that, other than for transactional procurement, the Department needs to be wise and astute – not just commercially but as a business manager focused on the business outcome.

Strategy

Good strategy has three elements. The first is to know when it is successful: a clearly articulated goal, or set of goals, that are achievable and measurable. Secondly a guiding set of principles within which the goals are to be achieved. This allows for independent activity, a freedom of implementation. Finally a set of coherent and coordinated plans and projects that implement the threads that together deliver the strategy.

Good strategy is largely absent. Leadership is consumed by what is going on rather than where the organisation is going. It serves to make the leadership extraordinarily busy, being driven by the business rather than driving it. It has the consequence of gravitating activity and decisions upwards.

We also observe that external reviews are largely poorly implemented. It is often the weakness of the Report, delivering a list of disconnected recommendations outside of a strategic framework.



Implementation becomes focussed on closing out recommendations rather than delivering the desired effect.

Good strategy allows for independent but coordinated activity – with the leadership driving for effect rather than monitoring activity.

Dampening the Political Influence

The political influence is pervasive. It rarely contributes to an improved outcome for the Department, focussed on party political rather than departmental outcomes. The effort and focus on responding to Senate Hearings, satisfying political imperatives and Ministerial scrutiny are, is an unhelpful and destructive distraction.

Defence is not a policy organisation. It operates long term programs and has a delivery imperative. It survives all Governments and Ministers and short term politics. This is not to argue that political oversight isn't warranted, simply that the organisation would benefit from a buffer that dampens the impact of politics.

An answer might be a *"Board of Directors"*, of largely independent balanced composition, with commercial backgrounds. This would encourage the principles of good corporate governance: strategy, performance, compliance and risk. It would provide a much needed outside input to the Department, provide a commercial balance and experience beyond the reach of the typically organically developed leadership. A Board would test non-commercial behaviours and military intuition. Typically Boards do not accept activity without outcome, and a wise membership would see traditional and indolent thinking challenged, tightening critical thinking and assisting complex decision making. It would be useful construct for each of the major Programs, including the Services. Operational matters would likely be beyond their remit but the administration and management of the Department would clearly fall within their purview.

At the highest level it would dampen political influence over Defence management without necessarily imposing itself on those issues, such as major investment programs, that are clearly the purview of Government. Such an approach would require bi-partisan agreement, but then leadership and a willingness to remedy the Department structure rather than fight over it would be a positive step in stabilising both culture and performance.

Conclusion

This paper addresses a number of issues related to the management of Defence, observed during our work and based on our experiences of delivering better practices inside government. In essence we do not see the organisational structure as an issue in improving Defence management performance as much as we see the delivery of better business tools and practices.

We have seen multiple reviews enacted, some have been practical others theoretical. There has been varied success but we do not readily observe a significant change in Defence outcomes. Something significant should change if this review is to be successful.

We have additional observations and there is more depth and direct evidence to support what is offered in this paper. There is not the space, and nor would it necessarily be appropriate, to publish those detailed observations. We would be delighted to discuss them if the review team thought it useful.