

# YEAR IN REVIEW

## REVIEW BY THE SECRETARY AND THE CHIEF OF THE DEFENCE FORCE

2001-02 was another big year for Defence. The significantly increased operational tempo reported in 2000-01 was maintained on all fronts – and increased further in response to two developments: the 11 September terrorist attacks in the United States and the need to step up border protection.

These operational demands were matched by management challenges associated with the first full year of Defence White Paper<sup>1</sup> implementation, including capability decisions involving some \$5.5b of capital investment. The groundwork for improved management, as reported in last year's annual report in relation to our 'renewal agenda', assisted in ensuring that this investment program accorded with the Defence Capability Plan's strategic direction.

### THE TEMPO OF OPERATIONS

With Australia's commitment to the international coalition against terrorism, our role in the interception of illegal immigrants and the maintenance of border integrity, combating illegal fishing, the Bougainville Peace Monitoring Group and our ongoing security role in East Timor, the Australian Defence Force (ADF) is at its highest level of activity since the Vietnam war. This high operational tempo is expected to continue, with the Government's commitment to strengthen Australia's defences, fight the war against terrorism and protect our borders.

Resources are stretched due to our operational commitments. The Government's highest priority requirements have been met, although concurrent commitments have placed pressure on the availability of Defence personnel and capabilities. The demands of high operational tempo and competing priorities mean that this pressure is unlikely to be relieved in the near future, and some lower priority operations will remain dormant.

The increased rate of effort, together with equipment upgrades and maintenance, has reduced the availability of assets for some surveillance operations as well as some major international exercises. Training in some core warfighting areas has also been constrained by operational commitments and will require remediation to assure longer-term sustainability.

### WAR AGAINST TERRORISM

On 11 September 2001, terrorists attacked buildings in New York and Washington DC, killing over 3,000 people. Ten Australian citizens were among the victims. The attacks demonstrated the capacity of small and ruthless groups to cause significant loss of life for dramatic strategic effect.

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1. *Defence 2000 - Our Future Defence Force*, released in December 2000.

The al Qaeda-organised terrorist attacks represented a fundamental assault on the values and freedoms of modern societies. In the increasingly globalised world, the attacks were a challenge to the order that underpins our security and prosperity.

In response to these attacks, Australia joined the international coalition against terrorism led by the United States. For the first time in the Treaty's fifty-year history, on 14 September 2001, Australia invoked the Anzus alliance, under Article IV, providing for the parties to take joint action in response to an attack on the metropolitan territory of either Australia or the United States. The response was consistent with the right of self defence and the resolutions carried by the United Nations' Security Council after the attacks.

As usual, Defence provided advice and options to the Government and, following the decision to commit forces, implemented a timely and effective ADF deployment totalling over 1,550 personnel. As announced by the Prime Minister on 17 October 2001, these forces were committed to combined operations against the terrorist groups responsible for the 11 September attacks, to support the forces of the United States and other coalition partners in the campaign, and to provide protection for key coalition forward bases.

The ADF has performed conspicuously well within the international coalition. Australian special forces deployed to fight in Afghanistan have proved to be a welcome and highly effective contribution. Navy and Air Force units have played an important and successful role in supporting the land forces and participating in related coalition operations.

The Government has also directed Defence to raise a second tactical assault group and an incident response regiment in response to the 11 September attacks. These units have been formed to assist civil authorities to cope with major terrorist incidents, including the potential use of chemical, biological and radiological weapons.

The attacks in September 2001 changed Australia's strategic environment in some important ways. They altered the international security agenda by giving renewed prominence to the threat from transnational terrorist groups and the proliferation of weapons of mass destruction. They have had an important effect on the policies and priorities of our major ally, the United States. And they have resulted in our involvement in new and demanding military commitments.

While there are still fundamental aspects of our environment that are little changed by the events of last September, we now pursue our interests in a different world to that described in the Defence White Paper.

That is why the Government has decided to review the changes in our strategic environment, the adequacy of our current and planned capabilities to manage the broader range of potential contingencies that might arise, and the ability of Defence to sustain its operations. In particular, the capability development objectives set out in the White Paper need to be reviewed. During the year, Defence provided advice to assist the Government in its consideration of some of these issues. We also began a strategic review that will be submitted to the Government later in 2002.

## BORDER PROTECTION

Defence made a major contribution during the year to assisting other Commonwealth government agencies with surveillance of Australia's maritime approaches and enforcement of migration laws.

Illegal immigration arrivals have been the prominent focus of Australian border protection policy over the last year. A major ADF operation, Operation Relex, which involves air and surface patrols across Australia's northern approaches, began in September 2001 and has been successful in deterring and preventing people smugglers from illegally landing people in Australia.

A precursor to Operation Relex was the boarding, by Australian special forces, of the MV *Tampa*, in August 2001, to detain suspected illegal immigrants.

During this period, allegations were made that the Defence Signals Directorate (DSD) had intercepted communications between the MV *Tampa* and two trade unions. An independent inquiry, undertaken by the Inspector-General of Intelligence and Security, found that there was no substance to the allegations. The inquiry did find, however, that in the process of collecting foreign intelligence, DSD did not adhere to the rules of reporting on Australian persons. As a result of the inquiry, DSD has put into place measures to prevent a repeat of these breaches.

The events surrounding the reporting of the rescue of over 200 people following the sinking of 'SIEV 4'<sup>2</sup>, in October 2001, exposed failures in command and reporting arrangements within Defence.

At its essence, the then Chief of the Defence Force, Admiral Chris Barrie, believed that children had been thrown overboard in the incident, based on reporting up through the chain of command. He invited the chain of command to advise him if the record needed to be corrected. This never occurred, and it was not until Admiral Barrie took the unusual step of pursuing his own inquiries late in February this year that he was convinced that the incident never happened. He then took immediate steps to correct the record.

The Senate Select Committee on a Certain Maritime Incident conducted an inquiry which examined the SIEV 4 incident, and other Operation Relex interceptions, in detail.

A key focus of the committee's inquiry centred around the misrepresentation of photographs purporting to show children being thrown overboard from SIEV 4. Doubts over the dates of the photographs, and what they purported to show, were expressed through oral advice and an exchange of emails between the Secretary and uniformed and civilian officers of Defence and with ministerial advisers and the then Minister for Defence's media adviser.

The matter was not adequately resolved and, as a result, the Secretary accepted accountability for this situation and offered his resignation. No doubt these matters will be dealt with in the committee's report.

Concurrent with the Senate inquiry, we set up an internal task force, under Rear Admiral Gates, to make recommendations on fixing the deficiencies revealed by the incident. We

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2. The fourth 'suspected illegal entry vessel' detected during Operation Relex.

have subsequently approved changes to command and control arrangements, as well as to the flow of information to the media, to ensure that the situation will not recur.

The final stages of the inquiry focused on events surrounding the sinking of a vessel that has become known as 'SIEV X'<sup>3</sup>. This vessel was an overloaded boat that left an Indonesian port in October 2001 and sank with the loss of over 350 lives.

There was nothing that Defence could have done in relation to the fate of SIEV X. In the weeks leading up to this tragic event, Defence received numerous, conflicting reports of a possible departure. These reports indicated different times and ports of departure. At no stage was Defence aware that this vessel was in distress. Even now, the exact location of where the boat foundered is not known.

There was no conspiracy to let innocent people die. SIEV X was a human tragedy, but it is not one for which Defence is responsible.

What should be remembered is that, throughout Operation Relex, the operational professionalism and the courage of the ADF was never in question. Senators from all sides represented on the committee were unanimous in their praise. The ADF is justifiably proud of its record in 'safety of life at sea' situations, as demonstrated by the bravery of our sailors in rescuing people from SIEVs when those vessels sank or were in difficulty.

## **OTHER OPERATIONS**

The commitment of elements of the ADF to the international coalition against terrorism and increased border security occurred at a time of significant involvement by Defence in other operations.

Australia continues to be the largest force contributor to the peacekeeping operation in East Timor, where an independence government was elected and successfully assumed its responsibilities from the United Nations transitional administration on 20 May 2002. Independent East Timor will continue to require support from Australia and the international community for some years to come.

In Bougainville, after a number of years of service, the Peace Monitoring Group continues to be a most cogent factor in the social rehabilitation of the island and the move to an enduring solution to the causes of conflict. We have progressively reduced the size of the group, in concert with our partners, as levels of confidence and cooperation have improved on the island.

Defence had personnel involved in United Nations and other peacekeeping missions around the world – in the former Yugoslavia, the Sinai, Israel, Syria, Lebanon, Sierra Leone, Ethiopia, Eritrea, and the Solomon Islands. These commitments continued throughout the year, despite the increasing operational tempo, and Australia remains committed to cooperation with the United Nations into the future.

Defence contributes to fisheries patrols in support of Australian sovereign rights and fisheries law enforcement in the Southern Ocean. Navy and Air Force patrols were responsible for several arrests of illegal fishing vessels in the Southern Ocean during the year.

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3. Where 'X' denotes unknown, rather than the tenth vessel in the series.

Defence's contribution to peacetime national support tasks was highlighted by the key role played by some 2,400 ADF men and women in providing security and support, including counter-terrorism and air defence support, to the Commonwealth Heads of Government Meeting held in Queensland in March 2002.

A continuing national support task which deserves special mention is the community assistance program, which began in late 1996. Overseen by the Aboriginal and Torres Strait Islander Commission in cooperation with the Army and the Department of Health and Ageing, the program is a practical way of improving environmental health infrastructure in remote indigenous communities. The Army commitment includes the construction of housing, water and sewerage reticulation systems and rubbish tips, the maintenance of roads, tracks and barge landing sites, and upgrades to electrical supplies.

All Army contingents include military medics and dentists to assist communities with primary-care medical and dental treatment. On occasions, specialist support has been provided from cardiologists, ophthalmologists and dermatologists, as well as tuberculosis screening.

The Army undertakes projects only after close consultation with the indigenous communities, ensuring cultural sensitivities are considered. As well as benefiting the communities concerned, the program provides invaluable training and experience for Army engineers.

Projects in communities south-west of Katherine in the Northern Territory concluded in September 2001. Work is continuing in Dampier peninsula communities in Western Australia's Kimberley region. In 2003, work will focus on Palm Island, in northern Queensland.

## **FORCE CAPABILITY**

During the year, Defence made significant progress in implementing the long-term force capability priorities set out in the Defence White Paper.

The Government announced its decision to participate in the development phase of the F-35 Joint Strike Fighter, with the expectation that the F-35 will meet Australia's future air combat and strike requirements. Other major Defence Capability Plan decisions announced during the year included upgrading of tracked armoured vehicles, ordering armed reconnaissance helicopters and seeking proposals for the replacement patrol boats.

Defence continues to grapple with a number of legacy projects begun prior to the introduction of reforms embodied in the creation of the Defence Materiel Organisation. Such projects include the Collins submarines, FFG frigates and Seasprite helicopters.

The task of resolving issues associated with these projects has been complicated by past contracts and arrangements. Industry has not always met its obligations either. Delays faced by some projects may never be fully recoverable, even under an improved contract management regime.

More recent projects – acquisition of the VIP aircraft, airborne early warning and control aircraft and the armed reconnaissance helicopters – are performing on schedule and within budget, demonstrating that the reforms are working.

## FINANCIAL MANAGEMENT

2001-02 has seen an unprecedented commitment across Defence to improve financial management support for decision making.

Such an improvement was vital, given that Defence received its first \$500m tranche of the Government's Defence White Paper commitment to increase Defence's funding by \$28b over the next decade. Work began during the year on a number of new capability programs identified in the White Paper as critical to the defence of Australia and our national interests.

In February this year, the Government agreed to provide Defence with a further \$343m in new funding to address the strategic issues emerging both at Australia's door and globally. This funding primarily provided Defence with the means to increase its protection of Australia's northern and western borders from unauthorised arrivals and to contribute to the international coalition fighting terrorism.

Defence's financial accounting information is a vital link in managing this diverse and complex organisation. As part of the first year of implementing the Government's White Paper commitments, Defence made significant inroads into moving to a more informed and active model of managing its financial resources. This incorporated two significant initiatives:

- an analysis of Defence's financial performance for the previous year was a key part of updating the 2001-02 Budget at Additional Estimates time and in establishing a resourcing strategy late in 2001 that supported Defence in addressing its rapidly emerging needs; and
- each month throughout 2001-02, the Defence Committee considered comprehensive 'balanced scorecard' reports integrating performance in financial and all other major aspects, against budgets and other planned targets, and aligning performance across the organisation to Defence's primary objectives.

This approach in ensuring that Defence's financial plans better recognise, and respond to, actual performance and emerging issues has seen Defence largely achieve its underlying accrual budget in 2001-02 for the first time since implementing accrual budgeting.

As by far the biggest employer and asset-owner in the Commonwealth Government, it is the sort of accounting issues faced by Defence that make the move from a traditional cash-focus to accrual accounting more difficult – and more important. The accounting task for other 'large' agencies, in fact, focuses primarily on transfer payments on behalf of the Government.

Preparation of Defence's 2001-02 financial statements is one more step in pursuing an accounting regime that fully supports active and informed decision making. The size of this task is demonstrated by the emergence in 2001-02 of sizeable corrections required to past years' accounting for military equipment.

Nevertheless, Defence's 2001-02 financial statements will provide a sound source of information for continuing to manage our financial resources and fixed assets. Preparation of the associated statements has involved an enormous effort from both within Defence and the Australian National Audit Office to substantiate the financial accounts. The focus in 2002-03 will be on improved systems, processes and controls.

Defence, working closely with the Audit Office, has systemically identified the problems that have perennially dogged our financial systems and reporting. The remaining issues identified in the 2001-02 financial statements related primarily to the accounting valuations of military assets, many items of which have been on Defence's books for some years. Defence continues to improve its accounting for these assets, but the financial valuations of existing military assets are only one element in how we manage military capabilities.

A number of these accounting problems are being remediated through process change and improvement. Others will require large-scale system enhancements which will take a minimum of two to three years to resolve. This work is essential if Defence is to avoid the present amount of manual work required to produce accurate financial reports.

## **2001 FEDERAL ELECTION**

Following the 2001 federal election, Senator the Hon Robert Hill became Minister for Defence; the Hon Danna Vale MP became Minister for Veterans' Affairs and the Minister Assisting the Minister for Defence; and the Hon Fran Bailey MP began her new role as Parliamentary Secretary to the Minister for Defence. Former Defence Minister Peter Reith did not contest the election; the former Minister Assisting, Bruce Scott, returned to the backbench; and the former Parliamentary Secretary, Dr Brendan Nelson, was promoted into Cabinet as Minister for Education, Science and Training.

The challenge for Defence was to assist the new team and their staffs in quickly getting across emerging issues, especially given the tempo and scope of current operations. The challenge remains, in 2002-03, to improve the provision of timely, accurate and considered advice to the Government. A number of avenues to this end are being pursued.

## **ADF PARLIAMENTARY PROGRAM**

Seven senators and one member of parliament took part in the inaugural annual program conducted during July and August 2001. The program involves attachments to Defence units for periods of about five days. A further three senators and 15 members of parliament participated over the same period in 2002. Activities included an operational attachment to RAN ships in the Persian Gulf, working with Army engineers building accommodation and facilities in remote communities in the Northern Territory, and attachment to a battalion group training for deployment to East Timor.

Exposure to ADF operations and training, and interaction with servicemen and women, is designed to enhance parliamentarians' understanding of defence matters. Excellent feedback from all concerned has been received. The program is in addition to regular briefings on defence topics provided to parliamentarians by senior military and civilian officers.

## **DEFENCE RENEWAL**

The 2000-01 annual report outlined initial steps taken to foster a capacity for 'renewal from within' in Defence – a capacity for Defence itself to identify and tackle chronic management problems rather than be subject to seemingly endless external reviews.

Three priority areas for management improvement, referred to as 'renewal themes', were identified. They highlighted a need to:

- build better alignment with the Government's strategic direction;
- build clearer accountability for results; and
- build a leadership culture.

The drivers for Defence's renewal were two-fold.

First, there was a need for Defence to bring itself up to speed with public sector reform imperatives, and thereby to improve the working relationship with Government. In particular, there was a requirement for Defence to become:

- more results-focused (in line with the whole-of-government output-based accrual management framework, and the requirements of the *Financial Management and Accountability Act 1997*); and
- more values-based (in line with the *Public Service Act 1999* and consistent with the Government's White Paper direction that Defence develop a 'leadership' as opposed to a 'bureaucratic' culture).

Second, there was a need to prepare Defence for significant demographic trends which, over the coming decade, will make it harder to recruit and retain enough people in the key 15 to 24-year-old age group. Here, the requirement was for greater accountability among leaders for creating the right climate for their people to make a contribution to Defence's mission. This calls for a greater focus on the day-to-day workplace behaviour of Defence's senior leaders, and a broadening of the criteria for leadership away from technical competence alone to include relationships and 'people skills'. This distinctive leadership approach is central to Defence's renewal, and is summed up in the 'results through people' slogan.

Taken together, these two drivers of change inside Defence – legislated public sector reform and demographic trends – represented a non-negotiable requirement to review the fundamental settings of Defence's management, a renewal process which was outlined in the 2000-01 annual report.

Broadly, 2001-02 marked the completion of an initial two-year development phase of the renewal program – a phase that focused on engagement with the 245 or so of Defence's most senior leaders, and that featured completion of various top-down elements of a new performance framework that integrated financial and non-financial performance reporting through a balanced scorecard approach.

By the end of 2001-02, preparations had begun for engagement with the 2,000 or so people who report directly to Defence's senior leadership, and for the initiation of a voluntary Results through People Network through which wider participation in renewal could take place, in the context of a more transparent performance framework.

The research literature on similar corporate renewal efforts indicates that a minimum of five years, and up to ten years, is required to embed a different way of doing things in the day-to-day activities of an organisation as large and culturally complex as Defence. We are, therefore, some two years into a change journey that is likely to extend beyond the tenure of many of today's senior Defence leaders.

We are confident that the foundations for that long-term renewal program are now solidly in place.

We are, of course, conscious that the past two years have entailed a fairly abstract, high-level body of work – for example, in reconfiguring the way that Defence does business in Canberra.

For most people inside – and outside – Defence, such renewal efforts can seem very remote from the operational realities that our people face (which they are). Yet the chronic problems that loom large in Defence’s high-level administration – in relation to poor alignment, accountability and senior leadership – cast a long shadow. They have a systemic effect on the rest of the organisation.

We are tackling these entrenched problems at their source – in our Canberra offices – and we anticipate that the benefits will become much more apparent during 2002-03.

Documenting and disseminating news of concrete gains from renewal is vital in the early stages of any major change effort – in particular in internally focused organisations where cynicism about externally imposed change runs deep.

For this reason, the Defence Committee will be taking the lead during 2002-03 in driving a series of structured Defence renewal projects (outlined below under Alignment), with a view to demonstrating the benefits of a whole-of-Defence approach to getting results, and of working together in a values-based way across functional lines.

Our next role in renewal, as co-leaders of Defence, is to hold senior leaders more firmly to account than ever before for the workplace climate that they create for their people. Detailed evidence of what each senior leader has done to achieve ‘results through people’ will be provided to us in personal letters by 6 December 2002. We will be showcasing good news stories from these letters at the Senior Leadership Summit in February 2003, and will be taking the content of the letters into account in our judgement of the performance of each senior leader.

This is important because Defence’s people are rightly concerned about a rhetoric-reality gap when they hear talk of how ‘people matter’ in Defence. We are committed, therefore, to generating and communicating hard evidence that people do indeed matter greatly in the twenty-first century Defence organisation.

It is in this context – as we enter the third of a five-to ten-year program of fundamental ‘renewal from within’ – that we report here on the current state of play in relation to each of the three renewal themes that were outlined in the 2000-01 annual report.

## **Alignment**

The conceptual basis for Defence’s business model, as outlined in last year’s annual report (at pages 7 and 8), features a notion of two distinctive working relationships that Defence has with the Government of the day: first, as ‘customer’ of our business, with an interest in purchasing value-for-money outputs in support of the Defence mission (the outcome sought by the Government); and second, as the ‘owner’ of our business in a stewardship capacity, with an interest in the ability of the organisation to continue to meet performance expectations sustainably over the long term.

This concept, drawn from the then Management Advisory Board's watershed 1997 report, *Beyond Bean Counting*, offered a systematic means by which Defence could identify and value important long-term roles – roles that are particularly important for a

Commonwealth agency with the largest asset base in Australia, and with some of the longest investment lead times.

Progress in implementing the Defence business model, as outlined below, is vital in relation to our capacity to provide assurances in relation to the December 2000 White Paper strategic direction – given the ten-year funding commitment associated with the Defence Capability Plan.

Since 1997, Australian Government administrations have sought to ensure that agencies have in place performance frameworks that integrate financial and non-financial information, in ways that position decision makers to focus on likely future, as well as past, performance.

Consistent with this policy direction, the balanced scorecard approach (as advocated in the *Beyond Bean Counting* report) was selected in 2000 as the best basis for Defence's planned new performance framework.

In its implementation of the *Defence Matters* balanced scorecard, Defence drew on research that highlighted the vital importance of linking scorecards to corporate strategy, via simple depictions of assumed cause-and-effect relationships in that strategy, ie 'strategy maps'.

Such strategy maps assist in identification and management of increasingly important 'intangible assets', like workforce morale and knowledge management, that are notoriously difficult to measure and yet can make or break an organisational strategy.

A simplified whole-of-Defence strategy map was finalised by the Defence Committee in November 2001 (see adjacent page). It features 20 strategic objectives, grouped into 'Results for Government as Customer' and 'Results for Government as Owner' perspectives, together with a third perspective that identifies key areas for business improvement that will drive better results over the long haul.

Taken together, this set of strategic objectives represents the things that Defence must do well in order to deliver sustainably on the Government's strategic direction, as published in the Defence White Paper. They are shown as contributing to an overarching strategic theme of 'Delivering the capability to win, today and tomorrow'.

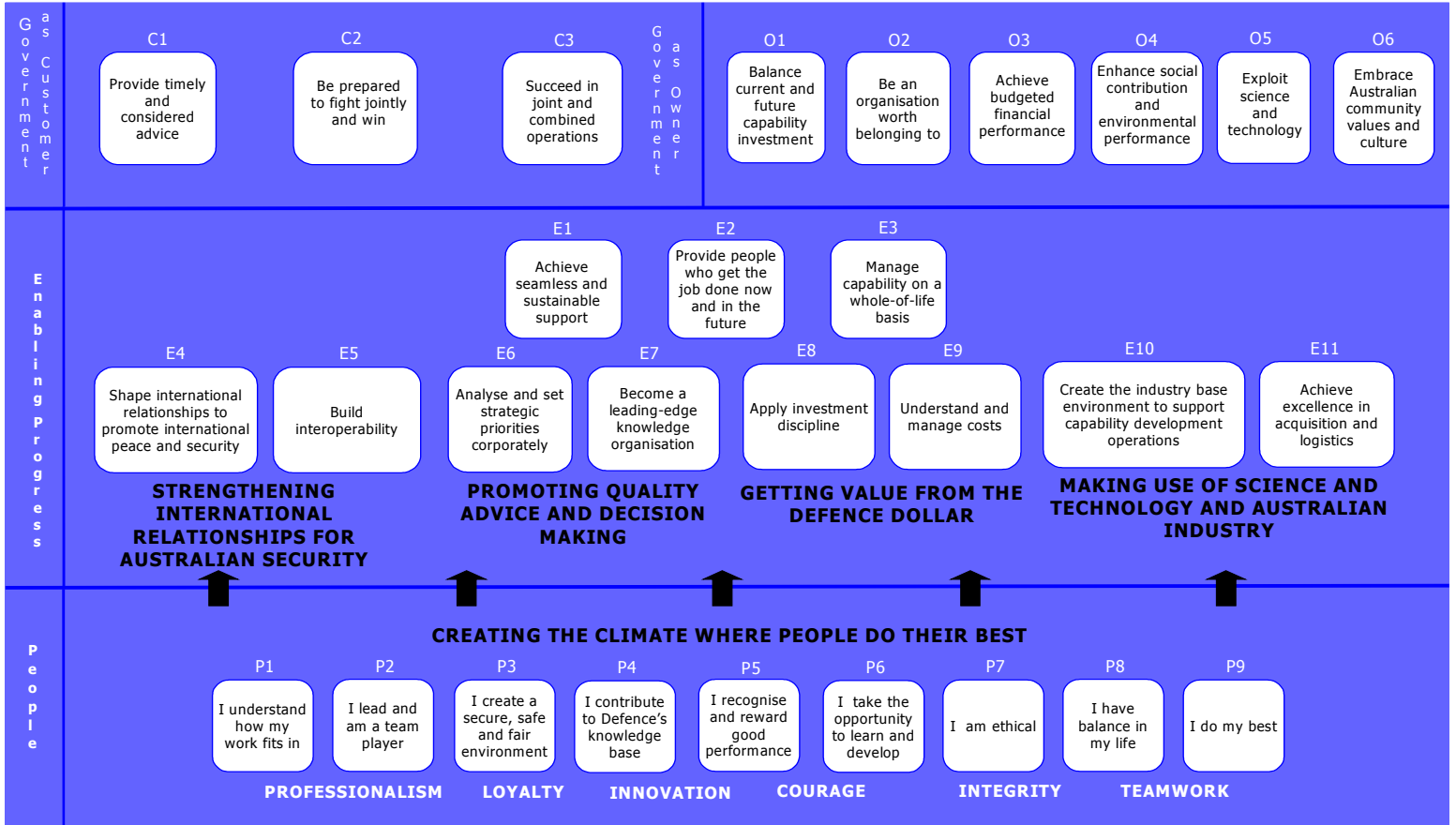
The four enabling strategic themes are:

- strengthening international relationships for Australia's security;
- promoting quality advice and decision making;
- getting value from the Defence dollar; and
- making use of science and technology and Australian industry.

# WHOLE-OF-DEFENCE STRATEGY MAP

## OUR MISSION - DEFENDING AUSTRALIA AND ITS NATIONAL INTERESTS

### DELIVERING THE CAPABILITY TO WIN TODAY AND TOMORROW



In an organisation with the functional diversity and cultural complexity of Defence, it is hard to overstate the significance of agreement by Service Chiefs and Group Heads on such a relatively straightforward depiction of 'what matters and why' at the whole-of-Defence level.

Many areas of Defence had, over the years, developed quite sophisticated performance frameworks – but those frameworks existed in isolation from a whole-of-Defence perspective. This created the conditions for 'the whole' to always be somewhat less than the sum of the parts. All too often, the need for internal resource trade-offs was masked by decision avoidance. It was far easier to start new projects than to identify projects that should be stopped in the interests of a sustainable, whole-of-Defence future.

These factors have led to the serious 'block obsolescence' problem that the Government began to tackle with its White Paper capability decisions.

We don't underestimate the scale of the challenge we face in ensuring that resources are allocated more holistically in future.

Even though the three Services, the then Department of Supply and the Department of Defence were merged in 1973, the disparate cultures of those five organisations remained unaligned with whole-of-Defence goals. The past three decades have been marked by competition for resources rather than collaboration for results.

In his November 1973 *Report on the Reorganisation of the Defence Group of Departments*, the then Secretary of the Department of Defence, Sir Arthur Tange noted that: 'A test of the plan proposed would be whether it makes rationalisation a self-generating process, which it is not at present when Defence is separate from Service administration.'

The Tange reforms were successful in many respects, and positioned Defence well in its modernisation efforts. However, until relatively recently, public sector performance management was not sufficiently well-developed to provide visibility to the Government of the long-term impacts of resource allocation decisions. In such a setting, 'rationalisation' could not become self-generating - it had to be imposed on Defence periodically by a succession of Ministers impatient with the unresponsiveness of an inwardly-focused organisation that seemed unwilling or unable to be accountable for its management performance.

The net result was that, by late 1999, Defence had dug itself into a hole. Our operational skills and courage were matchless, but our organisational and project management skills undermined our capability. The prognosis and prescription of the joint Defence/Finance *Performance Information Review* of July 1997 had been set aside.

By contrast, our initial renewal efforts have already led to some improvements in the quality of decision-support information - the Defence Committee has been receiving reports using a basic balanced scorecard format since October 2000.

The increasing integration of financial and non-financial performance data informed preparation of a classified 2002-12 Defence Management and Finance Plan, in March 2002, that featured more explicit links between 'cost and capability' than had been feasible in previous Commonwealth Budget considerations.

Balanced scorecards - featuring measures, targets and strategic initiatives - will be developed, over time, for each of the 20 whole-of-Defence strategic objectives. A high priority is being placed on four particular objectives identified by us as being 'hot spots' on the whole-of-Defence strategy map - that is, in relation to the quality of advice to Ministers; financial management; sustainable workforce; and logistics systems. These constitute the first set of Defence renewal projects announced in late July 2002.

During 2001-02, the whole-of-Defence strategy map was used as the basis for a 'cascade' of strategy maps in each Service and Group. The initial result of this body of work is the development of a shared language for talking about performance across very disparate work areas. Each Service and Group strategy map features the same explicit assumptions about how getting the people side of things right leads to improved business processes which, in turn, lead to better results. This sets the scene for the longer-term goal of individuals anywhere in Defence having a clear line of sight from their day-to-day work to whole-of-Defence results.

The fourth, or 'People Matter', perspective of the whole-of-Defence strategy map lists nine objectives that relate to the capacity of individuals to make a contribution to whole-of-Defence results - objectives such as 'I understand where my job fits in' and 'I lead and am a team player'. Together, these objectives comprise the sixth and final strategic theme: **'Creating the climate for people to do their best'**.

Many aspects of this People Matter perspective on performance are explicitly and formally supported by the *Defence Employees Certified Agreement 2002-03* which was overwhelmingly voted into effect in March 2002 by the civilian workforce and certified by the Australian Industrial Relations Commission in April 2002.

The new certified agreement codifies arrangements for a 'performance exchange' process that civilians undertake twice a year. Here, the emphasis is on frank, one-on-one discussions about results and the means by which they are achieved - discussions that are recorded in a simple 'plan-on-a page' format. The intent is for people to build a clear picture of how they contribute to the Defence mission.

Back in mid-2000, the goal of everyone in Defence being able to align their day-to-day work with the mission was remote and seemingly unachievable. Now it appears within our reach, if not yet within our grasp.

This goal, from which we could easily be distracted by critics of so-called 'management-speak', is vitally important.

This is not only because we must ensure efficient, effective and ethical use of Commonwealth resources (in line with departmental Secretaries' responsibilities in relation to the *Financial Management and Accountability Act 1997*), but also because we know that context and meaning makes work more rewarding for people. A Defence organisation with clear, big-picture objectives is more likely to be able to recruit and retain the high-calibre people it needs to deliver the capability to win, today and tomorrow.

In summary, the benefits to Defence of more transparently aligning its activities and resource allocation with the Government's strategic direction are gradually becoming clearer to our people. Our hope is that, over time, a commitment to such alignment

will translate to improvements in the degree of confidence that the Government has in the decision-support information that Defence provides.

## **Accountability**

Accountability for balanced performance (ie for financial as well as non-financial results) is being strengthened through implementation of the new Defence business model.

Defence is implementing an internal purchaser-provider model that we call our 'customer-supplier arrangements'. One aspect of this model involves each Service Chief and Group Head having an Organisational Performance Agreement (OPA) with us, specifying what we expect by way of sustainable performance from them.

The second aspect of the internal business relationships is codified in Customer Service Agreements (CSAs) between Output and Owner Support Executives and their internal suppliers for the provision of the goods and services needed to deliver on OPA performance standards. Over time, these arrangements will ensure that those who have the responsibility for a particular result also have control over the resources necessary to achieve that result (alignment) and that they can therefore be held more fully to account for their performance.

We committed to the Government that customer-supplier arrangements would be introduced in Defence from 1 July 2001. Significant progress has been achieved in bedding down the CSAs and OPAs, but much remains to be done – in particular, in relation to the articulation of meaningful performance measures and targets, and the development of pricing that reflects a detailed understanding of long-term cost drivers.

As noted in last year's annual report, management information systems continue to present a challenge – decision makers cannot be held properly to account in the absence of decision-quality information.

Over the past year, we have undertaken a substantive data improvement exercise in relation to our three key information systems (finance, personnel and inventory management). We are implementing an enterprise risk management framework to identify the systematic risks and shortcomings of these systems and developing detailed remediation strategies. We have also invested a lot of effort over the past year in improving our business skills training to ensure data integrity and accuracy of information entered into, and manipulated in, our management information systems.

Given the scale of Defence's assets, and the need for greatly improved accountability for the capital investment associated with White Paper capability decisions, Defence placed a major focus in 2001-02 on asset management policy and processes. In the process, Defence's drive to bring itself in line with the Government's output- and outcome-based accrual accounting policies brought to light yet more of the systemic problems that have bedevilled our inventory management system for well over a decade. These problems have continued to impact significantly on our ability to produce audit-quality financial statements.

We therefore put in place a major improvement agenda in relation to the development and improvement of financial management information. A financial statement preparation plan was developed to take into account lessons learnt from the preparation

of the 2000-01 statements, to resolve high-risk areas and to ensure that appropriate resources were allocated to key areas.

Costing of internal services has for years blocked progress on providing the Government with greater visibility of the real price of Defence's outputs. But difficulties in acquiring quality management information are only part of the story. The other part of the story is the need to clarify what, precisely, each Service Chief and Group Head is expected to deliver.

We have sought to improve such individual accountability for results via a set of one-page documents – 'charters' – that outline the results ('ends') expected of each Service Chief and Group Head, and the minimal limitations placed on the 'means' that these individuals may use to achieve those results. These principles were applied to the development of the Directive to the Secretary and CDF from the Minister for Defence, drafted in a format that lent itself to being 'cascaded' to Service Chiefs and Group Heads.

A Ministerial Directive was signed by Minister Robert Hill on 25 November 2001. However, we faced an apparently intractable problem in assigning unambiguous responsibility for striking the balance between current and future capability. As Chair of the Defence Capability and Investment Committee (the DCIC), the then Vice Chief of the Defence Force was a candidate for this task, yet functional responsibility for preparedness (ie current capability) resided with the then Deputy Secretary Strategic Policy.

Pending resolution of this impasse, the charters remained unsigned for the remainder of 2001-02. In July 2002, the incoming Defence Committee resolved to tackle the problem through more explicit responsibility being assigned to a reconstituted and more tightly-focused DCIC – chaired by the Secretary and comprising the Chief of the Defence Force, the Service Chiefs and the Under Secretary Defence Materiel – which focuses on the overall shape of capability.

A new sub-committee of the DCIC, the Defence Capability Committee (DCC), now performs a vital role in reviewing capability investment proposals, thereby positioning the DCIC to take a more strategic view of the balance of current and future capability investment. The DCC is chaired by the Vice Chief of the Defence Force and comprises Deputy Secretary Strategic Policy, an Under Secretary Defence Materiel representative, Deputy Chief of the Navy, Deputy Chief of the Army, Deputy Chief of the Air Force, the Chief Finance Officer, the Chief Defence Scientist, Head Capability Systems, Deputy Chief Information Officer, Head Defence Personnel Executive, a Department of Finance and Administration representative and the First Assistant Secretary Capability, Investment and Resources.

Charters for Service Chiefs and Group Heads reflecting these changed arrangements were signed in September 2002.

In other changes to Defence's senior committees, the Defence Committee now has fourteen members, since the Chief Information Officer and Head Defence Personnel Executive joined in July 2002. These changes reflect the importance of considering people and information management issues at the Defence Committee, and to support us in meeting our obligations under the Ministerial Directive.

From September 2002, the Defence People Committee has been chaired by Head Defence Personnel Executive. The committee will build on its achievements by taking a more strategic focus on the roles of Defence's people. Implementing a new strategic workforce plan will be one of its principal concerns.

The Defence Information Environment Committee became a senior Defence Committee on 1 July 2002. It is chaired by the Chief Information Officer and advises on governance arrangements, strategic planning, coordination and direction of the Defence information environment.

The changes in the senior Defence committee structure have been reflected in the revision of the governance principles for all the senior Defence committees.

Another milestone in improving Defence's accountability for performance and supporting a results-focused, values-based approach to Defence business has been the complete revision of Defence's Chief Executive Instructions, which are issued pursuant to subsection 52(1) of the *Financial Management and Accountability Act 1997* and Financial Management and Accountability Regulation 6.

Much prescriptive detail has been removed from the instructions, and a new more explicitly values-based approach has been taken in which people at all levels of Defence are encouraged to think through how to 'do the right thing' in various circumstances, while taking into account all relevant issues including formal compliance requirements.

The enhanced instructions now place substantially less reliance on rules and red tape in a deliberate move away from the process-driven way of doing business, which is costly to administer and which can stifle innovation.

In a complementary strand of work on the accountability renewal theme, a whole-of-Defence risk management framework was developed during 2001-02. Both this and the enhanced Chief Executive Instructions depend for their success on people's ability to see the big picture consequences of their decisions. Work on the alignment theme of Defence's renewal, in particular on the strategy maps, is therefore vital to the success of the accountability theme.

During the year, significantly more attention was paid to ensuring the timely implementation of agreed audit recommendations. Importantly, this included reinforcing the personal responsibility of action officers to ensure that recommendations were dealt with expeditiously by recording their names on the audit recommendations database, with regular progress reports being made to the Defence Committee and Defence Audit Committee.

The success of these steps can be gauged by the fact that the overall number of active audit recommendations, ie where action is outstanding, reduced by almost one third from 535 in July 2001 to 360 by June 2002, despite the addition of 717 new recommendations. Furthermore, the total number of overdue recommendations fell by 85 per cent from 288 to 43 during the same period.

## **Leadership**

Since 2000, Defence's senior leaders have done much of the groundwork required for a broader implementation phase of renewal to get under way in 2002-03. The guiding leadership philosophy for this phase, summed up in the term 'results through people',

was introduced and developed during twice-yearly team-building events for senior leaders, and a 'Capstone' program for new senior leaders (military and civilian).

The intent has been to uphold the Government's White Paper commitment that Defence would transform itself from a 'bureaucratic' culture to a 'leadership' culture.

An important step in this direction occurred on certification in April 2002 of the new principles-based *Defence Employees Certified Agreement 2002-03*. This is designed to support renewal activities by civilians across Defence and to establish a 'results through people' approach in the day-to-day work of people in Defence and in the management of organisational performance. It provides for greater flexibility and discretion regarding aspects of civilian pay and conditions than ever before, with a view to securing greater long-term productivity.

A unique aspect of this certified agreement is the recognition that the Defence workforce is very much an integrated one, in which some responsibilities are shared between ADF members and civilians.

At the end of August 2001, the Australian Defence Force Remuneration Review findings and recommendations were presented to the Ministers for Defence and Finance and Administration. The review was undertaken to ensure that future ADF remuneration arrangements provide an effective, efficient and flexible framework, consistent with reforms in the wider public and private sectors.

The focus of the review was to produce options that improve the attractiveness, flexibility, simplicity, efficiency and transparency of employment conditions offered to ADF personnel. The Ministers subsequently directed the then Chief of the Defence Force, Admiral Barrie, and the three Service Chiefs to undertake an extensive consultative process to gain the views of serving and former Defence personnel and interest groups of the recommendations.

A consolidated Defence response was developed, taking these findings into consideration, and was forwarded to the Minister for Defence by Admiral Barrie. The Minister is currently considering that submission and the Government is expected to decide on its approach to the review in the near future.

Following a detailed environmental scan by the Defence Personnel Executive in August 2001, it became all too apparent that Defence faced a big challenge in recruiting and retaining the people it needed to achieve its mission. Pressures in our environment include an ageing population and the prospect of a declining full-time labour supply of young people.

In December 2001, we therefore commissioned a major review of strategic workforce planning to investigate ways in which we could enhance the people component of Australia's defence capability through improved strategic decision making and practical initiatives to shape the future Defence workforce.

The review is focusing on producing useful tools to enable senior planners and decision makers to work through the complex options available to achieve the workforces necessary to deliver capability. This is not just about recruiting from a more competitive labour supply, but also a need to focus on improving retention – on ways to sustain our workforce and knowledge base by reducing separation rates – and supporting an

effective transition out of uniform for former ADF members. The review will present its findings to us in October 2002, but it is already clear that we have improved both recruitment and retention in all three of the uniformed Services through adoption of a series of measures.

## **Making a Difference**

Leadership, culture, change, transformation and strategic vision are the key words associated with 21<sup>st</sup> century exemplary CEOs<sup>4</sup>. Changes in our societal framework, the impact of information technology and demographic trends all add up to a fundamental change in the nature of the workplace – a power shift from executives to the people who constitute the organisation. Unless executives get in touch with their people’s opinions and respond to the need for meaningful, rewarding work, those people will increasingly vote with their feet.

The old social contract – a job for life – is a thing of the past for most workers. People have, for the most part, now got the message that they have to plan and manage their own career. Loyalty to employers is dying, if not dead, in most organisations. This is often accompanied by a lack of trust in management.

These are important findings. There is a strong correlation between trust and a positive workplace culture that emphasises reward, supportiveness and stability. Higher levels of job satisfaction, commitment, trust, loyalty and respect are associated with higher performing organisations<sup>5</sup>.

And employees like working for companies where they feel they can make a difference-whether that is in their own job or in identifying with the organisation’s values. This “make a difference” element was identified by nearly 40 per cent of respondents as “most important”, while only 16 per cent nominated money as “most important”<sup>6</sup>.

Professor Lynda Gratton argues commitment, trust and pride as being critical to long-term success and that these factors are an unmistakable source of competitive advantage<sup>7</sup>. In the exemplar she quotes:

- 80 per cent described themselves as highly committed;
- 80 per cent trust their manager; and
- 90 per cent said they were proud to be part of their organisation.

The March 2002 survey on attitudes and opinions on life in Defence provided an update from the April 2001 Defence Staff Attitude Survey data on attitudes to senior leaders. The survey results indicated that communication by senior leaders continues to be an issue of concern, although there were evident improvements in some areas.

The survey gave us some indications of where improvement is taking place – for example, that individuals feel that they have a greater understanding of what is expected of them in their work, and that they feel that recent changes in the organisation are

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4. Financial Review “Boss”, August 2001.

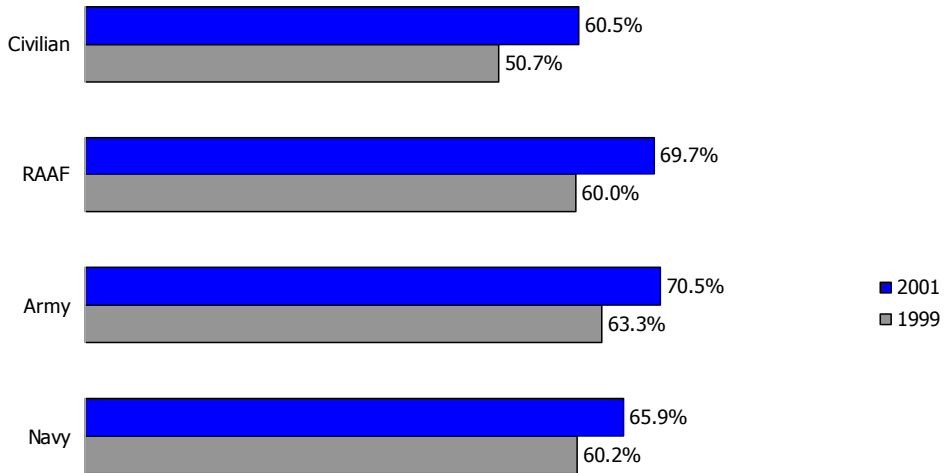
5. Australian Institute of Management/Monash University study.

6. TMP monster.com.au survey.

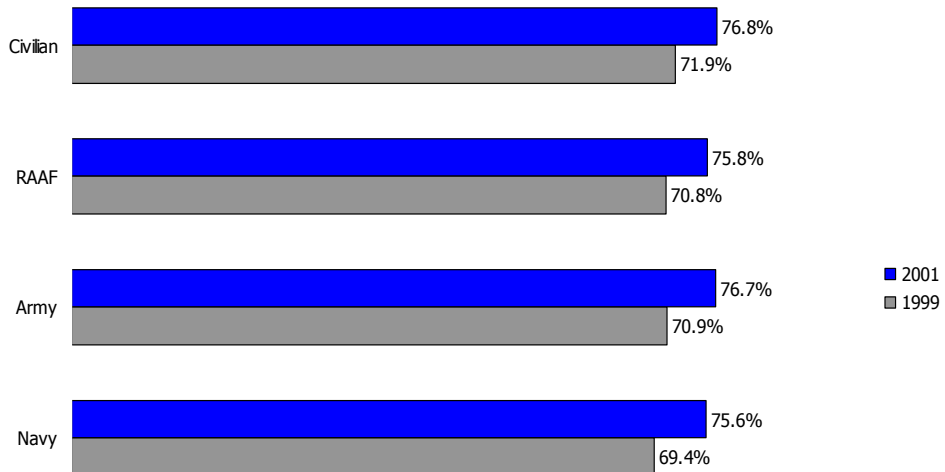
7. *Living Strategy: Putting People at the Heart of Corporate Purpose*, London, Financial Times Prentice Hall, 2000.

improving job satisfaction. The following graphs, comparing results from the 1999 and 2001 surveys, demonstrate the significant improvement that has taken place over a relatively short time frame.

**Chart 1.1: Organisational Commitment (80% benchmark)**



**Chart 1.2: Trust - manager (80% benchmark)**



**Chart 1.3: Pride (90% benchmark)**



Such results suggest to us that the renewal agenda is having a positive impact on people in Defence and that the organisational climate is improving. We expect to see these encouraging signs translated into concrete evidence of improved organisational and project management results in 2002-03. A further staff attitude survey is scheduled for October 2002.

We are now shifting our renewal focus from the senior leadership to the 2,000 or so people who work at the military O-6 (Colonel equivalent) and civilian EL2 levels, and their regional counterparts. These levels of leadership constitute the interface between the strategic and operational realms. The role of these officers in creating the climate where people can do their best is critical to the long-term success of Defence's renewal – not only because of their specific role today, but because the senior leaders of tomorrow will be drawn from their ranks.

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Department of Defence

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General  
Chief of the Defence Force