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Foreign Affairs, Defence and Trade Committees
Senate Inquiry into DMO Procurement Procedures
Parliament House
CANBERRA ACT 2600

*SUPPLEMENTARY SUBMISSION INTO
THE EFFECTIVENESS OF THE DEFENCE MATERIEL ORGANISATION (DMO)*

The attached submission is supplementary to my primary submission dated 5th March 2011 and my supplementary submission dated 10th August 2011. It has been prompted by the recommendations of the Black Review of the Defence Accountability Framework and the reorganisation of the DMO to come directly under the Minister for Defence.

While much has been made of these changes, the root cause behind the problems that continue to arise within Defence and the DMO have been neither acknowledged nor remedied. As a result, Australia must look forward to a continuation of late, inadequate and failed capability and sustainment projects, with a further erosion of military capabilities.

I wish the Committee a successful outcome to their deliberations.

Kind Regards,

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WILL THE BLACK REVIEW AND THE DMO REORGANISATION IMPROVE MATTERS?

SUMMARY

The Black Review stemmed from a proposal put to the Minister by the Secretary and CDF soon after he took over the Department, that they needed to take more "strategic control" of the Defence organisation, *"as with the demand for better performance from Defence in a tight budgetary environment has increased in the last five years, current accountability arrangements have come under greater stress."* The accountability of the Defence senior leadership group to the Minister and, through him, the Parliament, was excluded from the review - a serious limitation, as this question was left in the air by Tange, and has remained there ever since, festering as a major factor behind the erosion in both management and governance of Defence functions.

Professor Black's review sees accountability being embedded within Defence, from the top down, through the adoption of *"a corporate planning process as the major strategic management process of Defence, supplemented by committees... (along private and some public sector lines) covering the core business disciplines (eg, finance, risk, investment, people management)."*

The Defence enterprise is seen as a *"single entity"*, along the lines of Defence's *"one Defence"* concept, with the Defence Corporate management process proposed aimed at supporting the Secretary (including the DMO) and the Chief Defence Force (CDF) (including the Services). The Black Review will thus impact directly the organisation and processes of the DMO and thus its effectiveness. *"The Corporate Plan will comprehend all outputs and components of the Defence Organisation and provide clear direction, articulated in measurable outcomes."* Within this structure, accountability, both individual and shared, will be fostered by an *"organisational culture of accountability."* No doubt, the new structure with all its new functions and accountabilities will be welded together from the top down with the *"seamless processes"* that Defence has been pursuing, with declining success, since 1988.

The Black Review, has accepted the current Defence administrative (matrix) model of joint delivery structures based upon shared services, extended to embrace the wholesale outsourcing of capability acquisition and sustainment functions. In effect, the Black review simply entrenches the current services delivery model that has characterised Defence over the past two decades or more. Over that period, however, this approach has lead directly to a bloated bureaucracy with a marked lack of awareness of major capability problems, inflexibility, and a lack of responsiveness, all leading to a serious decline in the management of the Services, as well as the acquisition and sustainment of Australia's military capabilities.

This Review, together with the recent reorganisation of the DMO to come directly under the Minister, will only continue this trend, while giving Defence yet another excuse for its lack of performance - its preoccupation with implementing the widespread 'reforms' stemming from this and the many other reviews that have been and are being conducted. Defence will, at best, continue to chase its own tail, until, as in the past, it allows the accepted changes *"to lose the traction required once the immediacy of the issue that has driven the review has disappeared and the dedicated review team has been disbanded."*

The Black Report raises more questions than have been faced and leaves those who, at the

"sharp end", have to do battle as merely line items in Black's inappropriate Defence Corporation.

THE UNANSWERED QUESTIONS

Why a Defence Corporation?

There are very few management structures appropriate to an organisation that is highly technology-reliant and which functions in a manner and in an environment that no commercial organisation faces - where the penalties for failure lead inevitably to loss of life and expensive military capabilities, as well as risk to the national security. The Black Review largely ignores this setting, with the Services relegated to no more than a line item throughout his new corporate structure – the core business disciplines of the Defence Corporation are seen by Black as being “*finance, risk, investment, and people management.*” So, why propose a Defence Corporation which follows private company lines, for a high technology military organisation, and why has the Minister so readily accepted this wholly inappropriate proposal, and all that goes with it? The structure required for the management of a Defence organisation will always be fundamentally different from that needed to manage government service delivery functions, or any private business delivering a commodity product or service.

In delivering services, business adopts processes designed to maximise return on investment, normally measured as profit. However, with Defence and the DMO, profit is not a motive, so what are the motives for adopting business processes? In the absence of any credible, identifiable and measurable objectives (apart from the ubiquitous '*getting value for money*', which has been most elusive). Black's proposal to adopt a corporate business structure is simply incomprehensible.

In profit making businesses, there is need to establish strict targets in time, cost and quality, which if not met may lead to company failure. It follows that there must be clear lines of accountability, and work status must be reviewed continually, especially in terms of functional performance. At the same time, it would make no sense for such businesses to give tasks to those who have not the required skills or competencies, or the resources required to meet corporate plans. However, this environment does not exist in Defence, where targets are likely to be grossly optimistic, be based upon flawed or absent analysis, and be given to personnel who do not have the required skills and competencies. Bad news is not welcome in Defence, so failures are not highlighted, capability, cost and schedule are allowed to drift, and there are no penalties for failure. This environment will continue within the new Defence Corporation and DMO organisation despite the promises embedded in the Black Review.

In particular, it is not feasible to assume that Defence can assume the mantle of a corporate organisation. Private corporations are directed by a Board, are accountable to their shareholders for their performance, and are held accountable for their actions by statutory regulatory authorities. Defence does not operate in such an environment. It has done its utmost to avoid criticism, real or imagined, constructive or not. Its only "*reality*" is the one that it has constructed for itself and defends, and established Parliamentary checks and balances have been unwilling or unable to get to the facts and drive needed change.

Finally, Black's recommendations on reducing the number of committees, while an obvious one, may clear away some of the bureaucratic debris, but it also raises the question why such an ineffectual proliferation of bureaucracy was allowed to develop and persist for so long without the Department or Parliament taking any action. The answer is that the Department fails the acid test an effective organisation – it has to rely upon continuous reviews and inquiries to identify what has

gone wrong, why and where, and how things might be remedied. The organisation is thus blind to its own failings, inflexible, insensitive to the development of even major disasters (such as Navy capabilities), and is wholly unable to identify and correct its own problems.

In short, the Black Review and the DMO reorganisation will not merely perpetuate current Defence/DMO problems, and with it Australia's decaying military capabilities, but have the potential to make the current situation worse. It seems that Australia's management of Defence must fail in some catastrophic way before Government and Parliament become aware of the need for a root and branch review of the Tange reorganisation and the many incremental and so-called '*reforms*' that have followed.

Accountability and Responsibility.

In The Defence Bureaucracy.

As noted by Black, accountability must be entrenched at the top of the organisation, where, much like morale in the Services, it drips down - it does not well up from below. However, Defence does, and will continue to, encounter unique difficulties in trying to entrench accountability from the top to the bottom of Defence's new corporate organisation.

Both the current and the proposed corporate organisations are structured such that problems that were managed and resolved by the Services as a matter of course at the lowest level now fester for want of competent attention until they finally cascade up the line to land in the Minister's in-tray, often under the unwelcome glare of media attention. Because of the risk to political (Government and Ministerial) and bureaucratic sensitivities, these matters are not managed rationally or effectively. The range and depth of such matters are reflected (for example) in the number and span of the items covered in the five Minister's Media Releases, five Transcripts, five Speeches, and four Statements issued over a recent period of a month or so. The Minister details a wide range of '*reforms*' that he assures us will fix all the problems facing Defence and the DMO, but, based upon some 13 previous major reviews and numerous smaller ones into Defence, little if anything meaningful is likely to be achieved, apart from the Department needing more bureaucrats to introduce more tasks, all needing increasingly higher levels of executive oversight.

In their February report to the Minister, the Secretary and CDF promised to make senior Defence Force officials accountable "*to ensure that a very high priority is accorded to media-related matters*".

One measure of the way in which Defence's attempts to manage these matters is the size of its Public Relations arsenal, currently numbering 166 and growing, formed to "*shape journalists' perceptions of issues and manage the story*" - not to identify and fix the problem that caused the unwelcome media attention. Under this approach, ambiguity, misleading information, and disconnects from reality are triggered which spread widely. Accountability simply becomes a risk trade-off, as Government, the Minister and those within the organisation have to be protected. How this behaviour will be managed at the very top of Black's Corporate accountability model is not mentioned in his report.

As an example, when Navy's Amphibious Ship debacle broke, the Secretary and the CDF (the Diarchy) immediately rushed into damage control, issuing a statement that supposedly identified the causal factors behind the very public failure of Navy to provide a single ship from its LSA fleet to aid with the aftermath of Cyclone Yasi. The Diarchy criticised Navy roundly as being wholly responsible. The Minister accepted this "*frank appraisal*" and "*slammed Navy*" publicly. In

fact, there were three primary reasons for the debacle, none of which was within the ability of Navy to influence, let alone correct:

- ⤴ Firstly, Defence's reform policies (all accepted by successive Governments and Parliament since the Whitlam/Tange era) that led to the disbandment of Navy's functional organisation, and with it Navy's Technical Services Branch, with the subsequent de-skilling, downsizing, dispersion and miss-employment of its few remaining engineers, and the loss of its Support Command. Navy was thus totally unable to manage the LPA or any other fleet as it had in the past. Primary accountability for this rests firmly with Government (as well as Parliament), Defence and the DMO.
- ⤴ Secondly, failure of the Secretary to ensure that Navy was properly organised and resourced to do its job, or to detect and correct major DMO LPA acquisition and sustainment failures.
- ⤴ Thirdly, failure of the DMO to discharge its responsibilities for the fleet during the acquisition and sustainment (deeper maintenance) project phases.

Government, Defence and the DMO should have accepted primary accountability for what transpired. That none did raises the question as to why those in Government, Defence, the DMO, or the Services should accept accountability for their actions - dodging accountability may well be seen as part of the system's current function.

Furthermore, that the deterioration of the fleet went unnoticed and uncorrected for almost a decade raises serious questions as to the fundamental competency of the Defence/ DMO organisations to manage military capabilities. In this example, the Minister, the Secretary and the CDF all not only blatantly avoided accountability, but foisted it unfairly upon an innocent party – the Navy, and not for the first time.

Again, the question arises as to how Black's Defence Corporate model will prevent matters such as this arising at the highest level? Just how is his “*organisational culture of accountability*” to be achieved at all levels?

In a Military Service.

Accountability within the Defence bureaucracy (whether the staff be civilian or military) becomes, in most cases, a matter of choice, as accountability forms a sub-set of Ethics. Where accountability is sparse, so will ethics be sparse, and vice-versa. Defence's battle in trying to inject ethical behaviour into its organisation is evidenced by its Handbook “*Ethics Matters in Defence Resource Management*“, as well as in the 49 supporting documents it cites. However, accountability has two faces – accountability for one's own actions (ethical), and accountability for meeting delegated organisational objectives (functional). Within Defence, both elements should exist, but the Defence organisation, as has been discussed, is not culturally favourable for their habitual adoption.

Historically, within a military organisation, which must be totally outcomes (capabilities) focussed, accountability, more commonly referred to as ‘responsibility’, is clear cut and any problems are soon identified and corrected. All training, education, and employment emphasises responsibility both personal (ethical) and functional. The Service ensures that those put into positions of responsibility are qualified, suited to the task, and supervised. The accountability and ethical problems seen within Defence are thus avoided. In the end, a healthy morale and functional (outcomes) effectiveness become the real measure of professional competence within the Military.

There is thus a world of difference between accountability in a government organisation like Defence and a military Service, and it is dangerous to attempt to replace military standards with

those common to civilian bureaucracies. The Military cannot live with bureaucratic standards of conduct and the Bureaucracy is demonstrably highly averse to adopting Military standards of conduct. Attempting to meld the two amounts to the proverbial "*marriage made in hell*".

The Defence Materiel Organisation Function (DMO).

Despite a decade or more, of '*learning lessons*' and '*maturing processes*', central management of military capability acquisition and sustainment using commercial, contract-centric processes has resulted in delayed projects, capability deficiencies, and complete failures that have left gaping holes in Australia's security planning and its military capabilities. Poor decisions and inept management have also left similar gaping holes in the public purse. Over this period, Defence and the DMO have commissioned a raft of inquiries and reviews, generally conducted by or under the control of those who actually presided over the problems under investigation. The net result has only added to overheads by introducing more process and employing higher levels of executive overview. The List of Projects of Concern has lengthened and the decay in Service capabilities has continued.

Moving the DMO function to come under Defence directly will not improve that organisation's performance, but will lead to an even less effective organisation – one that will become even more vulnerable to vested and conflicting political, bureaucratic and commercial pressures. Capability decisions will continue to be unsound as Defence takes decisions on the basis of direct marketing by major capability suppliers, avoiding rigorous military/technical assessments and judgements. The F-111 retirement, Joint Strike Fighter, Air Warfare Destroyer and Super Hornet projects are all good examples of this.

The root cause behind Defence/DMO failures in capability acquisition and sustainment has been emerging clearly from the DMO Major Projects Reports raised over the past three years and reviewed by the Joint Committee Public Accounts and Audit (JCPAA), but ignored by both Defence and Government. Briefly, projects are failing continually for the same elemental reasons, especially:

- Basic operational and technical requirements are incorrect and/or incomplete.
- The technology is not understood, so becomes unmanageable in capability, schedule and cost, especially where system performance and integration tasks are encountered (DMO's "*Terribly Complex Projects*").
- An inability to determine whether the system delivered and accepted actually meets the requirements (Test and Acceptance problems).
- A complete lack of ability to identify, procure, and establish in-service support requirements.

The major reason behind these generic failures is the continued focus upon commercial, contract management processes on projects that demand robust project and systems engineering management systems, driven by people having a sound knowledge of the technology involved. In this, Defence and the DMO have always had the cart before the horse.

In a nutshell, doing more of what has been done without success over the past several decades will not fix the serious problems that are now maturing – especially when those things are being done by people who do not have the management or technological skills and competencies required for the job.

CONCLUSION

Neither the Black Review, in proposing a Defence Corporate organisation (as a means of

achieving accountability), nor the reorganisation of the DMO will achieve any improvement in either the management of the Defence Department or the DMO acquisition and sustainment function, as:

- They are inappropriate structures for the management of a high-technology, functional, military organisation.
- Black has looked merely at an organisation from the top down, along purely theoretical lines. He has not identified, from the bottom up, the core functions that go to providing, sustaining, and evolving military capabilities.
- Defence is no longer a functional organisation, as has been demonstrated clearly over time by its inability, for example, to identify and rectify the protracted erosion of Navy's Supply Ship and Collins Class Submarine fleets over a decade or more.
- Defence and the DMO are not organisations focussed upon military capability outcomes, but remain ineffectual, resource-administrative organisations functioning along common-user, commodity service industry lines.
- It does not align accountability with resource allocation and authority. While Black's recommendations see Charters, Organisational Performance Agreements (at the Service Chief level), Materiel Sustainment Agreements, and Customer Supplier Agreements, as being key elements in enhancing accountability, he fails to realise that none of those involved with these core mechanisms has the required skills and competencies, or the resources. In fact, in an efficient functional organisation, of the type sorely needed by Australia, all of these interfaces would be dispensed with.

In short, the Review's aim to ensure "*that Defence functions as a single, integrated enterprise and that accountability systems function as a force for organisational cohesion*" will be found to be an entirely inappropriate and impossible concept that will cause more harm than good.

Defence needs a root and branch review, from the bottom up, if any improvement is to be achieved. After some 37 years of evolution since Tange, Australia has a grossly incompetent defence organisation, reminiscent of that which Parliament allowed to develop before World War Two. Fortunately, at that time, Parliament mustered enough interest, beyond the eleventh hour, to understand that the centralised Defence Department of the time could not meet the emerging threat and broke the Department down into manageable functions to be performed by the Services where the expertise existed and the drive to excel was acute. Even so, many Australians had to pay the price for the Department's failures between the wars before the tide turned.

Australians should not have to wait for some emergency to threatening national survival to arise before Defence is reorganised along effective lines.

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