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Coherence in Strategic Planning, Capability Development and Budgeting

Colonel Lysander Suerte

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INTRODUCTION

1. The 2007 Defence Management Review (DMR) was the latest major external analysis of Defence. It concluded that Defence performed well in the conduct of operations. However, many of its strategic management practices have fallen short of expectations. Defence has embarked on changes to management to address the DMR findings, and the Secretary of Defence is leading the reform agenda.

2. Defence analyst Mark Thomson commented that “the largest single problem facing Defence is the failure to properly plan over the medium and longer term.”¹ Despite conducting complex planning activities, with enormous time, energy, and resources spent on these processes, strategic guidance, capability development and the budget do not cohere. This has resulted in Defence being in constant financial crisis. Year after year, Government is asked for additional money for logistics, personnel and estate acquisitions.²

3. The Defence Capability Review 2003 and the recent Review of Defence Logistics also found that current Defence planning/business practices leave much to be desired. It was found that there has been a perennial failure to determine and consider the cost of operating new equipment, such that the analysis of latest spending shows immediate concerns in the next several years; the budget is insufficient to operate existing equipment.³

4. The problem with current and near term budget planning is undoubtedly the result of past processes, and if not reformed in time, would impact on

¹ Mark Thomson, *Improving Defence Management*, Australian Strategic Policy Institute (ASPI), January 2007, p. 3.

² Mark Thomson, *Improving Defence Management*, p. 3.

³ Mark Thomson, *Improving Defence Management*, p. 3.

current major capability development proposals, with potential for continued incoherence in the long term.

5. **Scope.** This paper will discuss why coherence in strategic planning, capability development and budgeting is hard to achieve. It will examine why past and current government and Defence practices seem to perpetuate the incoherence despite substantial management reform programs implemented. It will argue that the current framework is not robust enough to fill the persistent gaps in plans, capability and budget. Finally, it will propose new perspectives to the Defence planning framework, taking cognisance of the need to drive cultural change in the organisation.

AIM

6. The aim of this paper is to examine the existing framework and propose measures to achieve better coherence in strategy, capability development and budgeting.

BACKGROUND

7. The Defence Business Model⁴ outlines how Defence operates. It depicts how Defence functions based on Government *Legislation* and *Regulation*, and Government *Policy*. Within Defence, *Culture* and *Leadership* are defined by vision, attitudes and expectations of the leadership, and the values, ethics and behavioural standards of Defence personnel. The *Policy* and *Guidance* frameworks shape and direct all aspects of Defence business. The *Enabling Functions* focus on the internal delivery of capability, products and services in support of the Defence deliverables. Each *Enabling Function* is owned by a unit/office, and is conducted entirely within a Group chain of command or

⁴ Please see Annex A, 'Defence Business Model'.

line management. *Recruiting for the ADF* directly serves the three Services. *Planning and Conduct of Operations* integrates the contribution of the other enablers to achieve joint force capability. *Business Processes* are the generic processes across Defence performed according to the procedures and standards prescribed by the process owner. *Governance* includes all *performance* and *conformance* standards for organisational leadership and management. The principles and activities of governance apply to all of Defence, and is the responsibility of all. *Deliverables* are the products and services produced by Defence (*Intelligence and Security Services, Joint Force Capability, International Engagement and Advice*) delivered in an integrated and coordinated manner.⁵

8. The Defence Capability Plan 2006-2016 (DCP 2006-16) outlines the major capital equipment acquisition projects that are currently considered for approval within the period. The plan defines Government intent on ensuring that investment in future capability is maintained at appropriate levels so that ADF capability is improved over time. Funding for the DCP is to be increased annually to cover general inflation effects and adjusted to movements of foreign currencies. The Government also committed to continuing the 3% Defence White Paper 2000 (DWP 2000) growth funding beyond FY 2010/11 to ensure that Defence continues to meet the capability goals set out in the White Paper into the future. While this is so, the plan is fluid, and simply sets out projections, and all figures are indicative only of the goals set by the DWP 2000. Accordingly, changing strategic circumstances, new technologies and changed priorities will influence the specific proposals contained in the Plan.⁶ In short, the DCP is nothing but a list of unapproved projects.

⁵ Department of Defence, *The Defence Business Model Pack*, Australian Government, 2008.

⁶ Defence Capability Plan 2006 -2016 Public Version, p. 1.

NATIONAL STRATEGY: MILITARY ADVICE

9. While there is nothing wrong with the plan providing for changes in circumstances, technology and priorities over time, this highlights what is wrong with the current framework. Defence has undertaken substantial modifications and improvements in its internal business processes. It has substantially complied with the recommendations of the various external reviews, but one thing it has not done well was to use its *Advice* deliverable effectively to influence the leadership (government) in formulating the National Strategy, and set longer term policies. The DMR has identified this shortcoming, and noted that indeed, Defence needs to work better in providing quality and timely policy advice to government. There is a realisation that the Defence staff, especially the military staff, does not possess a thorough understanding of the policy development process or of the importance of providing advice to government.⁷ If there is no clear national strategy or direction, Defence must share the blame for its omission. New governments in particular can not be realistically expected to have a prepared and coherent strategy when they come to power. Through the electoral process, political leaders acquire the responsibility for national strategy and direction, but they need advice. It is imperative for Defence to develop its ability to deliver quality and timely advice, especially to a new government. In the first place, that is what its Business Model prescribes.

'CAN DO' (IF TOLD) ATTITUDE

10. Much has been said about Defence personnel's 'can do' attitude, always in praise of the spirit of selfless service, and rightly so. But perhaps here lies a subtle problem. The 'can do' attitude may have unwittingly developed a

⁷ Department of Defence, *Defence Management Review 2007*, Australian Government, 30 March 2007, p. 14.

tendency (or aversion) to long term planning. The unspoken rationale would be that of 'anyway-we-can-do-it' and 'we-will-be-the-ones-who-will-do-the-dirty-job-anyway'. While the 'can do' attitude is mostly positive and admirable, care must be taken so that it does not engender a culture that is anathema to long term, deliberate planning.

LEADERSHIP VERSUS MANAGEMENT

11. In his article, "What Leaders Really Do", Kotter argued that "Management is about coping with complexity. Leadership, by contrast, is about coping with change."⁸ He argued that leaders *set direction*, while managers do planning and budgeting. Leadership is about *aligning people*, management is about organising and staffing. Leaders focus on *motivating people*, managers focus on controlling and problem-solving.⁹ The many reviews and the reform programs that followed have transformed Defence management practices in the past decade. Much has been done within the organisation so that it appears to be overmanaged, but sadly, underled.

12. The Defence hierarchy is consumed by the operational tempo and the management of day-to-day problems, and it is therefore challenged in operational policy and planning. As a result of focus in current problems, there is less attention to broader and longer-term responsibilities and outcomes.¹⁰

13. Business best practice leadership is characterised by a well-articulated vision, a long term strategy, and a relentless commitment to both. The

⁸ John P. Kotter, 'What Leaders Really Do.' *Harvard Business Review*, December 2001, p. 86.

⁹ John P. Kotter, 'What Leaders Really Do,' p. 86-93.

¹⁰ Department of Defence, *Defence Management Review 2007*, 30 March 2007, p. 9.

strategy or policy function is focused on translating the vision into plans, and the business units would deliver the outputs.¹¹ This is not the case in Defence.

14. The innumerably complex management processes illustrate that those in the Defence community had risen to the challenge of coping with the complexity of the tasks before them. In the end, however, the time, energy and personnel resources spent on these tasks go for naught when leadership, failing to set directions at the right time, undo years of planning, consultation, and budgeting conferences by simply invoking a change in priority. The Defence Business Model exhibits the rigour of management within Defence, but it does not show the significant impacts of external factors into the way Defence does business. This is not to say that Defence is already past of its responsibility to improve its internal processes, but it must be realised that the business of national defence is *beyond* Defence. This basic concept must underpin all strategic, capability development and budgeting frameworks.

STRATEGIC FRAMEWORK AND ELEMENTS OF NATIONAL POWER

15. Defence planning must be driven by a national direction or strategy, and it can be best considered in terms of the elements of national power (i.e., diplomatic, information, military and economic, or DIME). Defence must not be planned in isolation of the other elements. Central to this framework is the characterisation of defence spending as essential investment (rather than cost) in the pursuit of Australia's national interests.

16. To this end, it is desirable that the Defence Business Model not concern itself with deliverables (outputs) alone, but must include the *outcomes* that

¹¹ Department of Defence, *Defence Management Review 2007*, 30 March 2007, p. 17.

Defence delivers (along with other elements) in the national domain. To refer to Defence products in terms of deliverables (Joint Force Capability, Intelligence and Security, International Engagement, and Advice) underrates the value for money of Defence investment, and undercuts the significant role Defence plays in the life of the nation. This is not to suggest that Defence's role is omnipotent, but it is important to bear in mind that the *outcomes* for which Defence is responsible for are essential.

17. From a DIME framework, a more comprehensive direction for Defence can be set, a role that leadership (government) must not abdicate and delegate to the complexities of management processes. The personnel/material resources devoted to complex business processes on capability development proposals could very well be reduced by simply setting direction from the start, not somewhere along, or near the end of the process.

DEFENCE BUDGET

18. As discussed in the previous section, under the DIME framework, Defence must be viewed, and funded, based on its role in the attainment of national objectives. Putting a cap on defence spending as a percentage of national income is flawed. Defence budget must be formulated as a consequence of a national strategy to achieve short-, medium-, and long-term national goals. In tandem with other elements of national power, Defence must play its role, including that of continuously improving its internal management practices. The rigour that Defence has practiced in the past decade to improve its management processes makes a positive case for current major capability development projects. It is time that the external factors are investigated further to determine their roles in achieving coherence

and effectiveness, not to displace responsibility, but to assess accurately their impacts on planning and implementation.

CONCLUSION

19. The need for a national framework for strategic planning, capability development and budgeting can not be overemphasised. The whole-of-government approach is always considered in operations, so why not in strategic planning? That is the only way to achieve coherence. In the past, plans were mostly conducted in isolation, and proposals went through different conditions and shifting criteria, thereby creating confusion. Less effort was made in setting a direction. This lack of direction is a shortcoming that is often shoved upwards to the government, but Defence must not get away with lack of capability or aptitude in delivering *timely and quality advice*, irrespective of what the government wants to hear. Properly informed, the government can then be expected to competently set a direction for national governance, and to demonstrate greater coherence and consistency in strategy, capability development and budgeting.

RECOMMENDATIONS

20. The Defence Business Model must be modified to include a general statement of *outcomes* flowing from its deliverables (outputs). This is important to properly contextualise the role of Defence in national life. As it is, Defence is seen as a provider of products and service (deliverables), without a conscious connection to the positive outcomes that flow from these outputs. Economic prosperity, for example, can be attributed to the successful pursuit and protection of Australia's economic interests, of which

Defence is a key player. Likewise, diplomacy has always drawn strength from the positive reputation of Defence in international engagements.

21. Defence must cultivate the culture of providing quality and timely advice to government, regardless of the political temperament of the day.

22. To achieve coherence in strategy, capability development and budgeting, a national framework, preferably anchored on the elements of national power, must be used. This will put Defence in its rightful place in the national domain, not only seen as a provider of outputs or deliverables but as a significant contributor to the achievement of outcomes that relate to Australia's national interests.

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Defence Business Model

