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# Modern management practices in the ADO

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*Like most public sector organisations, the Australian Defence Organisation (ADO)<sup>1</sup> has embraced many contemporary management theories over the last 20 years, largely in response to government directives in the 1990s requiring better efficiency and transparency. While many strategic level reforms have been implemented in the ADO, there are frustrations emerging ‘within the ranks’ regarding the utility of management theory, which originates mainly from academic analysis of private sector industries. It is arguable how easily these concepts can be applied to the public sector.<sup>2</sup> This is especially the case in an organisation like the ADO where unique demands are placed on the workforce that can ultimately be tested in war. Some of the less successful aspects of reforms undertaken by the ADO will therefore be discussed in this paper to demonstrate that the applicability of modern management theory must be considered carefully so that changes do not inhibit work practices nor damage the culture and efficacy of the ADO.*

## **The utility of management theory for the ADO**

There is a tendency by many to believe that management theory, being largely derived from the private sector, is automatically applicable to the public sector. Yet public sector organisations like the ADO work within an overarching political environment that demands efficiency, but not profit. The ADO is a typical government agency in that it works for a Minister with a set political agenda, which creates inevitable restrictions on the workforce who are under significant scrutiny.<sup>3</sup> By contrast, private sector managers have more flexibility to ‘hire and fire’, are profit oriented, and face less regulation than public sector areas.<sup>4</sup> It can be argued, however, that both the public and private sectors share three common aspects: developing and refining strategy, managing internal components and managing external components.<sup>5</sup> Management theory has undeniable utility for better efficiency and developing of a corporate strategy in public sector organisations like the ADO, but limitations must be accepted because of the ADO’s unique tasks.

Management paradigms are not new. Ancient China and Greece demonstrated skilful coordination of public enterprises, while the Industrial Revolution in Britain demonstrated sound management practices.<sup>6</sup> Many writings on management, however, only emerged in the 20th century, such as the 1930s task-driven scientific management theories (Mayo and Gilbreth). Human Relations theories emerged in the 1970s–80s McGregors’s Theory X and Y, or Ouchi’s theory Z explaining Japanese work practices.<sup>7</sup> In the 1980s contingency and systems approaches became fashionable, such as the McKinsey 7S framework.<sup>8</sup> In the early 1990s the ADO embraced the systems concept of Total Quality Management (TQM), which was subsequently discarded as newer management practices (such as commercialisation) emerged from overseas.

The mid 1990s saw many new concepts underpinning management theory, encouraging flatter structures in modern firms, a focus on consumer satisfaction, and an expectation that workers would not stay in careers with one employer for periods over five years.<sup>9</sup> Similarly, transformational leadership emerged for greater effectiveness in workplaces (to fully enhance commitment, involvement and loyalty of followers), rather than traditional transactional leadership based on ‘reward for work’.<sup>10</sup> These various management theories all offer improvements but no one concept appears to be universally accepted as best for the private or public sector, rather elements of each are ‘tailored to fit’ organisations by senior managers.

## Commercialisation

The ADO has proven willing to embrace management theories, such as the outsourcing of non-core functions. In the ADO, this was termed the Commercial Support Program (CSP), a competitive tendering and contracting initiative that began in 1991. Under CSP commercial and in-house bids compete for provision of services, to give the ADO best value for money.<sup>11</sup> The quest for savings, however, does not always recognise cultures and sound practices in place, and such adjustments ‘can destroy the cohesion that lies at the root of armed forces’.<sup>12</sup> An example arose during the 1999 East Timor operation, where a lack of sufficient catering, logistics and medical personnel (often from outsourcing of these functions) created capability deficiencies. In short, it was difficult to feed and sustain the troops. Often last minute arrangements to use reservists or civilians allowed the ADO to successfully complete a largely unopposed peace enforcement mission close to Darwin.<sup>13</sup> Actual armed conflict further afield may have been less successful.

In addition to the arguably negative impacts of CSP on ADO capability, overall savings are questionable. The ADO increasingly pays consultants and professional service providers to fill gaps, which grew to \$280 million in the last year (from \$182 million in 2000–2001).<sup>15</sup> The ADO is negotiating further outsourcing of recruiting, health services, the Defence Integrated Distribution System,<sup>15</sup> flying training and maintenance of ships and aircraft.<sup>16</sup> The underlying assumption is that commercialisation is cheaper and will be successful even during conflicts, which is questionable given East Timor experiences and increasing expenses for consultants and outsource providers.<sup>17</sup>

There are other cultural problems with outsourcing, although evidence is mainly anecdotal as few ADO managers challenge the government directed CSP policy. Performance shortfalls are often resolved by the ‘can do’ approach of the ADO. Many bases where garrison support has been introduced are sites of frustration, with messing, security and maintenance from private contractors not matching pre-commercialisation standards.<sup>18</sup> A recent visit to a northern base saw Army personnel undertaking guard duties because the security contractor needed bolstering.<sup>19</sup> Similarly, the outsourcing of ammunition inventory management has aggravated a shortage in ADO stocks of tank and medium artillery ammunition; holdings remain in short supply for the Army.<sup>20</sup> Overview of these issues by the ADO is difficult, with contracts prepared in Canberra often established for up to ten years, leaving untrained ADO representatives around Australia (the contractual third party) to implement arrangements with local contractors.

## The Defence Efficiency Review

The impetus for significant ADO reform over the last decade was the Defence Efficiency Review (DER), which began in October 1996 to find savings to be redistributed to warfighting capabilities.<sup>21</sup> An estimate in ‘one off’ savings of \$500 million, along with annual savings of \$770 million, was an attractive proposition for government, coupled with further staff reductions of 4,700 military personnel (some were redirected to the combat force) and 3,100 civilians.<sup>22</sup> From 1990 to 1996, ADO ‘downsizing’ had already totalled 16,200 personnel, or 17 per cent of the 1990 figure.<sup>23</sup>

Organisational changes generally take from five to ten years to fully mature,<sup>24</sup> so a final assessment of the success of DER is premature. There are, however, few performance measures in place to validate new structures, and the only primary sources available to review DER effectiveness are Defence Annual Reports, which do not indicate where DER savings were redirected. Anecdotal evidence indicates that much of the money saved under DER was soon redirected to pay unforecast ADO salaries, after the DER projection of 45,400 uniformed ADO personnel was considered too small by government, and the

number arbitrarily raised to 50,000.<sup>25</sup> Sadly for the ADO the extra personnel were unfunded, savings were used to pay salaries and were never directed towards new equipment for combat forces.

### **The Balanced Scorecard**

A further example of ongoing reform is the ADO's recent adoption of the Balanced Scorecard approach to performance management (also known as the Defence Matters Scorecard). Ideally, the Balanced Scorecard concept allows firms to become aligned (in terms of work processes), and focus on a long term integrated strategy.<sup>26</sup> Originally designed in the US in the early 1990s to help firms implement performance measurement systems (especially finance), the concept rapidly evolved into a core management system.<sup>27</sup> The concept involves identifying outcome measures and performance drivers, in turn driving organisational growth and structures, to then identify goals, customers and a firm's competitive edge.<sup>28</sup>

In the ADO, the Balanced Scorecard is defined as 'an approach to performance management that translates an organisation's strategic objectives into a useful set of performance measurements',<sup>29</sup> and was an outcome of the 1997 Beyond Beancounting Report.<sup>30</sup> The Balanced Scorecard may be useful strategically, but recent visits to several regional ADO Headquarters indicated it is not used and does not suit the operational level military culture. Instead, information is simply reported through proven reporting chains, and traditional orders are preferred to get the tactical job done.<sup>31</sup> While the Canberra based ADO strategic leadership embraces the Scorecard,<sup>32</sup> it has little utility below formation level nor does its language reflect the military culture despite widespread implementation workshops. The success of the ADO's adaptation of this private sector managerial concept is therefore dubious if it is not embraced by the entire ADO organisation to improve structures and performance.

### **Conclusion**

There are significant differences between the ADO and private sector organisations, as the latter seek profits and do not fight armed conflict. Yet the ADO has embraced many modern management practices derived from the private sector, and met government objectives of savings through reform programs such as the DER and CSP. Many savings, however, were redirected and within the ADO there have been significant problems resulting from the reforms. Outsourcing in particular has aggravated ADO shortages in logistics, catering and medical staff that are partially resolved through consultants and other providers. When coupled with deficiencies like ammunition shortages, it seems another East Timor operation would see the ADO facing similar difficulties as in 1999.

The Balanced Scorecard is another new management concept adapted by the ADO and other government departments, but it is not embraced by the majority of the ADO nor does it suit the military culture; it has even been discredited by former strategic ADO leaders. A considered approach to the applicability of new management theories in the ADO is therefore a critical requirement, as examples demonstrate the 'danger in embracing too quickly the management theory of Confucian type mandarins who underrate the value of fundamentals, allowing their organisation to fall prey to overvaluing immediate knowledge'.<sup>33</sup>

## Endnotes

1. The ADO includes 54,400 permanent members of the Australian Defence Force (ADF) and 17,000 Defence Civilians (figures from Directorate of Resource Plans, Army Headquarters, on 28 April 2003).
2. W Byrt and P Bowden, *Australian Public Management, Principles and Case Studies*, McMillan, Melbourne, 1989, p. vii.
3. Byrt and Bowden, op. cit., p. 22.
4. ibid.
5. ibid.
6. S Mukhi, D Hampton & N. Barnwell, *Australian Management*, McGraw Hill, Sydney, 1988, p. 37.
7. ibid., p. 40.
8. ibid., p. 55.
9. PF Drucker, *Managing in a Time of Great Change*, Heinmann, London, 1995, p. 4.
10. BM Blass, *Transformational Leadership: Industrial, Military and Educational Impact*, Lawrence Albrum Associates, London, 1998, p.15. Blass describes the new paradigm of transformational leadership as incorporating individualised consideration, intellectual stimulation and charismatic inspiration. Transactional leadership, Blass claims, is more focussed on the transactional exchange of pay and conditions for labour between leaders and followers.
11. *Portfolio Additional Estimates 2002–03*, Commonwealth of Australia, Canberra, 2002, p. 88.
12. CJT Downey, *Management in the Armed Forces*, McGraw Hill, London, 1977, p. 212.
13. D Woolner, *Pressures on Defence Policy; The Defence Budget Crisis*, Department of Foreign Affairs and Trade Sub Group Research Paper 20/1999-2000, Canberra, 2000, p. 8. Woolner's article mentions the ADO's lack of sustainability prior to East Timor. See also C Jay, 'Combat Gear Will Need Expanding' in *The Australian Financial Review*, 1 October 1999, noting the ADO had to hastily borrow 4,000 US 'flak jackets' for ADO personnel undertaking the initial East Timor deployment.
14. *Defence Annual Report 2001–02*, p. 268.
15. [www.yaffa.com.au/defence/current news](http://www.yaffa.com.au/defence/current%20news) *Australian Defence Magazine*, ADI Fox is likely to be awarded an almost one billion-dollar contract to outsource Defence national warehousing, distribution, and maintenance of selected land support. This will in turn release 500 uniformed personnel for other duties, saving an estimated \$80 million over ten years compared to current costs. A final contract is expected in mid May 2003. Outsourcing of Information Technology services in the ACT was also announced by the Federal Government in April 2003, with the anticipated loss of current jobs for 1,900 ADO personnel, see [www.AustralianIT.news.com.au](http://www.AustralianIT.news.com.au) of 27 April 2003.
16. *Defence Annual Report 2001–02*, p. 88.
17. [www.7.30syd@your.abc.net.au](mailto:7.30syd@your.abc.net.au), 'Defence Department Instability' in *7:30 Report*, Transcript of 25 September 2002. Reporter Mike Bannerman notes that during East Timor the ADO deployed Vietnam era armoured carriers, and had no way of making clean water nor building roads. Defence Association Spokesman Michael O'Connor added that the ADO was 'fortunate it was not a hot conflict'. Host Kerry O'Brien then noted the overall turbulence in the ADO, having four Defence Ministers and four Department Secretaries in six years, and the resultant instability in the ADO.
18. [www.news.ninemsn.com.au](http://www.news.ninemsn.com.au), Claims were made on 3 December 2002 that the *Sunday Herald Sun* had 70 reports of lax security, poor logistics and petty theft involving civilian contractors at an unnamed Victorian Defence base. Defence Minister Hill refuted these claims in the report.
19. The author observed this trend at Townsville on 14 April 2003.
20. [www.aph.gov.au/House/Committee/jfadt/ArmyChap8](http://www.aph.gov.au/House/Committee/jfadt/ArmyChap8), *From Phantom Force: Towards a More Efficient and Effective Army*, Chapter 8, Paragraph 8.47. In the report the Commission noted there was no tank ammunition for over a year, and critical shortages in medium artillery ammunition and grenades. Further, a leaked summary of the Army Ammunition Study was released on 19 March 2002, see *ABC News on Line*. In response the Defence Minister faced several interviews and conceded in the Senate that 'the Army could not get supplies of a small amount of ammunition

- on its shopping list'. A \$90 million ammunition shortfall was quoted from the leaked report by the *Herald Sun* on 19 Mar 02, see [www.heraldsun.news.au/common/story](http://www.heraldsun.news.au/common/story), 'Hill seeks urgent ammo report'.
21. Report of the Defence Efficiency Review, *Future Directions for the Management of Australia's Defence*, Canberra, March 1997, p. 7.
  22. *Defence Annual Report 2001–02*, p. 54. See also Woolner, op. cit., p. 12 for an explanation of personnel cuts from the Force Structure Review (FSR) which also began in 1991. Woolner claims that 75% of FSR savings (\$340 million) were also used for salaries, rather than being diverted to capital equipment. Woolner notes the DER was intended to fix this situation, but met the same fate.
  23. *Addendum to the Defence Efficiency Review*, Canberra, 1997, p. 2. Of note too is the significant rationalisation of ADO bases, with 83 sites sold totalling \$170 million in the period 1990–96, and a further 108 identified for sale with identified savings of \$500 million. In [www.abc.net.au](http://www.abc.net.au) 'AM' of 1 May 2003, the Federal Opposition claimed the sale of Defence estate, and leasing back, is a costly and flawed management practice. The logic in selling Russell Headquarters is queried, akin to the US selling the Pentagon, and long term leasing is described by Opposition Defence Spokesman Chris Evans as a bad financial deal costing taxpayers more in the long term.
  24. *Defence Annual Report 2001–02*, p. 10.
  25. Woolner, op. cit., p. 13.
  26. R Kaplan and D Norton, *The Balanced Scorecard*, Harvard, Boston, 1996, p. 19
  27. *ibid.*, p. ix.
  28. *ibid.*, p. 25.
  29. *Portfolio Estimates 2002–03*, p. 103.
  30. *Defence Annual Report, 2001–02*, p. 12.
  31. Observations by the author during visits to various ADO Headquarters in Canberra, Sydney, Brisbane and Townsville in 2003. See also F Brenchley, 'A Rocket For Defence', *The Bulletin*, 27 August 2002, p. 19. Brenchley claims that retiring Vice Chief of the Australian Defence Force, Lieutenant General Des Mueller, was referring to the Balanced Scorecard reforms when quoted as saying 'the organisation acquires legitimacy in the eye of its stakeholders by giving the impression of progressively adopting contemporary ideas. Things actually stay the same'.
  32. *The Defence Annual Report*, for example, is now structured in the Defence Matters format, with the report showing government as both an owner and customer of Defence, and enabling processes are also emphasised leading to people, under the framework of 'Results through People' (see *Defence Annual Report 2001–02* Canberra, p. vii).
  33. Drucker op. cit., p. 226.

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