



Royal United Services Institute of Western Australia

Newsletter

December 2011 – January 2012

Promoting National Security and Defence

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Editorial

For the convenience of members, this issue contains the complete transcript of planned address by Dr Ian J Watt AO including the portion originally published in the September Newsletter.

Program

The regular program of Luncheons and Lectures begins again in February. Please note the dates in your diaries to avoid disappointment.

7 February – Luncheon 12 for 12:30 – Realising the Defence White Paper - Convened by Colonel Mike Brennan

23 February – Lecture 7:30 for 8:00 – Force Structure Review - MAJGEN Mike Crane

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Editorial

This issue contains the complete address planned by Dr Watt including that portion initially published in the September 2011 Newsletter.

By Dr Ian J Watt AO, Secretary of the Department of Defence

Introduction

I am delighted to share this address you through your newsletter and to acknowledge the close interest and affiliation you have with Defence issues and the Defence organisation. It is also my privilege to acknowledge the significant contribution made by Field Marshal Sir Thomas Blamey to Defence, in this, the 60th year since his death.

Simply put, Blamey significantly changed the way Australia prepared for and participated in war. He may not necessarily have been popular, but he was trusted and obeyed. As a leader, his judgment was respected. While there was much controversy around him, Blamey was a supporter of innovation and a visionary. A lateral thinker, he recognised that not only was there the need to prepare the armed forces for conflict, but there was just as an important need for the maintenance and welfare of the Australian community. He understood that to conduct a war the essential framework of the machinery must already be in place. He looked to the future of this country, knowing that Australia's Defence Force must be an effective and credible deterrent to an enemy. These philosophies have been, and continue to be, fundamental to this country and its future.

Blamey led during a revolutionary period of change in warfare, and his influence cannot be understated. Despite the passing of more than half a century he is still relevant. And many of the issues he faced are still relevant in Australia's Defence organisation today. It is a tribute to him that his memory is commemorated through events such as this, and the various Defence honours and awards in his name.

This evening, I want to discuss Defence—who we are, where we have come from, what is driving us to change, who we want to be and how this transformation will happen.

Who We Are

Defence, when measured by resource allocation, is the major expression of our security policy. As an institution it embodies values and aspirations that have deep roots in our culture and historical experience. The organisation and its capabilities is the culmination of many judgements about our strategic environment, our capacity to secure our defence force, our resource needs and capacity, our sense of the future, and the nature of our war-fighting culture.

While Defence often bears the brunt of many criticisms and the media is never far away to report on our short-comings, or alleged failings, it is important to remember that Defence is an organisation of great integrity. We have an enviable international reputation; a first class Defence Force and intelligence organisation; and an award winning workforce. Defence is

made up of keen, intelligent and dedicated men and women, who are often doing difficult jobs in often challenging environments. This is an incredible feat given the complexities and challenges of our business. Our size alone is barely matched by any other organisation in Australia. While I know you are already familiar with how vast we are, it is worth repeating the statistics as it helps set the scene for the challenges we face:

- in terms of people, there are around 74,000 people in the permanent military and civilian workforce, excluding contractors, and another 22,000 Reserves;
- we own nearly 400 properties of which 72 are classified as significant bases and we own over three million hectares of land and 25,000 buildings. We also lease around 350 properties;
- the Defence organisation consists of three significant bodies: the Department of Defence, the Australian Defence Force and the Defence Materiel Organisation (DMO), incorporating 13 different groups and services; and
- this year's departmental budget is around \$27billion; our payroll represents around \$9.5billion.

With a major counterinsurgency operation in Afghanistan, as well as a host of smaller, less kinetic operations in our region, we are no longer a peacetime organisation and haven't been for over a decade. Furthermore, in recent times Defence has regularly and very ably responded with disaster relief operations around Australia and further abroad.

Additionally, we are undertaking a major capability investment program to implement the 2009 Defence White Paper and build Force 2030, as well as a reform program that is as big as anything attempted in Australia, a program effectively aimed at building a new organisation.

Where We Have Come From

I think that sums up who we are. But we wouldn't be who and where we are now if it wasn't for our history. Like any good historian, you have to know your past before moving forward. I am standing on the shoulders of all those before me who have contributed to the Defence narrative. The story of the Defence organisation is the chronicle of how successive Governments have dealt with the challenge of matching the organisation to strategy and resources. This has culminated in several reviews and decades of reform.

Post Vietnam modernisation saw the integration of five departments to one Defence organisation—the intention, to more efficiently and effectively harness knowledge and expertise, and to strengthen accountability. In the following years, Defence made a shift toward industry and outsourcing, intended to create an organisation that was leaner and more efficient, and improve integration. The focus of Defence later broadened to the global environment and capability as Australia began to realise its place internationally. The Defence Efficiency Review and subsequent Defence Reform Program in the late 1990's targeted Defence's support and financial systems and costs, and the Kinnaird Review also saw the creation of the Defence Materiel Organisation in the early 2000s. It was also at that time that ADF command was consolidated under the Chief of the Defence Force, and Joint Operations Command was established.

A few years ago, my predecessor Nick Warner famously referred to the 'broken backbone' of Defence—his metaphor for a bigger problem: our history of ignoring the enabling, supporting parts of the business until something goes wrong, usually badly wrong. The problems

pointed to longstanding failings in governance and accountability arrangements, a lack of concern to ensure that every dollar is spent where it will have the most impact; and a complacent attitude toward waste and inefficiency—a lack of cost-consciousness. Nick's concern was, and rightly so, that unless the underlying weaknesses of Defence are fixed, over time, Defence's ability to successfully deploy force will continually diminish. It already has had that impact in some areas. This broken backbone is the legacy of neglect—from a misunderstanding of the importance of our enablers, from turf wars, from poor decisions and from bad planning over decades.

Imperative for Change

I am fast approaching two years in the job. From the outset, I have spoken about the need for Defence to adopt a much more cost-consciousness approach—the Australian people and the Government had made this an essential condition for success in Defence and for their support for the organisation. The need for cost reduction also drives the need for cost consciousness. Cost reduction and its enabling partner, cost consciousness, are the drivers of innovation because they challenge us to consider the “why” and the “how”. At a deeper level, it is about better understanding priorities and making better choices. A simple way of looking at it is that every dollar wasted is a wasted opportunity to enhance Defence Force capability. That may not always have been the case, but it is very much part of our new fiscally constrained environment.

These issues were a major driving force behind the 2009 Defence White Paper. *Force 2030* was the first white paper since the year 2000. It was overdue. By 2009, Defence faced a strategic environment that reflected a different and more complicated set of trends from that discussed in 2000. These trends included sharp shifts in the distribution of economic, political and military power, and potential environmental and resource pressures. The Global Financial Crisis, which bit relatively late in White Paper preparation, magnified some of these shifts, making Australia's future strategic environment less certain as a result. The White Paper articulated that Defence capability needed to change and, to meet the requirements of Australia's security, this change must be substantial and continuing. The White Paper, *Force 2030*, is both a vision of Defence as an organisation, as well as a vision of capability for the ADF.

As you are aware, Defence is going through a period of essential change and reform which, over time, will be as profound as any change undertaken in the post Vietnam era. I say essential because, without it, Defence will not be able to adequately perform the functions the Government and the Australian public want it to undertake. The Defence White Paper and more recent global events make it abundantly clear that the world is changing. Relative to Asian Pacific powers, Australia and its traditional partners are becoming relatively smaller. Indeed, the defining feature of this century is the rise of the Asia Pacific, and the relative decline of the late twentieth century powers, Europe and North America. Naturally, developments in our wider region are critical to our security. Economic, political, military and strategic influence is moving to the Asia-Pacific, to our part of the world. This process is well underway—in fact the reality of Asia's power and influence has arrived faster than many expected or were prepared for.

Australia's strategic outlook over the coming decades will continue to be shaped by the changing distribution of economic, military and political power, and by the future role and

weight of the United States in our region. Our alliance with the US continues to be the cornerstone of our national security. It remains an enduring and prominent feature of our strategic and security arrangements. The US has underwritten stability in the Asia Pacific for the past 50 years and will continue to be the most important strategic player in the region for some time to come—both in its own right and through its alliances and security relationships, including with Australia.

As economic, military and political influences shift, it is in both our national and the region's interests that the US remains active and engaged in our region. To do so more efficiently, the US is conducting an ongoing global Force Posture Review, which aims to ensure their basing structure is sufficiently versatile and flexible to a more challenging, contemporary military environment. Australia is collaborating with the US on this Review—we expect it to reinforce closer cooperation with the US, and allow for better multilateral cooperation through deeper engagement with our regional security partners.

Within the Asia-Pacific, China's rise is of obvious importance. As China's economy is growing, so too is its strategic and political influence. Its military capacity and capability is expanding rapidly—China maintains the world's largest standing military. As previously indicated, to help meet potential future security challenges, we are assessing whether the Australian Defence Force is well geographically positioned to meet Australia's current and future needs. To this end, the Defence Minister announced in June this year the Australian Defence Force Posture Review, which aligns with the basing principles set out in the White Paper, which state:

- Defence base locations should be aligned with strategic requirements;
- Defence should consolidate units into fewer, larger and sustainable multi-user bases;
- Defence should aim to locate bases near infrastructure and industry and where possible, Defence should locate bases in 'family friendly' areas which provide better employment opportunities and specialist medical facilities for families; and
- Defence should maintain a disposition that enables Reserve capability.

The Review is being conducted by Defence, and will build on the strategic and capability judgements contained in the Defence White Paper. The Review will address the range of present and emerging global, regional and national security factors, which require careful consideration for the future, including:

- the rising significance of the Asia-Pacific and the Indian Ocean rim and growing military capabilities in our region;
- an increased tempo of military cooperation, training and exercising with the United States and regional countries;
- energy security concerns including offshore resource development in Australia's North- West and Northern approaches, and
- growing demands on Australia to provide humanitarian assistance and relief following natural disasters and other extreme events.

The results of the Review will help provide context for the next scheduled Defence White Paper in the first quarter of 2014.

The Strategic Reform Program

In modernising Defence, we need to consider the increasing change in technology, the

military environment, modern warfare doctrines, issues with our own platforms, budgetary constraints and, perhaps most importantly, the constant changes in the intent, tactics and weaponry of potential adversaries. However, our fiscal realities, combined with the imperatives of *Force 2030*, mean that we need to do more and we need to do so cost effectively.

Our reform efforts are combined with a complex and high operational tempo. We are building for a very different future while concurrently managing significant Defence Force operations. Furthermore, we are working within an uncertain strategic environment and the constraints of a capped budget. A capped budget means that under-achievement of expenditure cannot be automatically rolled over into future years, nor can over-achievement be managed by bringing money forward from future years. Under achievement translates into lost opportunity; over-achievement means that offsets need to be found from within the in-year budget. This carries the risk that important programs might slip or be forgone.

The capped budget raises the bar on the standard of management that Defence must meet. A capped budget also puts a further premium on understanding and managing Defence as a single entity. It requires reform to Defence's processes, our use of resources, and our decision-making. This is the starting point for our thinking about the Strategic Reform Program. The impetus is there, we must become more effective and efficient. And, as Defence achieves efficiencies through cost reductions, we can reinvest these gains in new capability and in remediation and modernisation of major supporting systems.

The Strategic Reform Program provides the means for achieving this. It is, as you can see, a vast undertaking. The reform program consists of 15 work streams, which together comprise about 300 separate projects across Defence. There is no part of Defence that is not affected in some way, most parts fundamentally. Some of the reform streams are now well underway. These include major work on remediating our budget and financial system; improvements to our science and technology organisation (DSTO); changes in strategic planning and capability development; and reforms to help give the DMO a more business-like focus in the market place (the Mortimer stream).

We also have six major cost reduction streams. These are in logistics, ICT, workforce and shared services, non-equipment procurement, reserves and the largest reform stream in financial terms, Smart Sustainment. That stream is a collection of over 100 smaller reform projects being run across products sustained by the DMO. This stream alone will produce \$5.5 million in savings over ten years.

Although very challenging, achieving our planned cost reductions represents the easier part of the next few years. With its conceptual underpinning of becoming a more adaptive and innovative organisation, the SRP, above all, requires cultural change. Without that cultural change, our cost reductions won't be sustainable. Achieving this, and the deep re-thinking about how we do much of our business, will prove harder than the cost reductions. So with our internal focus very much on reform, it is perhaps timely for Defence that this intersects with the wider reform across the APS. Indeed, the challenges facing Defence are not different in kind from those facing the public sector as a whole.

Dealing with the Challenges: Accountability

Defence, of course, is a single entity, but it is made up of a diverse range of organisations

with unique capabilities and cultures; tribes, as I called them earlier. Creating the whole—what I call *One Defence*—is a policy challenge, a design challenge and a culture challenge. We need to create more value from the organisation and its processes, and for this value to directly translate to increased capability. And we need to see Defence embrace, understand and harness its diversity.

Yes, we need to be more cohesive. But we live in a world that challenges our conception of organisational coherence. We need to manage inter-dependence across our own systems, and also across the other systems in which Defence participates. We need to be able to define our accountability and measure our performance in specific terms. We need strategic control on a platform of stable governance and planning. But we also know that reality changes constantly. We need a platform that is able to react and adjust to change. After all, our organisational success is contingent on our agility and capacity to adapt, and how we manage that element of uncertainty and unpredictability.

The core challenge for Defence and, indeed, the wider public administration, is to develop the governance, decision-making and implementation capabilities that enable our diverse organisations to come together to deal with problems beyond the capacity of any single organisation acting alone. And our major problems fall in that category.

Although some accountability and governance-related issues are addressed as part of specific SRP reform streams, accountability also needs to be considered from a whole-of-Defence perspective. We are determined that Defence becomes more transparent and accountable in managing Defence business.

While the SRP is focused on improving the systems, practices and behaviour that support the management and operation of Australia's military capabilities, the Chief of the Defence Force (CDF) and I have also considered accountability within the organisation. Improving accountability was identified in the SRP as one of the three key elements, alongside planning and enhanced productivity.

At the end of 2009, the previous CDF and I commissioned *The Review of the Defence Accountability Framework*, led by Dr Rufus Black and supported by a small team in Defence. The review was finally presented to us in late January 2011, and then presented and discussed with the Minister for Defence in mid-February. Once the recommendations are implemented, there will be major changes to decision-making, performance management, personal accountability and skill sets in key areas of Defence. I expect this to happen shortly. As I noted earlier, the associated cultural changes will not be easy and they certainly won't happen overnight, but we are committed to improving accountability over the long term so we can better serve the Government, the Australian public, and, crucially, our men and women on the front line.

The Black review is the first review to focus solely on accountability as an enabler of performance, rather than in the context of examining other arrangements or processes. Defence simply cannot achieve what it needs to without improving accountability right across the organisation. This applies not just to the SRP, but to all of our core business. Accountability exists to ensure that an organisation is clear about the outcomes it has to achieve, who is to achieve them and what is to be done to get to and fix the root causes of shortfalls when they occur. We want Defence to be a high-accountability organisation

that responds to setbacks not by first looking for individuals to blame (a system or culture of 'who?') but by first looking to understand the underlying root causes of the setback, so they can be fixed quickly (a system of 'why?').

Defence's diffused accountability system and enterprise management arrangement are a legacy of its history and its creation out of five separate departments. Reform to accountability involves strengthening weak enterprise management systems and controls based on the formulation of individual personal and professional accountability.

In my time as Secretary, I have increasingly realised that Defence needs to address accountability across the board. While there are some areas where we do well, such as the ADF's conduct of operations, we often experience failure and low performance across the organisation. Just read the paper the day after an estimates hearing. For instance, decision-making in Defence can be diffused by too many committees and, as such, accountability is confused and there is a lack of clarity of role and performance requirements.

For too long, Defence has not had a single plan or planning process that integrates its major activities and relates them to the outcomes that the organisation is supposed to achieve. This means we're often crisis-driven and management doesn't have the information it needs to make systematic, timely choices between competing organisational needs. Although this *modus operandi* has its roots in the nature of our business, which is frequently reactive, this has the downside of weakening accountability. Further, Defence has not traditionally cascaded its strategic plans and decisions down the organisation so that every organisational component knows what it is accountable for and every individual knows what they're accountable for. Accountability has often been blurred and mixed and this has created gaps and failures. We have therefore developed an annual plan and will ensure that everyone has the right skills and experience to do the job. We have also been inconsistent in holding individuals to account for under-performance.

Defence needs to strengthen personal accountability by better rewarding consistent, strong performance and appropriately sanctioning continued under-performance. This needs to happen even if a person has moved on to a new role—we need to identify the underlying causes of failure and fix them—including holding people responsible at the time to account, and providing appropriate skilling and mentoring. We can all appreciate how difficult this is and it will be one of our biggest challenges.

Some of our previous efforts to improve accountability and governance have failed because they did not focus sufficiently on culture. Culture—one over-arching culture—needs to pervade in every corner of Defence. And implementing the Rufus Black review will change the relationship between individuals and the Defence organisation. Moreover, it will have far-reaching effects on the Defence culture because there are few issues of more fundamental importance to organisational culture than the way in which people perceive and act on their accountability for their work.

The combination of the Government's decision to cap the budget, the SRP and implementing the Accountability Review will bring profound change to Defence—at the whole-of-organisation level through systems and process, and at the individual level through cultural change. Our goal is to make accountability an enabler of high performance. This, in a way, is a snapshot of where Defence is currently at in terms of reform. In a sense, we are

building a new organisation through programs like the SRP and the accountability review. And, through them, we are developing an organisation that can function as a single entity—One Defence—harnessing the capacity of its component parts to achieve outcomes that go beyond the ability of those components. It is easy to see our reforms' complementarily with the Blueprint for APS Reform.

Who We Want to Be

Defence culture has been under close public scrutiny during the past few months. No doubt you are aware that in April this year, the Minister for Defence announced a series of reviews into aspects of Defence and particularly ADF culture. The reviews address a number of areas of concern, including the treatment of women, the use of alcohol and social media, and standards of personal conduct. We have worked closely with the review leads to provide the access they needed to see into the organisation and draw their own conclusions. In our consultations with them, the leads have, without exception, reported that they see much that is admirable about Defence, and a lot of good work being done. But they also tell us that they've been able to identify areas where there's room for improvement, and that's where we need to focus our efforts in the next few months.

Most of the reviews will have reported by the end of August, with the exception of Elizabeth Broderick's review into the treatment of women in the ADF, which will be completed early next year. The challenge for Defence is to analyse the various reports and develop action plans to adjust aspects of our culture where necessary. Change won't be easy, and it won't be quick—changing the culture of an organisation never is. We will need to harmonise our responses with the initiatives unfolding as part of wider Defence reform.

As Defence transforms with SRP, we need to consider how we want to be characterised as an organisation overall. We must ensure we take forward the finest qualities of our culture. However there are elements of the culture that must change in order to improve productivity and performance. Overall, Defence must adopt a more collaborative attitude and approach to our work practices so we operate as one organisation, not fourteen Groups and Services. Our success depends on the sum of all our parts. This is at the heart of my vision for the organisation—for Defence to become a more connected organisation, to become much more coherent and unified, to become *One Defence*.

Transformation

The next challenge is transforming Defence to make this vision a reality. Reform is rarely easy. There are, invariably, critics who wonder if SRP is going to be any different from past Defence reform programs. Will it be only be a matter of time before this program, like others before it, loses momentum and grinds to a halt in the face of intransigence and inertia?

I do not believe that SRP will grind to a halt for several reasons.

1. Defence has learnt valuable lessons from those previous reform programs, including paying close attention to implementation planning, communication and co-ordination.
2. our past reform efforts did not recognise that, in some cases, you need to spend money to save it. This time the Government has provided funding of \$2.4 billion over a decade to support investment in ICT and logistics to help enable key reforms to be implemented.
3. we have developed comprehensive governance arrangements, rigorous performance measures, and identifiable risk and key dependency processes to help assess and evaluate reform scope and outcomes. We have also already allocated cost

- reductions within the Defence budgets over the next ten years.
4. we have the external Defence Strategic Reform Advisory Board, which includes senior private sector representatives, to help advise, guide and keep us honest. The Board has acknowledged the impressive level of planning that has gone into the SRP and that Defence is well-positioned for success.
 5. we are in a very different financial environment. The government has been generous in its funding model and has recognised the importance of long-term resource stability for planning and capability building. But it has also, with the reality of a capped budget, set the standard for management very high.
 6. Finally, all members of the Defence Committee are signed up to SRP. This is pivotal to our success. Engaging staff, and communicating and celebrating success, are also vitally important. But there are broader underlying requirements to achieving a more coherent, unified, fulfilled workforce, and those are for renewed leadership, more inspired recruitment practices, and the active involvement of our managers to improve the retention of talented staff.

Which leads me to the importance of strong leadership. Much of what I have learned about leadership was done so painfully: I had only on-the-job training when I became a leader and manager and, as a result, I am a believer in helping others develop their leadership and management skills. The things I have learned about leadership include:

- the need to anticipate the future,
- the challenges the organisation faces;
- to envisage an organisation that is capable of meeting those challenges and a path to achieving it; and
- leaders must have the capacity to help reinvent the organisation.

A leader must also be able to communicate something much broader to their people; a vision. Leaders must be able to inspire, to encourage, to enhance. They must also encourage their people to talk honestly and openly, without fear of retribution, and they must be ready to respond convincingly and to address concerns. Humility is also important because it allows you to be receptive to opportunities to improve yourself. It helps you think critically about yourself, your ideas and your organisation; and understand your own limitations, to recognise the talents and qualities of others, and be willing to help others. Finally, a team is more than the sum of the individuals in it. A leader must have the ability to multiply the effectiveness of a team by effectively bringing them together and adding his or her own contribution. Despite our problems, I am proud of the Defence team.

Conclusion

Let me conclude by saying that right now Defence stands on the threshold of a real opportunity. These reforms are complex and they touch every corner of the organisation. The impetus for the SRP is to drive cost reductions. But its most fundamental *raison d'être* is to change the way we do business so that we can remain potent, strategically responsive and relevant. Defence will continue to evolve. The future lies in connectedness and interdependency and, fundamentally, on the platform of One Defence. Thank You.

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Program

2012 PROGRAM

FEBRUARY	
7 February	Lunch Discussion – Realising the Defence White Paper – convened by Mike Brennan
23 February	Lecture – MAJGEN Mike Crane - Force Structure Review
MARCH	
13 March	Lunch Discussion – How can the RUSI better contribute to the defence and security debate
22 March	Seminar - The Future of the Defence Industry in Western Australia
APRIL	
3 April	Lunch Discussion – Strength and weaknesses to Australia's contribution to the United Nations
19 April	Lecture – Land Combat Vehicle System - tbc
MAY	
8 May	Lunch Discussion - Defence White Paper 2014
24 May	Blamey Oration – Mr Duncan Lewis, Secretary Department of Defence

**FEBRUARY LECTURE
FORCE STRUCTURE REVIEW 2013
By Major General Mike Crane DSC, AM
Head Force Structure Review**

In the Defence White Paper 2009, the Government directed a five yearly development process for future White Papers, with Defence to prepare, in the years prior to a White Paper, a Force Structure Review

The Minister for Defence has announced that Defence will deliver the next White

Paper in early 2014. In order to meet this timeline, Defence will commence a FSR immediately, aiming to deliver the FSR report in the first quarter of 2013. The FSR will provide costed force structure options for use in developing the White Paper.

MAJGEN Michael Crane DSC, AM as Head Force Structure Review (HFSR). HFSR will report to a Steering Committee comprising Deputy Secretary Strategy (Chair), Vice Chief of the Defence Force and Chief Capability Development Group, and be supported by a small team drawn from across Defence.

The role of the team will be to coordinate Defence and inter-departmental effort to conduct the FSR. Groups and Services will be required to contribute significantly to generate the necessary quality of analysis. Further detail on process and requirements will be promulgated separately by HFSR.

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