

## Reviews and contestability

### New directions for Defence

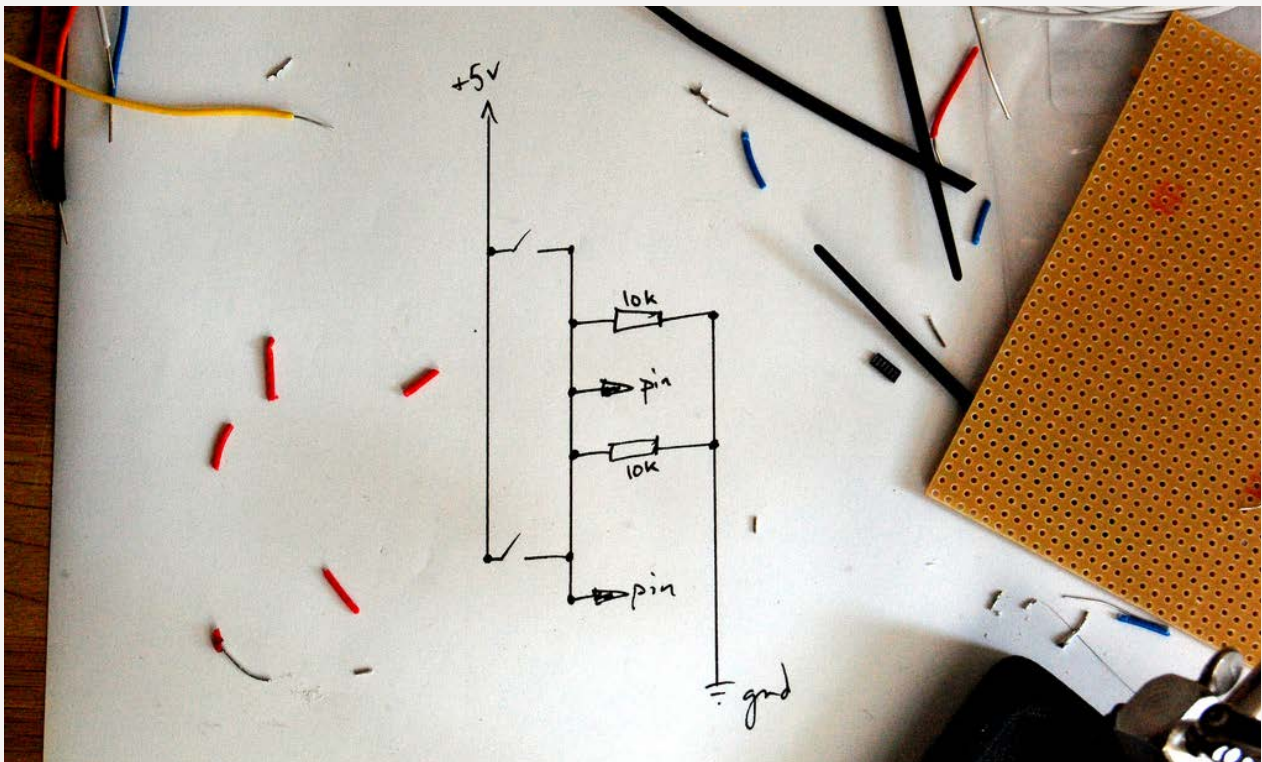
90

ASPI  
AUSTRALIAN  
STRATEGIC  
POLICY  
INSTITUTE

Ross Babbage, Allan Behm, Michael Clifford, Andrew Davies, Graeme Dobell, Jan K Gleiman, Paddy Gourley, Peter Jennings, John O'Callaghan and Mark Thomson

### Introduction

The First Principles Review of Defence is arguably the most significant review of the defence establishment since the 1973 re-organisation led by Sir Arthur Tange. David Peever's team recommended a radical streamlining of decision-making in the Defence Department cutting senior management roles, slashing the number of committees, and abolishing the Defence Materiel Organisation. This *Strategic Insights* brings together a series of contributions to ASPI's blog *The Strategist* written by ten experts with long experience and broad knowledge of Australia's defence bureaucracy. They include former senior defence bureaucrats and military officers as well as ASPI's own team of analysts led by Peter Jennings, Andrew Davies and Mark Thomson. They bring a wealth of different perspectives and point to significant challenges ahead for Defence if the reforms proposed by the First Principles Review are to succeed.



Wiring diagram image courtesy Flickr user Joe Flinthom.

## First principles review: one more round of external oversight

Mark Thomson, 22 August 2014

On 5 August, eleven months after coming to office, the government finally announced its long-promised [First Principles Review of Defence](#). Although the review's terms of reference have not been formally released, the minister effectively outlined them in a [recent speech](#) saying that the review would make recommendations to:

- ensure that the Department of Defence's business structures support the ADF's principal tasks, as determined by the 2015 Defence White Paper, and other whole of government responsibilities out to 2030
- ensure a commercially astute, focused and accountable materiel acquisition and sustainment capability
- improve the efficiency and effectiveness of Defence
- guide the implementation of recommendations from the Commission of Audit not otherwise covered above, and
- ensure the ongoing delivery and reporting of agreed recommendations.

It's probably not wise to read too much into the points above. For example, it's hardly likely that the Review will uncritically accept the recommendations of the [National Commission of Audit \(or let's hope not\)](#). Nevertheless, the government's goals are clear: make Defence efficient and effective, reform the [Defence Materiel Organisation](#), and ensure that any recommendations are carried out.

The review will be headed by [David Peever](#), ex-managing director of mining powerhouse [Rio Tinto Australia](#) (and newly appointed Cricket Australia Deputy Chairman). Assisting him will be ex-chief of army [Peter Leahy](#), BAE Systems executive Jim McDowell, ex-defence minister [Robert Hill](#) and ex-finance minister [Lindsay Tanner](#).

In the weeks ahead, I will post on many of the issues that fall within the terms of reference (along with a few that don't). With a major review underway, it would be good to see a public discussion about how best to structure and manage the multi-billion dollar Defence enterprise. In the remainder of this post, however, I want to reflect on the practice of having external reviews of Defence and provide some background.

As the following timeline shows, successive governments have brought in outsiders to assist in the quest to create a more efficient and effective Department of Defence.

In 1989, [Kim Beazley](#) tasked ex-ASIO head [Alan Wrigley](#) to review civil support to the defence force. The result was the [Commercial Support Program](#) (CSP), which saw thousands of uniformed and civilian positions outsourced from Defence through the 1990s.

In 1996, [Ian McLachlan](#) initiated the [Defence Efficiency Review](#) (DER) chaired by CSIRO head [Sir Malcolm McIntosh](#). The result was the [Defence Efficiency Program](#) (DRP) which accelerated the outsourcing of jobs, rationalised the defence estate, and established the current 'shared services' business model within Defence. The goal was to generate \$1 billion dollars a year in savings.

In 2007, [Brendan Nelson](#) launched the Defence Management Review in the wake of the [failed repatriation of Pte Jacob Kovco](#) from Iraq. Headed by ex-state government bureaucrat and businesswoman [Elizabeth Proust](#), the Review led to some [additional deputy-secretary positions](#) but not much more.

In 2008, [Joel Fitzgibbon](#) hired management consultant [George Pappas](#) to undertake the [Defence Budget Audit](#) (DBA). The result was the [Strategic Reform Program](#) (SRP), which made widespread but largely incremental reforms to Defence from 2009 to 2012 in an attempt to generate more than \$20 billion in savings over a decade.

In 2011, [Stephen Smith](#) commissioned a [raft of 'cultural reviews'](#) following the [Skype scandal](#) at the Australian Defence Force Academy, all but one of which was headed by an external party. In the same year, Smith also commissioned a [Review of the Defence Accountability Framework](#) headed by 'ethicist, theologian and strategic advisor' [Rufus Black](#).

Why has government after government felt it necessary to use external people to recommend changes to Defence? It's not that the organisation [lacks high-paid talent](#); on the contrary, the past decade has seen strong growth in civilian and military executive positions. More importantly, Defence often impresses; it routinely executes complex military operations at short notice, and is capable of formulating innovative policies such as the recently announced [enhanced workforce model](#). So why doesn't the government rely upon its principal advisors—the Secretary and Chief of the Defence Force—to sort things out.

To start with, there's inherent value in seeking outside perspectives. The specialised nature of the work means that many people in Defence—especially in the military—have limited experience of the world beyond. External reviews bring external perspectives unavailable from within the organisation.

But to my mind the real advantage of an outside review is that it brings a degree of objectivity impossible for those engaged in the internecine politics of Defence. Everyone, by position or past, has a vested interest in protecting their part of the organisation. More generally, when it comes time to trim the accumulated fat from the body bureaucratic, there's no point handing the scalpel to the patient. Let's hope the newly appointed review team has a steady hand.

## Defence and the diarchy

Mark Thomson, 1 October 2014

If the [First Principles Review](#) of Defence goes back to first principles, it'll have to examine the [diarchy](#) wherein Defence is jointly headed by the Secretary and CDF. That's likely to occur given that one Review panel member—retired Army chief Peter Leahy—is on the record arguing that the Minister should '[ask himself why Defence is the only department or agency in the country run by a diarchy](#)'.

In a speech in 2000, then departmental secretary Allan Hawke said that the diarchy was '[about bringing together the responsibilities and complementary abilities of public servants and military officials](#)'. In terms of responsibilities this is undoubtedly true, but only in a circular sense because legislation has been drafted consistent with a diarchy. The fact that the Australian Federal Police (AFP) is headed by a [uniformed commissioner](#) shows that there's no underlying legal impediment to putting the CDF in sole charge.

What about complementary abilities? Is Defence really so large and complex that it requires two leaders with different backgrounds to manage the enterprise effectively? Of course not; the largest of corporations and even entire countries get by with a single head. Where specialist advice is needed, specialists can provide it. Whatever expertise a departmental secretary has could easily be relegated to a subordinate reporting to the CDF—as effectively occurs in the AFP.

So why have a diarchy? Although such an arrangement is [almost unheard of in the business world](#), Australia's defence diarchy isn't unique; the United Kingdom for one has a similar arrangement. Other countries, such as Canada and New Zealand, maintain civilian defence departments in parallel with their defence forces. The common and essential element is that the government has dual sources of advice on military affairs. In its own way, the United States achieves the same thing within its system.

The involvement of civilian officials in defence matters is an essential part of the [elected government maintaining effective control of the military](#). The risk is not of insubordination; the ADF's obedience to the government of the day is beyond reproach—as [tends to be the case wherever the rule of law prevails](#). Rather, civilian involvement is needed to ensure a level of objectivity in defence administration that can't realistically be expected from the military.

The Army, Navy and Air Force, and the ADF as a whole, are institutions with strongly ingrained identities. That's as it should be; the fighting coherence of our forces is as dependent on their distinct institutional characteristics as it is on their equipment. But with ingrained identities come ingrained aspirations that can put institutional desires above the needs of Australia's defence. In a [classic RAND study from the 1980s](#), Carl Builder captured the idiosyncratic ways that the US Army, Navy and Air Force each approach the problem of force planning—all largely divorced from strategy. The three Australian military services are little different today.

Moreover, the senior ADF leadership have dual responsibilities: upward to the minister, and downward to its members and to the institution(s). What service chief doesn't argue for the best equipment, best facilities and best conditions of service for their members? I don't expect them to do otherwise, but neither do I want an inefficient and gold-plated defence force. As in any other area of government activity, spending should be disciplined by the cold, dispassionate balancing of costs and benefits.

For exactly the same reasons that the Australian Medical Association wouldn't be given control of health administration, or teachers control over education administration, neither should the military be the government's sole source of advice about itself. The diarchy (or something like it) is needed to temper the institutional introspection of the military in favour of the objective interests of Australia's defence and the taxpayer.

How can that best be done? The pros and cons of having a diarchy, as opposed to having a separate defence department and defence force, have been discussed by [Derek Quigley](#) (ex-NZ MINDEF) and [Neil James](#) (ADA Executive Director). However, the differences between the two options are ultimately of practicality rather than principle. For what it's worth, [I'm firmly in favour retaining the diarchy](#). When it comes to civilian involvement in military matters, the closer and more integrated the better.

While civilian bureaucratic involvement in Defence is desirable, its present implementation remains imperfect. Today's plans for the ADF are little more than the sum total of single-service wish-lists, and defence efficiency remains a distant hope. The diarchy may be necessary but it's manifestly insufficient. Otherwise why would the government have turned—yet again—to external advisors to tell them how to fix Defence?

## To shake or axe the Defense diarchy

Graeme Dobell, 9 February 2015

The federal government is to consider recommendations for the biggest changes to the top of the Defence Department in 40 years. The biggest one is to kill off the Defence diarchy—the joint rule by the Secretary of Defence and the Chief of the Australian Defence Force.

The revolution in how Defence should think and run is the product of the [First Principles Review](#), conducted by a former Liberal Defence Minister, Robert Hill, a Labor Finance Minister, Lindsay Tanner, a former chief of Army, Peter Leahy, a former Australian head of BAE systems, Jim McDowell, and chaired by David Peever, previously managing director of Rio Tinto.

The Review's on track to go to the National Security Committee of Cabinet by April. The First Principles players want to get in early to have as much impact as possible on the Defence White Paper landscape.

The smoke signals about the Review from the hills behind Russell are sending messages like (puff) 'extensive', (puff) 'transformative', (puff) 'dramatic,' and (puff, puff, puff) 're-shape Defence unlike anything else since Arthur Tange'.

It was Tange in the mid-70s who [crunched five departments into one and merged Army, Navy and Air Force](#) into the entity that's the Australian Defence Force. The First Principles Review aims to reinterpret [the Tange Testament](#).

Given the eternal war between Defence and Finance (much less Labor and Liberal), putting Hill and Tanner to work rates as inspired 'Team Australia'-thinking. Stir in one of the smartest Army chiefs of recent times. And just to open the door wide, tell 'em to look at First Principles. That's close to political *carte blanche*, [whatever the terms of reference](#).

Certainly, the smoke signals say Hill and Tanner had no doubt about their right to gambol all over the place. The Liberal wet from South Australia and the hard man from the Melbourne Left found much in common as they revisited former battles, fiascos and frustrations inflicted by Defence. Still, the Hill-Tanner bipartisan stamp will be useful if the National Security Committee decides to swing the axe. The reference to the old Liberal usage of wets and dries leads to a weak joke: the diarchy has become the Canberra equivalent of the hoary jest about the weather—everybody grumbles about it but nobody does anything about it.

The list of grumblers is formidable. Not least—in public service heft and Liberal Party grunt—is the judgment of the former head of the Prime Minister’s Department and John Howard warrior, [Max Moore-Wilton](#), who laments that no politician’s been strong enough to attack the two-headed leadership: ‘I’m no fan of the diarchy. It has diffused decision-making to a series of joint-committee type structures. It’s strange for a man who was as strong in personality as Tange to produce a structure like the diarchy.’

The Review riffs loudly on a familiar theme—the problems of accountability and responsibility. Or, more directly, fuzzy accountability and indirect responsibility. The report offers some sharp examples. While not using the language, this is the critique immortalised by Allan Hawke [back in 2000](#), when he decried ‘a culture of learned helplessness among some Defence senior managers—both military and civilian. Their perspective is one of disempowerment.’

The First Principles Review calls in evidence [a host of earlier reports](#) on what ails Defence—including Proust (2007), [Mortimer](#) (2008), and [Black](#) (2011). The Proust management review catches the flavour with its reference to the diarchy as ‘the most unusual part of the Defence model’, with two-headed leadership causing a diffusion of commitment, compliance and consistency in reaching ‘leadership visions and goals throughout the organisation’.

You don’t have to rely on smoke signals to consider what a dramatic remaking of the Tange legacy looks like. The ex-military member of the Review, Peter Leahy, has offered a sharp version of what an axe job looks like. Indeed, [the prescription he offered last March](#) as director of Canberra University’s National Security Institute, might be exactly why he was chosen for First Principles duty.

Start with Leahy’s description of the problem of aligning accountability, responsibility and authority:

Defence has become infamous for its bureaucracy, throng of committees and matrix management methods. That results in delayed decisions, a lack of transparency and lines of responsibility and accountability diffused to the point of obscurity...What Defence needs now, more than ever, are realistic and achievable goals and people directly tasked and held accountable for their achievement.

His solution? Kill the diarchy as too complicated and unwieldy and give the top job to the military, in a model akin to the Australian Federal Police’s:

This is warranted, as the core role of the Department of Defence is to deliver the fighting power needed to help protect and shape key national interests and, in extremis, fight and win the nation’s battles.

If axing’s too big a call, reshape the diarchy with a firmer demarcation of responsibilities, along the lines recommended by Proust. And, Leahy argues, give the Minister a stronger instrument to run Defence:

Whatever...model is chosen, it should involve re-establishing a statutory defence board, chaired by the minister to manage and be responsible for our national defence efforts. Governance by a statutory board would empower the government to align strategy, capability and budgeting, and assign and monitor accountability and responsibility. It would put the minister in real charge of his department and give him the means to control it. The board should comprise the minister, junior ministers, CDF as the chief operating officer (with ultimate day-to-day responsibility), secretary, three service chiefs, chief financial officer, head of the DMO and one or two representatives from general Australian industry.

The political storm blowing through Canberra might actually help the argument for a return to first principles. A big policy bang has much to offer a government desperately seeking its mojo and an experienced politician keen to assert himself in his new ministerial job at Defence.

## First Principles Review: ideas at ten paces

Andrew Davies, 1 April 2015

There's a lot in the [First Principles Review](#) (FPR) of Defence that was released today. We'll have more to say about it over the next week or two, but here's a first look. While there's a lot of meat in terms of organisational reforms in the headquarters, my focus naturally fell to the capability development and project management aspects of the review. There are some big changes there—some with a 'back to the future' feel, but also some new ideas.

In particular, I was especially interested in what the Review had to say about contestability, a subject dear to my heart. As I [wrote a few years ago](#), I don't think the Services are well equipped to produce capability proposals that take into account constrained resources, industry capacity and technological maturity. That's why we ended up with a Defence Capability Plan that bore [little resemblance to fiscal reality](#).

That's not to say that the Services have no role to play in capability development—they're remarkably good at their core business of providing military capability and because of that they need to be involved in the capability development process. But their institutional drivers are such that they'll tend to shoot high where requirements are concerned, sometimes to the detriment of deliverability and often with high opportunity cost to other ADF capabilities. That's at the core of my previous arguments that Capability Development Group [shouldn't be in military hands](#), and that the contestability mechanisms should be organisationally separate.

The FPR team were evidently convinced of that as well. The Review has recommended the abolition of the Capability Development Group (CDG), with its functions to be transferred to other areas of the Department. Critically, the Services will be responsible for identifying capability requirements, but not for the costing or contestability functions. While CDG had a military head and an internal costing division, those roles will now fall to the civilian Deputy Secretary for Policy and Intelligence and the Chief Financial Officer respectively.

To those of you who came in late this probably looks like a bold new development. For anyone who's been around a few years, this looks more than a little like the old Force Development and Analysis (FDA) division, which answered to the former Deputy Secretary for Strategy and Intelligence.

Dusting off that approach isn't a bad thing, though there'll be no shortage of people lining up to say that it is. There's no doubt that there was a lot of tension between the military and civilian capability developers in the past. The relationship between FDA and the Services was pretty dire in its final days in the second half of the 90s, and FDA was unofficially dubbed the Forces of Darkness and Anarchy (or Annihilation or Acrimony, depending who you spoke to).

There were good reasons and bad reasons for the acrimony. Tension in the system was good in the sense of it signifying that FDA was doing its job in contesting the often dearly-held views of the Services—exactly what it was set up to do. FDA was the product of the Tange reforms that produced the Department of Defence as we know and love it today. Tange deliberately designed what he dubbed 'creative tension' into the capability development process. When strongly held views that reflect a robust Service culture are second guessed by an 'outgroup', hard feelings are inevitably the result.

But some of the ill-will between the groups was unnecessary and avoidable. Contestability sometimes seemed to be more for its own sake than because it was really adding value to capability deliberations. And FDA didn't always give professional military opinions enough weight. Then we have to add to that the inevitable communication problems in large organisations and the bureaucratic overheads imposed on both sides by the process-heavy framework they had to operate in. The result was often two sides getting to the committee table without sufficient respect for each other's position. In fact, one of the problems was that FDA sometimes seemed determined to take a position, which I don't think was necessary or helpful in most cases.

Next week I'll follow up this first look with some thoughts on how these problems might be minimised in future. But we shouldn't expect everything to be rainbows and unicorns under the new old process. If the contestability mechanism is working, someone will be unhappy. But if it's done right, the outcomes should be an improvement on recent history.

## A first look at the First Principles Review

Andrew Davies, 1 Apr 2015

By my count, the title page for the first chapter of the new [First Principles Review \(FPR\)](#) of the Department of Defence lists 48 previous reviews dating back to the Tange Review of 1973. You have to wonder if another one is going to succeed where all of the previous ones came up short.

If the FPR doesn't work, it won't be for lack of ambition. It's a pretty significant shaking of the tree, and some of the structural changes are far reaching. Probably the most significant change, and certainly the most noticeable from the outside, is that the DMO will cease to be a semi-autonomous organisation and will be subsumed into the Defence central structure.

It's effectively the end of the DMO as we know it. The rationale is that DMO provides services that are part of an end-to-end capability definition, acquisition and sustainment process, which all becomes part of the Capability Acquisition and Sustainment group under the Deputy Secretary for Policy and Intelligence. There's some sense to that change, but there are dangers as well.

For a start, the DMO doesn't just go and buy stuff. It also has a regulatory role, and acts to protect the Commonwealth's interests in acquisition processes. As [Mark Thomson once wrote](#), it's not necessarily in Defence's interest to downgrade those functions. Second, that's a very big workload for the new DepSec position, and it'll be quite a juggling act.

Those changes will require a number of senior positions to be downgraded, and there'll be staffing reductions at other levels as well. In fact, there'll be quite a few senior staff members seeking new opportunities. Seven of the current 16 Deputy Secretary positions will be abolished, along with a number of equivalent military positions, including the Head of Capability Development Group. I wrote about changes to responsibility for capability development [in my previous post](#).

Changes go beyond the org chart, and the responsibilities of some of the continuing positions will be significantly altered. On the uniformed side of the house, the Chiefs of the three individual services will have a reduced role in the senior decision-making framework. They'll no longer sit on the Defence Committee, which will now be pared down to just six people. In terms of decision-making, that'll certainly make the room less crowded, with the group being about a third of the current size.

On the other hand, the responsibilities of the Chiefs for sustainment of their forces are said to be enhanced under this review. Already being charged with the responsibility to 'raise, train and sustain' force elements for government in their role as Capability Managers, it's not entirely clear what the Review means in terms of change. And there's still a mismatch between responsibilities and resources—the Chiefs might be responsible for sustainment, but the sustainment resources appear to sit with the DepSec P&I.

Similarly, the Chiefs will retain carriage of the development of capability requirements, but the civilian side of the house will hold the contestability card. All in all, it's hard to see the Chiefs being thrilled by these developments.

At the top of the uniformed ranks there are some welcome developments. As I [wrote on \*The Strategist\* earlier](#), the ADF needed a Capability Manager for joint capabilities—those things that don't naturally sit with any of the single Service Chiefs—and the Review has made that recommendation. There's also a streamlining of the powers of the Chief of the Defence Forces vis-à-vis the Service Chiefs. No longer will a CDF Directive require three single service Directives to implement.

All in all, the FPR is a serious shakeup of the Defence Department. Some of the elements aren't novel, and echo previous arrangements, and some are new ideas. But all of them will live or die on the quality of implementation, and that's what we'll have to keep an eye on over the next couple of years.

## First Principles, Last Post

Allan Behm, 2 April 2015

For Defence Minister Kevin Andrews, David Peever's is the review to end all reviews. According to the Minister, *The First Principles Review* delivers a corporate structure that will enable the defence organisation to deliver on our defence needs for this century. Good luck with that!

Nonetheless, the Review is a substantial piece of work that realigns Defence with its core business: the conduct of warfare and the delivery of decisive lethality. In reconnecting Defence with its mission, the review—like most of its predecessors—doesn't actually say what that mission is.

But it does set out an organisational structure and an associated approach to organisational reform that places the emphasis squarely on capability outcomes rather than process. In this the government, and the nation, is well served.

The review team was as notable for the breadth of its political and industry experience as it was for the narrowness of its direct defence exposure (only Peter Leahy brought in-depth knowledge of the business of defence) and the absence of applied public sector policy and administrative skills.

Women were conspicuously absent. That's a real pity, since the blokey culture of Defence, with its preference for competitive as distinct from collaborative operating models, is at least as serious an organisational defect as are its isolation from the mainstream public service and its poor through-life skills development and rejuvenation.

The review highlights five critical organisational imperatives.

First, there's a clear emphasis on decision-making as the core function of the Defence leadership. To that end, it both simplifies and streamlines decision-making processes by cutting the number of three-star (equivalent) positions that currently crowd around the decision centres.

Second, it rebalances accountability and responsibility by cutting the number of committees in the so-called 'accountability framework' and by reducing the number of gatekeepers. But it achieves this rebalance by broadening the span of control of the Deputy Secretary (Policy and Intelligence) and the VCDF to the point, particularly for the VCDF, that the job may well become unmanageable.

Third, it places the proper emphasis on internal alignment—a problem that has frustrated CDFs and secretaries for the past two decades.

The review also acknowledges the importance of behavioural change driving cultural change—an issue on which gender considerations have a direct impact. It would have been useful for the review to have given some consideration to that fact.

And finally, the review touches on, if only implicitly, the fundamental need for trust between the Defence Minister and the Defence organisation. Lack of trust has been the most pernicious and perverse impediment to both organisational and Ministerial performance for much of the past twenty years.

The revolving door through which secretaries have come and gone since at least 1999 has had as much to do with the absence of trust as it has with the incompetence of Ministers or the alleged inadequacies of the secretaries. As the review notes, leadership at the senior levels must be constant and enduring.

While, in my view, there's been a fairly consistent approach to leadership on the part of successive CDFs, the ever-changing procession of secretaries has generated a civilian organisation that lacks capacity, cohesion and consistency.

Its snappy 'One Defence' sobriquet notwithstanding, the review baulked at any serious consideration of that most sacred of Australian defence cows: the diarchy. Most defence organisations get on quite well without a divided leadership. While the diarchy



doesn't seem to do any harm—mainly because secretaries and CDFs strive to make it work—the time must surely come when more serious consideration is given to its contemporary utility.

The review also continues the institutional decline of the leadership roles of the chiefs of service. While their repositioning as 'capability managers' in the 1997 Defence Efficiency Review was a sound development at the time, the fact is that their authority and credibility within the Defence organisation has continued to erode as 'contestability' is enhanced. More than anyone else, the chiefs are the custodians of the ADF's fighting spirit, the key to its success in war.

And it's also clear that the review skirted around that most dangerous of all defence 'F' words: FDA (Force Development and Analysis). The most serious defect of the 1997 Defence Efficiency Review was the abolition of a function that was as essential as it was loathed. It's noteworthy that many senior ADF officers responsible for capability development since 1997 have lamented the fact that the baby was thrown out with the bathwater.

While both the restyled Deputy Secretary (Policy and Intelligence) and the re-engineered VCDF will need strong force analysis skills to exercise their new 'red card' powers, the review failed to give in-depth consideration to that most critical of all evaluative responsibilities.

The Review's implementation plan is both ambitious and optimistic. Anyone with experience of the earlier Strategic Reform Program will appreciate just how difficult it is to reorient an organisation as large and lacking coherence as Defence. The inertia that generates organisational resistance is exacerbated by both the complexity of the task and the difficulty of remotivating a staff that already shows clear signs of change fatigue.

Notwithstanding the Minister's enthusiasm for a review that precludes further reviews, the fact remains that there are three underlying tensions in the business of Defence that will never be resolved, and that demand constant attention.

First, the strategic environment is in constant churn. Second, aligning resources with the mission is always fraught. As John Glenn remarked, 'while I hurtled through space, one thought kept crossing my mind—every part of this rocket was supplied by the lowest bidder'. The Minister's indication of a return to a defence budget at two percent of GDP is some recognition of that conundrum. And third is the tension between effectiveness and efficiency.

No country is ever going to want to send its children to war with capabilities the effectiveness of which has been compromised by the efficiency of their delivery cost.

## Contestability—once more into the breach

Andrew Davies, 8 April 2015

Last week I [described the 'new' contestability mechanisms](#) designed into the [First Principles Review](#) revamp of the Defence capability process. I observed that the new contestability mechanism closely resembles the old Force Development and Analysis Division. I also predicted that the spectre of FDA rising from the grave would cause some angst, and I wasn't disappointed.

Jim Molan's [documented list of grievances against FDA](#) is instructive, and accurately depicts the main points of friction. He wrote that FDA had:

- an assumption that civilian intellect would always triumph over military experience
- a belief that air and maritime tactics were so simple that anyone could understand them and land tactics so bizarre that they were not even worth addressing
- an inability to understand that strategy is based on sound tactics and sound tactics is based on ideas, people, equipment and training
- the belief that the end product of the department is the written word to the Minister rather than usable military capability

- a childlike fascination for simplistic military history leading to a belief that there are simple answers to complex problems
- and finally, a cavalier attitude to the creation of effective military capability based on the fact that to many members of FDA, it was all just a clever bureaucratic game.

Long-time readers of *The Strategist* will know that Jim and I don't always see eye-to-eye. ([Here](#), [here](#), [here](#) and [here](#), for starters.) But I'm going to break with tradition and agree with Jim that many of those critiques have a basis in fact, though I'd take exception to the 'bureaucratic game' remark. I think that FDA did sometimes get into the business of trying to second guess the military in their professional space, and didn't do a very good job of it. By doing so they created ill-will and added little value.

But we've just spent a decade or so trying it another way, with the military firmly behind the steering wheel of the Capability Development Group and with limited contestability from within. The result was a Defence Capability Plan (DCP) that's completely out of whack—certainly far more so than was the case during the FDA days. The trick, then, is to work out how to make arm's length contestability work. So here's my unsolicited advice to the incoming managers of contestability, based on my experience both inside and outside the Defence Department.

First—and probably foremost—don't make *everything* a contest. Some capability proposals will be eminently sensible. In that case, your brief should note that the proposition is fundamentally solid. If applicable, sound a few warnings about any uncertainties (especially in costings) and let it go. In a sensible world, no one should be expecting a death match at every turn.

Second, be as quantitative as you can. Getting into an argument with the Army about infantry tactics is a losing proposition. The military understands its core business much better than you do and you run the risk of looking amateurish. Instead, your trump card can be facts and figures. (But see the previous point, which could also be summarised as: 'trump card, sparing use thereof'.) You'll have to watch the inputs; they have to be realistic, and your military colleagues will have to agree to them. On that point, be careful that you don't get 'gamed'. It's possible to so constrain the inputs that the calculation is guaranteed to produce the desired answer. [Sensitivity analysis](#) is your friend.

Third, the aim of the game—sorry Jim, that should read 'serious exercise in public policy formulation'—is producing the ADF capability that best matches government guidance, for the lowest cost. The best thing you can do is put on the table a range of options of different capability at different costs. Your job is to clearly explain the strengths and weaknesses of each, including the potential project risks of options that require development work. In most cases it won't be necessary (or desirable) to champion one over the others—let the numbers and qualitative assessments of each speak for themselves. The [80-20 principle](#) is your friend.

Fourth, take a portfolio view of capability development. A highly priced option for one proposed acquisition necessarily has an opportunity cost elsewhere. Make sure your military colleagues see this explicitly, because ignoring that is how the DCP got into its present state. Microsoft Excel is your friend.

Finally, beg, borrow or steal a copy—other than mine—of [Augustine's book on military acquisition](#). Augustine is very much your friend.

## Defence reform – let's address the Minister in the room!

Michael Clifford, 10 April 2015

Let's not speak of them when accountability or lack of it is everywhere else, but where the Westminster system suggests it should be! The [First Principles Review](#) (FPR) is another review which heralds 'transformational change' and points the finger at the Australian Defence Organisation as the primary culprit of the current malaise. For those who have read the public version, much of it seems logical and supported by the evidence presented. But let's try and get the back story clear before we start making judgements about the most recent in a long line of defence reviews.

Firstly governments and ministers are not blameless. Significant defence reform is almost always initiated by governments and implementation plans then approved by the Minister or Cabinet or both. The growth in top-line staff numbers, much trumpeted in the media as proof of uncontrolled inefficiencies, have in all cases been agreed by Government to meet operational needs or been a response to recommendations from Government-initiated reviews.

Nevertheless Defence, like all large organisations, needs a good pruning from time to time. The last one that happened in 1997 was the result of the Defence Efficiency Review (DER) and was carried out just before the commencement of nearly two decades of operational commitments—the greatest fertiliser for organisational expansion known. While Defence lost track of the actual savings achieved, the radical organisational reform recommended by the DER was implemented, continuing the outsourcing and centralisation of corporate business functions already started within Defence.

The Defence experience in the late 90s and lessons from the private sector since suggest that successful reform needs to be top down and implemented quickly. The FPR implementation timetable reflects this urgency and is a pleasant contrast to the passive nature of the [2009 Strategic Reform Program \(SRP\)](#). Retaining the FPR Team to monitor the implementation also seems a sensible step.

Notwithstanding these positive aspects and with the exception of the defence Chief Finance Officer function, it's not clear how the hierarchical/matrix mix which underpins the operation of the Defence organisation is to be managed. There are a number of key processes that run horizontal across the organisation and while the FPR has rightly highlighted the weak enterprise and the need to strengthen the centre, the underpinning rationale is not clear. The Report does little to shed light on this aspect. Logistics is a simple example of an enterprise function which seems to have been broken up and its functions reallocated by the FPR. As a consequence, it may now suffer from the Defence Reform Program disease which caused unintentional cost shifting between different parts of the Department because a hierarchical siloed approach to reform was adopted for functions which are in fact cross-organisational in nature. Rather than improving efficiencies it adds cost and reinforces ineffectiveness.

Contestability is also a much exercised term. On the one hand, it is absolutely critical to the process but I have never been convinced that there is a silver bullet—civilian or military—to achieving success. The importance placed on contestability and the bifurcated organisation to support this notion depicted in the Review suggested a return to the days of staff combat rather than the collaborative approach sought in recent years. One would hope that the best-qualified person is sought to lead either the Policy and Intelligence group or the Capability Acquisition and Sustainment organisation whether in a uniform or a suit—in the hope of building the Minister's 'One Defence'.

The report also recommends removing the Service Chiefs 'statutory appointment' status 'to ensure the absolute clarity of the Chief of Defence Force's command and authority'—a questionable outcome for a problem that I doubt has existed in recent years. Nevertheless, amongst the Service Chiefs' roles is to advocate. Whether they do this successfully or not is a matter of judgment—but it's a serious shortcoming to overlook this key and legitimate role. Ministers should take every opportunity to listen. Homogeneous advice processed through the VCDF may seem 'easy' and politically clean but it will certainly have political consequences for Ministers who do not manage it well.

That brings us back to the Minister.

Successful reform is led and driven by the Minister—not just through media conferences and press releases. Defence is at its best when the Minister of the day regularly engages with the Department and mutual respect can be developed. While they may prefer to, Defence Ministers can't stand back and point fingers—they need to get their hands dirty. Even if this may result occasionally in some political mud sticking. The Department will no doubt do its best to implement the FPR good and bad. But if it is to be a truly landmark review the Minister needs to own it and work with the diarchy and the Defence leadership to implement it. Regardless of how politically risky it may appear, to be 'Creating One Defence' must be the Minister's initiative not something the Department takes ownership of by default. Let's see how this unfolds at the six and nine-month review points.

A final point—sadly it seems industry was again left wondering by the Government’s announcement—with such significant organisational change on the table one would hope the Government doesn’t use the implementation period as a reason to stop or further delay planned acquisition programs placing further economic strain on a vital element of Defence capability.

## First Principles Review: a plan to stick to

Paddy Gourley, 15 April 2015

Below a welter of cliché and bamboozling modern management mumbo jumbo in the First Principles Review of Defence, there lurks much sound advice.

The government has bought it all except for an unconvincing recommendation about the Defence Science and Technology Organisation. It’s a good start.

Peever’s effort stands out from most of the external reviews of Defence over the last 15-odd years, some of which have likely made things worse. It’s not necessary to name names—the culprits are well known.

In significant parts, however, the Peever analysis isn’t as sound as its recommendations. For example, the report wonders why Defence ‘has been unable to reform itself,’ and suggests it may be due to increased operational tempo, budget uncertainty and high turnover of top leaders, including ministers. Those are more excuses than reasons—such things usually stimulate change rather than suppress it.

So if Defence ‘has been unable to reform itself’ in more recent years, why?

First, ‘reform’ has been largely outsourced to dozens of reviews, the dubious recommendations of which have piled on top of one another. This can make for confusing and distracted managers that could be excused for being less concerned about improvement when they can expect that external reviewers will be asked to do their job for them. Peever’s right to ask for a halt on external reviews that overlap with what he covers in his.

Second, too many people at senior levels with narrow divisions of responsibility and the associated additional requirements to consult have coagulated management and restricted possibilities for action.

Third, ‘reform’ needs to be pushed from the leaders at the top—that is, the defence ministers. With one exception: defence ministers since Robert Ray have been undistinguished. Few have taken a strong interest in the proper workings of the organisation. Indeed, a number have succumbed to the insidious notion that they are ‘customers’ of Defence. They aren’t, but when they pretend to be, management stasis is usually just around the corner.

The success of the Peever review will depend largely on the defence ministers getting behind it and not just getting reports from an ‘external Oversight Board’, as recommended by the review and composed of its members. That isn’t a good idea. Beware of reviewers urging their continued engagement. The Minister should be directing the operation and trusting the Secretary and the CDF to get on with it without an ‘Oversight Board’ looking over their shoulders. Peever reckons, rightly, that there are too many layers in Defence, yet he’s recommended the creation of a new one.

Of the many good things in the Peever Review, the following stand out:

- Creating a stronger centre: centrifugal forces in Defence need to be contained; a stronger strategic centre should help to keep a better balance with a devolved management structure, although the Service Chiefs might not be thrilled at the prospect of having their wings clipped further.
- Re-integrating the Defence Materiel Organisation: There’s a reasonable case for a closer connection between capability development and acquisition, and for removing the duplication of finance, legal and personnel functions that came with the DMO.

- Cutting senior staff: the use of deputy secretary positions has been abused throughout the public service. They were designed to help secretaries overcome span of control problems. In Defence, as elsewhere, they've caused the very problem they were intended to overcome. Cutting seven deputies should, as Peever says, 'cascade' down the hierarchy and help to free up the organisation.

For all its virtues, the Review has some oddities:

- It says that a new Defence Committee should be the 'primary decision-making body'. Typically, defence committees are forums for consultation and promoting agreement. However, decisions on many matters that would come before the Defence Committee will need to be taken by responsible individuals in accordance with legislation or the revised diarchy powers that Peever recommends. Those say, for example, that the Secretary should 'set the budget' and the CDF should set requirements for enabling functions' and the 'workforce framework for the ADF'.
- The Review recommends that 'all policy functions' be put into 'one organisational unit'. It's unclear why.
- The Review describes finance as a control function. It might be better regarded as an 'enabler' and treated so organisationally. Peever also commends that the Chief Finance Officer position should always be filled by a qualified accountant. That's ridiculous; it ignores the fact that some of Defence's best CFOs haven't been accountants.

However these are minor quibbles and, in general, Peever's on the right track. It's now up to the Minister(s) to see that Defence sticks to the plan.

## The demise of the Defence Materiel Organisation

Mark Thomson, 17 April 2015

Following the recommendations of the [First Principles Review](#), the government has agreed to move the quasi-independent Defence Materiel Organisation (DMO) back into Defence. In its place will rise the new Capability Acquisition and Sustainment (CAS) group—effectively a pared down version of DMO with its top layer of management removed, but with substantial extra responsibilities in logistics and capability development.

The report's language is interesting; the DMO is to be 'disbanded', which sounds like what you'd do with an outlaw motorcycle gang. That might not be accidental—DMO has made more than a few enemies over the years.

In 2003, the Kinnaird Review of defence procurement then recommended the establishment of a fully independent 'executive agency' to undertake acquisition and sustainment. The goals of the proposed separation from Defence were four-fold:

- a more business-like relationship between DMO and Defence to support 'clearer lines of authority, accountability and rewards for performance'
- 'more flexible remuneration arrangements' to 'attract and retain high quality project managers'
- a separate identity so that DMO could 'rapidly transform its culture and develop the commercial focus it needs'
- give the head of DMO 'sufficient power to be able to recommend against project proposals that do not have adequate risk analysis or are not fully costed'.

Executive agency status was judged to be a step too far and, following push-back from Defence, the DMO was established as a financially-independent 'prescribed agency' in 2005. As a result, DMO was neither fully independent of Defence nor fully part of it. Nonetheless, the four goals were retained.

A decade later, here's what the First Principles Review had to say about DMO:

‘The Defence Materiel Organisation has also been beset with problems that have impacted its ability to achieve the required outcomes. It is clear that the organisation has become top heavy, complex and unnecessarily deep. This significantly contributes to Defence not getting the capability it needs at a reasonable cost or in reasonable time.’

So what went wrong? One way to try to answer the question is to examine the progress towards the four goals from 2003.

There’s no doubt that the creation of DMO catalysed a more business-like relationship between the three Services and DMO. What’s more, DMO has been able to work with the Services and defence industry to drive efficiencies. However, at the same time, tensions emerged between DMO and Defence over finance. The issues are arcane, but because DMO and Defence each have their own financial accounts what’s best for one is not always best for the other.

Progress towards more flexible remuneration has been limited. Although the first Chief Executive Officer was employed on a salary exceeding that of either the Secretary or CDF, things slowed down pretty quickly after that. The problem was not that the *Public Service Act* provided insufficient flexibility, but rather that Defence wasn’t about to let DMO poach its staff and drive up its salaries. Frustrated, DMO did the only thing it could to get around the roadblock; a new layer of deputy secretary managers was born. Even then, the ability to attract the best talent from the private sector remained incomplete.

In terms of building a greater commercial focus, we’re confronted with conflicting data. There’s no denying that DMO has done a lot to professionalise and upskill its workforce. In addition, progress was made in establishing performance-based contracts, especially after the introduction of ‘smart sustainment’ in 2009. On the acquisition side, DMO was certainly a more formidable counterpart when it came to dealing with industry than its predecessors. And notwithstanding claims to the contrary, DMO has been very effective in delivering project within budget (though schedule remains a work in progress). Nonetheless, the First Principles Review believes that much more can be done via a ‘smart buyer’ approach with the private sector playing a greater role in managing both acquisition and sustainment.

Finally, if there was tension between DMO and Defence over financial matters, it was nothing compared with the rancour over whether DMO should provide independent risk assessments to cabinet submissions dealing with major projects. And there were other turf wars, such as the tussle over whether DMO’s financial workforce should be absorbed into Defence ‘shared service’ regime.

Would things have turned out better if DMO had become a fully independent executive agency as recommended by Kinnaird in 2003 and again by the Mortimer Review in 2008? Who’s to know? Greater separation may have prevented the squabbles over finance, staffing and advice to government, but it may have also introduced a different set of problems.

In the end, DMO had few friends. Sooner or later, something was going to be done to reduce its power and independence. We can only hope that the pendulum has not swung too far back.

No doubt champagne corks are popping in the executive suites of defence industry as they look forward to dealing with a weakened contractual counterparty. But it must be a bittersweet victory for the folks over at Defence who will now have to take responsibility for the things that used to be blamed on DMO. Sometimes you’ve got to be careful what you wish for.

## Contesting contestability

Jan K Gleiman, 20 April 2015

Andrew Davies’ three First Principles Review (FPR) posts on contestability ([here](#), [here](#), and [here](#)) make interesting reading for anyone who has been on both sides of capability arguments. While I agree with most of what Andrew wrote, there are two assumptions of his I would like to contest.

The first is the assumption that only non-military issues are the subject of contestability (such as cost and schedule). In many cases uncontested ‘professional opinion’ is the root of the evil, even when the mechanics of capability projects are well

executed. The 'Service Position' often becomes synonymous with the professional military opinion, but in reality, it's no more than the opinion that happened to prevail in the intra-tribal (read: service) debate. It's sometimes based on individual or group prejudices and seniority. Once the service chief has formed an opinion, the organisation swings into uncontested decision-based evidence-making rather than evidence-based decision-making.

The second assumption is that the government's own guidance is a suitable foundation for contesting force structure wishes. In practice, however, it's all too easy to link a favourite capability to strategic policy by means of a reverse-engineered concept of operations or employment. All the armed services do this and each is free to fight a different war to the other two. It would not be difficult to fill an entire page with examples of the inter-service disconnections. Air Force puts little priority on sustained air defence of surface forces at the distances at which they expect to operate. It has little real expeditionary capability, unless operating from a pre-established base in friendly territory counts as expeditionary. Navy puts little priority on supplying fuel to forces ashore, but they could argue that neither of the other Services has much ability to receive serious quantities of it anyway. Army is getting steadily heavier with little regard for whether the other two services will be able to support its increased logistic demands and even less regard for its suitability for amphibious operations from the helicopter-centric LHDs. Perhaps contestability could usefully be extended downstream from strategic guidance to the operational concepts stage.

As Andrew Davies and others [have pointed out](#), the Force Development and Analysis (FDA) office once served this contestability function, but was eliminated in 1997. So, can a new FDA-like entity challenge professional military opinion and try to impose some contextual discipline on concepts of operations? This is, after all, exactly what the FPR recommends. There is good reason to believe that it will fail, even if the new office under Deputy Secretary Defence Policy is given an allocation of suitably experienced military professionals. Ultimately any organisation comprising active service personnel is susceptible to pressure from the Services. The service owns their people, rates their performance and manages their promotions. Contributing to the defeat of the argument for a favoured capability or specific procurement is hardly likely to be career-enhancing. To a lesser extent, any organisation internal to Defence is susceptible to pressure to toe the corporate line—civilian or uniformed.

There is no easy solution, but an external body, including former Defence civilians—such as Andrew—and former military personnel would seem to be the most viable option. Arrangements for access to information would require careful consideration of course, but that isn't insurmountable. There are various potential places for it to reside, even ASPI.

It would also strengthen many proposals by testing them and providing a measure of priority and proportionality relative to other capabilities competing for the finite resources available.

The report notes that Defence has been adept at 'gaming' the system and a purely internal contestability process is an open invitation to do exactly that. While an independent contestability body is a step beyond the recommendations, without it, the FPR could ultimately turn out to be just 'another review'.

## Defence reviews: nothing Gnu here

Peter Jennings, 20 April 2015

If the venerable British naturalist David Attenborough was to make a television series entitled *The life cycle of the Australian defence review*, he would say that reviews are to Defence what the [Gnu or Wildebeest](#) is to the African veldt. These animals are not in danger of extinction; they move in herds along predictable courses; they're none too bright but can kick hard. At certain times of the year they span the horizon, the earth trembling as they pass.

Close observation of the Australian defence review shows it has an eight-stage life cycle. Each review is special in its own way, but evolution establishes herd behaviour—having seen one Gnu you pretty much know what the next Gnu will be like.

Reviews are conceived largely in two ways; either by Oppositions annoyed at not being in charge or by governments facing unhappy crises. Examples of the first method include the First Principles Review, an election promise of the then-opposition

before being elected in 2013. Labor in opposition before 2007 made a similar commitment which ultimately became the Pappas review. Oppositions can't do much other than plan what they will do in government. Reviews are easy to announce, sound big and decisive and don't need to be actioned until after an election.

In government reviews are often a way to deal with a crisis. Recall the sad case of Private Jake Kovco who shot himself in Baghdad 2006. The body of another unfortunate individual was mistakenly repatriated to Australia and Defence Minister Brendan Nelson made some public comments about the circumstances of Kovco's death based on inaccurate advice. The civilian part of Defence had nothing to do with any of this but a furious minister then launched the [Proust review](#) into 'organisational efficiency and effectiveness.' Crises beget reviews, but the offspring don't have to look like the parents.

In the review gestation period, terms of reference are written, external teams assemble and start to interact with Defence as they develop their thinking. I recall one group telling a politely non-committal Defence Committee how they would be shaken to their very core, such were the savings and efficiencies to be proposed. However, after the near-continuous use of organisational reviews—36 of them from [Tange in 1973](#) to [Peever in 2015](#)—it's difficult to come up with measures that haven't been tried or considered before. Incrementalism is often the result. Smart reviewers engage in a detailed conversation with Defence and will adapt their recommendations after testing their value with experienced officials. As a general rule, the less interactive the review process the less implementable its recommendations will be. Even clever reviews done in isolation don't create the support needed to be delivered.

Stage three of the life cycle is the review's birth. Although White Papers are a different breed of cat—the magnificent lions of the policy veldt—it's hard to go past the 2009 White Paper's launch on the deck of a warship, Defence leaders assembled behind the Minister and [83 press releases](#) proclaiming it to be the whitest of all White Papers. The media's instant judgement can be cruel, for example the recent RAND review of shipbuilding took a hit because it didn't include submarines. That's a little unfair because it's a different industry in key ways. It points to the need for governments to try to shape expectations for what reviews can deliver. A review's launch is also often the last time it will receive much publicity as the challenge then becomes implementation by insiders.

In the first years of a review's life, a lucky group of officials gets to design an implementation plan, the wider Defence Organisation is introduced to their new 'forever friend' and the Department gets to grips with making it happen. A reporting system will be developed for ministers. Here, reality meets recommendations. It can emerge, for example, that some recommendations may be well meaning but cannot be made to work—external review teams can't be expected to understand everything about how the Defence machine ticks. The first practical departures from implementing recommendations to the letter emerge. New bits of bespoke design are gerry-built to cover gaps. Savings may be booked but only time will show if they'll actually be delivered. None of this is necessarily bad; it's just what happens when you apply broad-brush fixes to real-world problems.

In maturity the best outcome is when a review becomes normal Defence business. Quick implementation of simple recommendations makes it look as though change is underway. Sensible changes will generate support in the workplace and benefits flow to policy makers and implementers alike. In a year or two entrenched opponents of review recommendations will either have moved or been won over. The review team's regular reporting to ministers will largely be comprised of green traffic lights for recommendations 'implemented' or 'underway.' Hopefully there will be few amber or red lights pointing to problem areas, where the most difficult and consequential review recommendations usually reside.

Of course this describes situations where recommendations are accepted and easily implemented. The reality is often a much harder slog. So we come to the end of the first episode of *The life cycle of the Australian defence review*. In episode two we'll see how reviews age and sadly die. And we'll ask if there's a life beyond for reviews that have slipped their earthly bonds.



## Defence Reviews: no Gnus is good news

Peter Jennings, 21 April 2015

Previously on the *Life cycle of the Australian defence review* we explored the life pattern of this robust herd animal from conception to gestation, birth, infant years and the review's emergence into full maturity. This time we have to contemplate how reviews age and die. Just as for Gnus in Africa, life is brutal and short on the policy veldt. Many reviews get trampled underfoot by newer processes. Only a few reviews—like Sir Arthur Tange's *Australian Defence Reorganisation* of 1973 and the *Defence Reform Program of 1997*—survive long enough to mostly be implemented.

Why do some reviews thrive while others fail? After writing his own review Sir Arthur Tange spent the second half of his almost *decade-long time* as Secretary implementing his own work. He had intellectual firepower, grit and tenure working for him. Paul Dibb's *Review of Defence Capabilities* benefited from Kim Beazley's tenure as Minister to keep pushing for implementation. The Defence Reform Program (DRP) outlived a number of Liberal ministers but Prime Minister John Howard kept the process on track. In each case these reviews got clear air to be implemented without other reviews chewing their hamstrings. All three reviews intelligently proposed big reform, got powerful political backing and had time to bed down.

But this isn't the fate of your average review. Stage six in the life cycle is ageing and predation. By the time review implementation enters its second and third year, entropy slows the momentum for change. It may be that there's entrenched resistance to making difficult changes—the *Strategic Reform Program*, for example, found it inordinately hard to apply shared services for many back office functions across the Defence tribes. Some review recommendations turn out not to be worth implementing, or in other cases there are political barriers that make implementation near impossible. A number of reviews of the Defence estate, for example, failed because of backbench resistance to selling bases. Reforms of defence procurement have struggled to streamline Cabinet processes for decision-making on equipment. A recommendation needs to be politically achievable as well as look credible on paper.

Reviews falter when Ministers, officials and implementers move on. When the implementation team leaves, their successors will often puzzle over previous decisions. At that point it becomes easier to adopt a different strategy, and review recommendations can fall by the wayside.

In the seventh stage of the life cycle—death on the veldt—nothing brings down a big review quicker than a change of government. Thus the Proust Review of 2007 was cut down in its prime by a change of Government and the new Minister's implementation of an election commitment to launch what became the Pappas Review. Pappas begat the Strategic Reform Program, which was mortally wounded by the time of the 2013 election. Then, the new Government implemented its own election promise for what became the First Principles Review. While the First Principles Review pleaded for a five-year period free of reviews so that it could have a clear run at implementation, the recommendation is unlikely to work. Like all its predecessors, Mr Peever's review will have to take its chances with elections, changes of ministers and of key Defence staff.

For many lesser reviews success might be measured by either their implementation or eradication. I was closely involved in managing two reviews done by external experts. The first made sensible recommendations to change aspects of how Defence managed equipment export approvals. It was the political response to a very brief media squall about an export matter. The recommendations were implemented, became the new normal and defence exports are better as a result. The second review was an attempt to handle an unhealthy obsession about the numbers of Defence personnel posted overseas. It made a number of reluctant recommendations that would have reduced Australia's capacity to manage some important international relationships. At a time when the pressure is for Defence to do more overseas, it seems that the recommendations have been quietly 'overtaken by events'.

Finally we come to the last stage of the life cycle. This is when the memory of some reviews live on, often unintended, as folk wisdom about what a review 'did' to Defence. Think of this as a version of philosopher Gilbert Ryle's, '*ghost in the machine*'—a term

he coined to criticise a view of mind-body dualism that ‘the body and the mind are ordinarily harnessed together, but after the death of the body the mind may continue to exist and function.’

In Defence the ghost in the machine of the Dibb review is the folk wisdom that it structured the ADF for ‘chasing thugs in thongs’ around northern Australia. Actually a fair reading of the review is that it did nothing of the sort. Another ‘ghost in the machine’ myth is that the Defence Reform Program gutted the Services of logistic support and imperilled Australia’s deployment into East Timor. In fact the opposite is true; the DRP jolted Defence further down the path of being a jointly-enabled force, and necessarily [broke a few rice bowls](#) in the process.

And so we say farewell to the life cycle of the Australian defence review, a persistent and much abused creature of the policy veldt. What lessons should we learn? First, Oppositions in particular shouldn’t promise too many reviews. Given the volatility of Australian politics there’s always a risk that such promises will have to be implemented. Second, knowing what it takes to actually do a serious review, it’s predictable that implementation stages will only gear up as we get towards the last months of our three-year election cycle—a politically risky time. Third, reviews slow down Defence administration. In the 12–18 months it takes to deliver a product the department is in a fallow period where it’s constrained to make changes because, well, a review is about to be delivered. Pause for a second to think about the implications of this: there’s hardly been a time in the last twenty years when Defence hasn’t been subject to a big external review (yet the criticism is that *internal* management is poor!) Finally, with all that said, if a review really is needed the Tange, Dibb and DRP precedents say that it’s best to go big. On the veldt it’s the big, bad Gnus that run the herd. It’s exactly the same in the Defence review business.

## Accounting for accountability

Mark Thomson, 23 April 2015

Confronted with the [First Principles Review’s 70 recommendations](#), it’s easy to lose sight of the forest for the trees. Viewed from arm’s length, the two most important outcomes aren’t actual recommendations but the decisions—one explicit, one implicit—to leave things as they are: to retain the civilian–military diarchy, and to preserve the shared services model for materiel and corporate support.

Those outcomes weren’t pre-ordained. There are some who’d like to see the diarchy done away with and the Chief of the Defence Force (CDF) put in charge—either with or without a parallel civilian-led Defence Department. And there are others who’d like to see the services reabsorb the materiel sustainment and enabling support functions. In each case, the arguments hinge on clarity of accountability and its alignment with authority. A typical rhetorical question would be: How can a service chief, or indeed the CDF, be held to account for delivering military capability if they don’t control the resources needed for the task?

Although the First Principles Review’s first principle was ‘clear authorities and accountabilities that align with resources’, the review team members weren’t persuaded—most likely because they recognised the need to balance accountability with other competing factors. For the shared services model, it was the substantial efficiencies available through economies of scale and the central rationing of service levels. For the diarchy, it was avoiding the conflict of interest that’d arise if the military were the government’s sole source of advice about the military. I think the review made the right decision in both cases.

I’ve already made [my views on the diarchy](#) clear, so there’s no need to recount them, but the merits of the shared services model deserve explanation.

There’s no denying that the shared services model separates the service chiefs from the direct control of the resources needed to deliver the outcomes that they’re accountable for. In the most critical area—the sustainment of military platforms and weapons systems—the service chiefs already hold the purse strings and are able to make trade-offs between cost and the level of support they receive. And their ability to do so has been enhanced in recent years through cooperation with industry facilitated by DMO. In terms of garrison and corporate support, the capability managers don’t own the budget, and service levels are largely set centrally. But this is no different from what happens in many parts of the private and public sectors.

The essential point is that the shared services model (even in its current form) doesn't prevent capability managers being held to account for their performance in 'raising, training and sustaining' the forces under their command. With the improved monitoring and performance management promised under the One Defence model, the situation can only get better.

But there are limits to apportioning accountability in a complex organisation like Defence. Consider capability development. The review envisages service chiefs 'having clear authority and accountability as sponsors for the delivery of capability outcomes to time and budget'. This is unrealistic. The acquisition phase of capability development will be executed by the new Capability Acquisition and Sustainment Group as the agent for the service chiefs. It's neither feasible nor practical for service chiefs to monitor and supervise the details of contracting, tender evaluation and project management. Conversely, the Capability Acquisition and Sustainment Group can't control the level of risk that they're directed to bear by the services and central decision-makers via the choice of equipment solutions. Capability development is a department-wide activity in which accountability rests with the diarchy and ultimately the minister.

Over the years, a great deal of attention has been placed on Defence's structure and governance in an effort to 'improve accountability'. *One Defence* continues the heroic quest. But in the final analysis accountability is something that one person imposes on another. And while structures and governance can facilitate or impede accountability, the real problem in Defence has been a systemic unwillingness to manage underperformance.

That unwillingness starts from the top of the organisation. No better example exists than the steady deterioration in the availability of the *Collins*-class submarines during the 2000s—a slow-motion crash which was only arrested by ministerial intervention.

The First Principles Review is alert to the problem; when discussing personnel management it says that 'Defence has a sound performance management tool at its disposal, but is not using it effectively. We view this as a failing of leadership and management.' Their remedy is a 'transparent performance management system...that recognises and rewards high performance and introduces consequences for underperformance and failure to deal with it.'

In my view, it's the single most important recommendation in the entire report.

## The value of contestability (and how to get it back)

Ross Babbage and Andrew Davies , 24 April 2015

**Andrew Davies:** It's been a few weeks since the release of the [First Principles Review](#) into Defence. Yesterday ASPI released its 'review of the Review', and it's now time to think about what comes next—implementation is everything. After my [earlier pieces](#) on contestability, I had an interesting email exchange with Ross Babbage. Ross was with Force Development and Analysis Division (FDA) in its heyday and I was there for the rundown to its extinction. Ross' thoughts are worth sharing with *Strategist* readers. We'll start with his description of FDA in the 80s.

**Ross Babbage:** When I led the Force Development Branch of the FDA from 1984 to 1986 we were staffed by military *and* civilians, all carefully chosen for their analytical expertise. From memory, I had three senior military team leaders (Colonel equivalent) and a couple of very experienced civilians reporting directly to me. Some of the civilians were also ex-ADF and they were all very capable.

It was our job to ask tough questions and to establish whether there were more cost-effective options than were initially proposed by the project sponsors to meet the approved requirement. The final decisions in each case were, of course, taken by the senior Defence committees (all with strong ADF participation) and by the Minister. FDA civilians didn't dictate outcomes on Service proposals. We always worked politely and normally cooperatively; I don't ever recall a shouting match.

We often backed the sponsor proposal and reinforced it with our own analyses. That usually resulted in the proposal sailing through the relevant committees and then being approved promptly by either the Minister or Cabinet.

Sometimes we pressed the sponsor to consider alternative options. In the case of one fleet of non-combat aircraft, we recommended an alternative approach that fully met the specification at about 30% of the cost of the original proposal. With some slight tweaks, Air Force accepted that. I also recall a major naval project where we recommended an alternative that was developed using data and experience from the Royal Navy and Royal Fleet Auxiliary that fully met the spec and cost about 15% of the original. Unfortunately, that wasn't accepted by the RAN, and they ended up paying a high price in misallocated money and personnel.

At the time, Defence had a reputation for developing well-researched proposals. Other departments raised occasional queries, as was their prerogative, but they knew we almost always had the answers because we'd done our homework. We saved Defence from some serious investment errors worth hundreds of millions of dollars.

Recently Defence has paid a huge price in reputation, money and inappropriate capability by *not* having an FDA. The Department contends with second guessing by branches in Finance, Treasury and PM&C that weren't considered necessary in the FDA days. It was well worth having 12-16 highly skilled analytical staff working cooperatively with project sponsors to review the investment program, and doing away with it was dumb. Hence the recommendations of the First Principles Review.

**Andrew:** I'm sure Ross is right about the FDA in the 1980s, especially with the very robust Central Studies Establishment of the time. When I came along in 1994, things were still pretty solid. But the last couple of years, 1996–97, weren't great. The Force Development Branch had filled up with generalists with little experience (though the few old hands around helped) and the capacity for supporting quantitative work was much lower. We staggered on as a Capability Analysis Branch until 1999, but the ability to provide robust contestability was greatly watered down. I fear that rebuilding anything like the FDA of its heyday is going to prove impossible, hence my [recent piece](#) about the need to pick targets carefully. And, while flattering, Ken Gleiman's suggestion that [ASPI might be able to fulfil the role](#) won't work. Internal contestability requires a team embedded in Defence and working as part of the day-to-day processes.

**Ross:** I think it'd be possible to put something highly capable together. However, it couldn't be done by relying solely on internal resources. It would need:

- some of the best serving military and civilian analytical brains, perhaps some contributing part-time;
- bringing in on contract some of the old hands still capable of this work and prepared to help kick-start the initiative;
- engaging some high calibre personnel from the US and UK for the first few years; and,
- a program of fostering and training a new generation in Defence to be skilled in this work and, for some, to make it the backbone of their careers.

We don't need huge numbers of people to do this work. 15 high-quality full-time equivalent personnel could make a good fist of the old force development task. The supporting quantitative analysis task needs a different mix of skills, though I think that the core of this still exists in the Defence Science and Technology Organisation. I don't see why it couldn't be done again. I guess it would need a dose of entrepreneurial spirit that's currently in short supply in Defence. Perhaps that's what the authors of the First Principles Review have in mind.

## The demise of the DMO: an industry view

John O'Callaghan, 24 April 2015

The First Principles Review of Defence called for abolition of the Capability Development Group (CDG) and Defence Materiel Organisation (DMO). The review recommended a new oversight structure for Defence capital equipment procurement and sustainment, but lacked a clear blueprint for how the new arrangements would work. To what extent this will impact on the defence industry is unclear.

Priorities for the new procurement stream must include delivering capability on time and on budget, early and regular industry consultation, application of proven commercial practices and further streamlining. Agility is the key to future procurement success.

There are examples of the current procurement system working effectively. However, many reviews of Defence over the past 20 years have highlighted that this is not always the case. The *Projects of Concern* list affirms this.

The *Projects of Concern* list initially included more than 20 projects which had either been delayed, had proceeded well over budget or a combination of both. A number of the projects were of a complex development type, involving considerable risk, such as Wedgetail, which is now operating successfully in the Middle East. Other projects were poorly executed (eg FFG modernisation). These ships are now operating effectively in RAN service, including along the African coast against pirates. However, the Seasprite debacle confirmed the fraught nature of incorporating advanced technologies into platforms designed in the 1960s.

The list is now down to just a handful, to the credit of both defence industry and the DMO. Remediation of projects on the list has provided valuable lessons for current and future capability acquisition. There's a strong incentive for industry and departmental project office players to stay off the list.

Early and regular consultation with industry on planned capability acquisitions is essential. Various mechanisms have been tried, but not always successfully. An exception was the regular defence industry CEOs roundtable held by the head of the DMO; they've proven to be valuable.

The time to reach contract has long been a bug-bear to defence industry. Defence Capability Plans have foreshadowed the likely timing of the release of Requests for Tenders, with reasonable indications of successive governments' planned introduction of individual capabilities into military service. On occasions, these plans haven't come to fruition, with extensive delays in release of tenders a common phenomenon.

An added industry frustration has been the practice of extensive, unnecessarily time-consuming contract negotiations. Commercial acquisition experiences—the domain of most defence contractors—aren't often duplicated in defence procurement. This shouldn't be the case, as many projects are relatively straight forward. As Peever observes, agility is paramount.

Tender documents are often far too lengthy. As the Chief of Air Force recently drew attention to in relation to Project Air 5428—Pilot Training System, the tender document is more than 3,000 pages long, and is difficult to understand. His Singaporean counterpart had recently advised that a similar tender in his country amounted to less than 50 pages.

Some of the clauses in tender documentation, such as Unlimited Liability, are an anathema to companies. Can anyone applying a common-sense test appreciate the absurdity of asking an SME to accept such a clause? Others, such as improvements to insurance clauses, have been substantially improved in recent years.

For those of us who experience monopoly behaviour at airports, it's the case that defence industry feels that it observes similar traits in dealing with a Defence monopsony. It's hoped that the recommendations of the Peever Review, if fully implemented, will overcome this burden. Defence industry will be watching closely.

## **Probably not the last word on the first principles review**

**Mark Thomson, 22 May 2015**

Reform programs come and go in the Australian Defence establishment. Sometimes they fulfil their intent; sometimes they don't. The extent to which the changes sought by the [First Principles Review](#) occur will depend on the vigor with which its recommendations are implemented. As to the improvements sought (which are more than mere organisational changes), only time will tell whether intended consequences outweigh those that are unintended.

If nothing else, Defence is going to be shaken up and some—but not all—of its managerial overheads are going to be cut. The planned changes will provide the opportunity to improve governance, accountability, corporate planning, management information, performance monitoring, risk management and budget discipline. Of course, we've been promised this before (repeatedly) and yet here we are again. You can lead a horse to water but you can't make it drink.

The merits of many of the substantial changes are far from self-evident—if they were, they would've occurred a long time ago. The best that can be said is that the ideas are new and might be worth a try. In the long run, Defence reform is more an exercise in trial and error than intelligent design. With luck, we keep the things that work and reject those that don't. Sometimes we can't make up our mind. The 'in again–out again' routine with acquisition is one example. Does anyone remember the Department of Supply?

You don't have to be a pessimist to see the risks in some of the changes ahead. Creating a 'stronger strategic centre' in two parts is a bold move. To succeed, the tensions from contestability will have to be held in check to avoid thwarting cooperation between the newly created civilian and military sub-empires. And even if relations remain cordial, it's far from clear why a headquarters divided in two will work better than a single integrated one.

There's no arguing that the new 'One Defence' model is less ambiguous about accountabilities than its predecessor. But accountability isn't an end in itself—it's a means to ensure that the things that need to happen do happen. Nothing's gained by dividing a task into two artificial parts if they're tightly interdependent. For example, it's an illusion to think that a budget can be developed independently of the outcomes sought, and vice versa. Many of the things ostensibly divided between the civilian and military sides of the house are, in fact, opposite sides of the same coin. Reductionism has limits.

Nowhere are the risks greater than when it comes to the new 'end-to-end' approach to capability development. We're told that the new capability and acquisition group will prepare the business cases for first and second-pass approval of projects, yet the people presently performing that role are slated to go back to the Services. Has this been thought through? We'll find out soon enough, with two mega-projects to be decided over the next couple of years; the replacement submarines and the future frigates. It won't help that the top layer of DMO's acquisition expertise is about to be shown the door.

Fortunately, continuity will be the order of the day throughout much of Defence. In fact, many of the recommendations simply reaffirm established practices. For example, the recommendation to 'fast-track' some projects rather than automatically resort to process-heavy competition. Defence has been doing this for years—the Superhornets, C-17, C-27 and Aegis combat system for the AWD are just some examples. Unfortunately, circumventing competition doesn't always end well—the debacle of the lightweight torpedo project had its origin in a truncated process that avoided a formal tender evaluation.

On the positive side, the First Principles Review has avoided the errors of the past by not promising a treasure trove of implausible savings. To the contrary, although some modest personnel reductions are proposed, the review identifies a number of areas where additional investment will be required to build the corporate capacity to operate more effectively—both in terms of human capital and information technology. It's entirely possible that the cost of additional investment will exceed any savings that might arise. That should be taken as a sign of maturity, not failure.

On balance, it's hard to know what to say. Change brings risks and opportunities. It will be up to the senior folks in Defence to make of it what they can. With the largest boost to defence funding since the Menzies era on the horizon, let's hope they succeed.

## Important disclaimer

This publication is designed to provide accurate and authoritative information in relation to the subject matter covered. It is provided with the understanding that the publisher is not engaged in rendering any form of professional or other advice or services. No person should rely on the contents of this publication without first obtaining advice from a qualified professional person.

## About the authors

**Ross Babbage** is Managing Director of Strategy International, Founder of the Kokoda Foundation and a former senior Defence official.

**Allan Behm** is a former head of the Strategy and International Policy divisions in the Department of Defence.

**Michael Clifford** is a senior fellow at ASPI.

**Andrew Davies** is the senior analyst for military capability at ASPI.

**Graeme Dobell** is the ASPI journalism fellow.

**Jan K Gleiman** is an active duty US Army officer and was a visiting fellow at ASPI from the United States Pacific Command.

**Paddy Gourley** is a former senior public servant who spent a decade in the Department of Defence.

**Peter Jennings** is executive director of ASPI.

**John O'Callaghan** is the executive director of the Australian Industry Group Defence Council.

**Mark Thomson** is a senior analyst for defence economics at ASPI.

## About Strategic Insights

Strategic Insights are shorter studies intended to provide expert perspectives on topical policy issues. They reflect the personal views of the author(s), and do not in any way express or reflect the views of the Australian Government or represent the formal position of ASPI on any particular issue.

## ASPI

Tel +61 2 6270 5100

Fax + 61 2 6273 9566

Email [enquiries@aspi.org.au](mailto:enquiries@aspi.org.au)

Web [www.aspi.org.au](http://www.aspi.org.au)

Blog [www.aspistrategist.com.au](http://www.aspistrategist.com.au)



[Facebook.com/ASPI.org](https://www.facebook.com/ASPI.org)



[@ASPI\\_org](https://twitter.com/ASPI_org)

© **The Australian Strategic Policy Institute Limited 2015**

This publication is subject to copyright. Except as permitted under the *Copyright Act 1968*, no part of it may in any form or by any means (electronic, mechanical, microcopying, photocopying, recording or otherwise) be reproduced, stored in a retrieval system or transmitted without prior written permission. Enquiries should be addressed to the publishers.

Notwithstanding the above, Educational Institutions (including Schools, Independent Colleges, Universities, and TAFEs) are granted permission to make copies of copyrighted works strictly for educational purposes without explicit permission from ASPI and free of charge.