

REVIEW BY THE SECRETARY AND CHIEF OF THE DEFENCE FORCE

OVERVIEW

In 2000-01, Defence experienced a level of operational activity without precedent in peacetime, including the East Timor deployment and support to the Sydney Olympic and Paralympic Games. The Olympics represented Australia's biggest ever security operation, with over 4,000 ADF regulars and reservists involved. All operational commitments were met, in spite of the ongoing challenges of recruiting and retaining sufficient personnel to meet all skills needs and some equipment deficiencies.

The year also spanned a period of significant policy development by the Government: an unprecedented public consultation process about the way ahead for Defence; the publication of a new strategic direction in the subsequent White Paper, *Defence 2000 – Our Future Defence Force* (the White Paper); and a Defence Capability Plan that detailed specific investment priorities backed by a ten-year funding commitment.

For its part, Defence had to demonstrate that it had the management framework and drive necessary to deliver on the strategic objectives and tasks set by Government. With this in mind, the year began with the launch of our organisational renewal agenda, which focused on strengthening organisational capability in three ways:

- building alignment with Government direction;
- building accountability for performance; and
- building trust within and towards the senior leadership of Defence through the creation of a shared values base.

These three renewal themes were aimed at making Defence a results-focused, values-based organisation – in line with Government's broader public sector reform agenda – and shaped much of the senior level effort in 2000-01.

The renewal agenda built on the savings made through the Defence Reform Program (DRP), which was finalised on 30 June 2000. From its start in 1997, the reform program yielded a significant redistribution of resources to combat capability. As at 30 June 2001, a total of \$1,657m had been redirected to current and future capability from cumulative reform program savings of \$2,010m (the remainder, \$353m, being spent on transition costs, mostly involving market-testing activities).

For many people inside Defence, the DRP wrought fundamental change to entrenched ways of doing business – new approaches that laid the way for a

deeper and longer-term program of cultural change, involving a review of organisational settings commencing with our mission, vision and values.

In 2000-01, we worked closely with Defence's senior leaders (star rank and Senior Executive Service officers) to define Defence's enduring purpose in a way that would ensure its continuing relevance in the 21st century. The Minister for Defence, the Hon. Peter Reith, obtained Government approval during the 2001-02 Budget process for this outcome: **"to defend Australia and its national interests"**.

The previous statement of the outcome "The prevention or defeat of armed force against Australia or its interests" served Defence well during the 20th century.

Our renewed statement of purpose reflects the fact that, while defending Australia remains the primary priority for the Australian Defence Force (ADF), there is more for Defence to do in furthering Australia's national interests in the 21st century. It recognises that we face a range of threats inimical to our security beyond the remote possibility of armed attack – it covers things like cyber warfare, terrorism and other forms of attack. And it embraces the good work we do in Australia's interests on things like national emergencies, illegal fishing, people smuggling, humanitarian assistance, medical evacuations and peacekeeping.

To complement our new mission, we also developed a statement of our view of Defence now and into the mid-term future, which we captured in a three-part vision:

A force for good • a force to be reckoned with • a force to win

'A force for good' comprises all elements of Defence: the Navy, the Army, the Air Force and our fourth service, the civilians of the Australian Public Service. Our vision is of a Defence organisation that thinks beyond jointness and embraces a culture of real integration.

Our first attempt at spelling out a vision for Defence was about 'joint warfighting'. While it is true that Australia is among the best in the world at bringing together the three military services into a single force (and in coalition with forces from other nations), we felt that this formulation did not do justice to what is special about how Australians get things done.

The concept of 'a force' (in other words, a single, integrated force) embraces all those who contribute to making Defence such a highly respected national institution. This includes the important contribution of our reserve forces, industry and embedded contractors.

We believe that this statement captures the way in which Defence relies so heavily, as a relatively small fighting force defending a tenth of the earth's surface, on deterrence. It also captures the sheer drive to be the best – to set the standard – that makes our soldiers, sailors, airmen and women and civilians so effective in achieving our purpose.

RENEWAL IN DEFENCE

ALIGNMENT WITH GOVERNMENT DIRECTION

Alignment with government direction was the most pressing imperative at the start of 2000-01, a year in which the Government was committed to producing a White Paper that put in place new strategic settings.

Defence began the year with steps to establish a new, integrated performance framework - a framework that, over time, will position Defence to link capability and resource information, using a balanced scorecard adaptation based on the recognition that the Government expects two types of Defence 'results':

- In its 'customer' role, it expects delivery of the Defence outputs within the price specified in the Minister's Portfolio Budget Statements.
- In its 'owner' role, it expects sound stewardship of financial and other resources, and of people, in order to ensure long-term sustainable delivery of the Defence outputs.

In other words, delivering capability is not in and of itself sufficient. Improved stewardship was critical to fixing the financial management problems we faced – problems which were undermining Defence's credibility with the Government. The need for alignment towards these two types of results sought by the Government was emphasised through a new organisational structure that clearly distinguished between three different roles inside Defence:

- Output Executives – who are responsible for the majority of direct effort within Defence to allow us to deliver the outputs expected by the Government.
- Owner-Support Executives – who are responsible for independently providing advice and assurance to us in relation to goods and services required within Defence and in relation to organisational performance and sustainability over the longer term.
- Enabling Executives – who are responsible for providing services, including the majority of assets, to the Services and other Groups to assist them in meeting their responsibilities to us.

The concept of striking a balance between results for the Government in its customer role and the longer-term stewardship role embodied by ownership concerns was a new one to Defence, and we are using a balanced scorecard approach as a tool to start communicating this aspect of our internal business strategy.

It was an important concept to communicate because the Government signalled its intent, via the White Paper, to balance the two most powerful imperatives on government – national security and fiscal responsibility.¹

Here the Government was implicitly recognising that, at a time of rising costs for public services like health and social security, the Australian people had a right to expect their elected leaders to balance Defence spending and other competing demands on the public purse.

The challenge for Defence, therefore, was to provide the Government with the information needed to make decisions that effectively balance current and future capability – with the latter costed in whole-of-capability, whole-of-life terms.

This was a significant management challenge. Defence, in some respects, had been insulated (because of its size and the nature of its business) from much of the public sector reform that has seen Commonwealth agencies link their resource allocations increasingly transparently to the Government's policy directions.

In tabling the White Paper in the Parliament on 6 December 2000, the Prime Minister said:

“Over the past few years, the Government has given high priority to reforming the Defence organisation and we have regarded this as an essential precondition for serious consideration of our long-term defence and funding needs.

“Important reforms have begun. Management practice has improved, waste and inefficiency cut, and responsibility and accountability tightened.”

The White Paper provides the strategy and the money. It's our job now to deliver – to execute and implement that White Paper – and Defence's track record suggests that that will not be an easy task.

So, 2000-01 was the year when we emphasised to the people who report directly to us that Defence had to face up to the very significant task of updating its performance framework in order to link, in a more transparent fashion, whole-of-Defence resourcing decisions to output performance.

In this context, the *Defence Matters* balanced scorecard – with its focus on financial and non-financial performance – was developed as a management tool to drive the business strategy. It enabled us to launch, at the beginning of 2001-02, a Defence Plan based on our first attempt at a whole-of-Defence 'strategy map'. The 'map' is a simple means of relating the factors that drive success to a number of 'strategic themes' which should be advanced at every opportunity.

¹ *Defence 2000 – Our Future Defence Force* p V11

In essence:

- the strategy map communicates 'what matters and why' to people at all levels, and is a means of providing assurance of Defence's ability to deliver, in a sustainable way, the results directed by the Government; while
- the *Defence Matters* scorecard tracks progress towards objectives on the strategy map and provides the focus for performance evaluation.

The Defence Committee, comprising ourselves, our three-star military officers, the Under Secretary and deputy secretaries identified Defence's strategic themes as:

- Developing the capability to fight and win today and tomorrow.
- Creating the climate where people can do their best.
- Promoting quality advice and decision-making.
- Getting best value from the Defence dollar.
- Strengthening international relationships for Australia's security.
- Making best use of science and technology and Australian industry.

In its mature state, the *Defence Matters* scorecard will provide a comprehensive measurement and reporting tool in relation to Defence's capacity to achieve the five strategic objectives outlined in the White Paper, namely:

- Ensure the defence of Australia and its direct approaches.
- Foster the security of our immediate neighbourhood.
- Promote stability and cooperation in South East Asia.
- Support strategic stability in the wider Asia Pacific region.
- Support global security.

ACCOUNTABILITY FOR PERFORMANCE

Accountability for performance is being strengthened through the charters we issue to the people who report directly to us. These charters have links to a new Ministerial Directive to us that distinguishes 'ends' and 'means', thereby facilitating delegation of authority for achieving specified results within the bounds of explicitly stated 'unacceptable means'. This 'ends/means' approach is also the basis for a new governance framework addressing the operation of the senior-level committees.

Preparations began in 2000-01 for implementation of Defence's 'customer-supplier agreements' between output and enabling executives. For the first time, the output executives were provided with the price of their respective outputs and were directed by us to strike internal business relationships as purchasers of goods and services from the enabling Groups.

The charters state the results to be achieved by individuals, in general terms. The customer-supplier agreements specify the levels of performance to be achieved, at a price.

In combination, these elements – a results-focused balanced scorecard, a new organisational structure featuring clearer internal business relationships, and a new business cycle that links reviews of the strategic environment and the preparation of budget allocations – comprise Defence's new business model.

Further implementation of the model will take place during 2001-02, at the end of which we anticipate that the alignment and accountability phases of the renewal agenda will largely have been completed. A major challenge will be to ensure that decision makers can be held properly to account – a difficult task in the absence of good quality management information.

Although Defence's financial reporting for 2000-01 was arguably better than it has ever been, production of demonstrably materially-accurate financial statements for the fiscal year required inordinate effort and complex treatment of recorded data. Our considerable difficulties in this regard related largely to accounting for military assets.

A first step towards integration of Defence's management information systems was taken during 2000-01, when the three key management systems (finance, personnel and inventory management) were for the first time aligned around a coherent chart of accounts. But the fact remains that it will still be some time before we have quality information on which to base decision making and the level of confidence we require in our logistics, personnel and financial data. Together, these aspects represent our biggest management risk – it's essential we fix them to underpin our organisational renewal agenda. (These challenges are also faced by our defence allies.)

Two other issues require mention under this heading.

The first is the military stand-down, which occurred on 5 February 2001 – a clear indication of the Chief of the Defence Force's and the Service Chiefs' commitment to stamp out unacceptable behaviour in the ADF. The two-hour awareness program, attended by all military personnel, was aimed at rebuilding the confidence of our uniformed colleagues in the military justice system. It demonstrated to the Australian public the resolve of the ADF leadership to provide a safe and fair workplace for all ADF personnel.

Further indication of Defence's commitment to the principles of equity and diversity flowed from the investigation of reports of harassment and bullying in the 3rd Battalion, Royal Australian Regiment. The Chief of Army instigated and promulgated the Army's *Plan for a Fair Go* which involves a multi-faceted approach aimed at eliminating unacceptable behaviour as well as encouraging diversity within the Army.

The second issue concerns Defence's occupational health and safety policy, which rests on the foundation that the safety of people in the workplace is a core responsibility of commanders and executives. Improvement in safety performance and the development of a safety culture, particularly in the ADF, are a major priority. The cost and consequences of poor performance in this area

continue to be unacceptable to both Defence and the community. We have increased our leadership focus on safety accordingly. Reform is directed at supporting the capacity of commanders and executives to create safe work environments. Specific improvement strategies have focused on the development of safety standards and supporting information and reporting systems, as well as improvement in the level and coverage of safety training.

SENIOR LEADERSHIP

Senior leadership was strengthened during 2000-01 through development activities aimed at meeting the Government's White Paper imperative of transforming Defence from 'a bureaucratic culture' to a 'leadership culture'. The White Paper noted that 'improving leadership will remain one of Defence's highest priorities', and said:

'The day-to-day behaviour of senior leaders, both civilian and military, can either support or undermine attempts to make Defence a more rewarding place to work. The ADF has consistently demonstrated the quality of its leadership in military operations, particularly at the tactical level. However, new leadership challenges have emerged. These include a mixed military, civilian and commercial workforce and a greater emphasis on ensuring Defence resources are used efficiently, as well as effectively.'²

Here, the Government called on Defence to tackle an issue that large, knowledge-based organisations around the world are wrestling with. Our twice-yearly gatherings of senior leaders foster cross-functional communication and a shared sense of purpose.

During the initial period of work with our top tier of senior leaders, they identified a shared set of 'unbreakable rules' and senior leadership values:

- Unbreakable rules: never mislead, never abuse power, never leak information, and never condone poor performance.
- Senior leadership values: professionalism, loyalty, innovation, courage, integrity, and teamwork.

These represent the 'ground rules' for our senior leadership - the way in which we expect people to behave if they are at, or aspire to, star rank and senior executive service levels in Defence. They do not, of course, replace the values of the Navy, Army, Air Force or Australian Public Service.

We have also introduced a new joint military-civilian 'Capstone Leadership Program' to induct new entrants into the senior leadership. The program revolves around our 'Results through People' leadership philosophy, particularly the people leadership model which was produced collectively by Defence's senior leadership and features a 360-degree feedback instrument.

² *Defence 2000 – Our Future Defence Force (the White Paper)*, page 63.

The April 2001 staff attitude survey highlighted indicative evidence of a turnaround in the way our people view the organisation when compared with the survey conducted in August 1999. The results relating to commitment, trust, pride and job satisfaction were very pleasing.

The survey also provides a very clear indication of the areas requiring further attention by the Services and Groups. For example, there are still concerns about the quality of senior leadership. Communication – the vital precursor to trust-based working relationships – remains a key issue. Pay and conditions of service, family issues, locational stability and change also need attention.

The survey results reveal that people are increasingly feeling the pinch on resourcing, their overall workload and working hours. ADF staffing levels are being addressed, but these findings underline the importance of deciding what to stop doing – to cut our work cloth to suit our resource wallet – in a strategic way that doesn't compromise capability.

The April 2001 staff attitude survey results do also indicate, however, consolidation of the improvements, and affirm the strategies adopted to drive the changes we are seeking.

Defence's internal approach to implementing the Government's strategic direction rests on our leadership philosophy – Results through People. Results – because that is what the Government pays us to deliver. People – because results are achieved through people, and because we believe that getting the people side of things right is the best way to ensure sustainable delivery of results.

During 2000-01, we started building the high-performance management vehicle needed to drive Defence out of an essentially 1970s budgeting and management era and into the 21st century.

Ensuring that the new performance framework is underpinned by a leadership culture has been the focus of our leadership development endeavours during the year. Leaders are responsible for creating the climate for high performance. Our 'Results through People' approach will extend beyond the senior leadership of Defence to embrace leaders at all levels during 2001-02.