
Defence Governance in the Asia Pacific Century

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The White Paper adopts two very different approaches to governance. In other countries, especially developing countries, governance is problematic, something that needs to be addressed to deal with instability and potential security threats. This is governance in the broad political sense of the word, nationally and internationally. The White Paper discussion of governance within the Defence organisation is about structures and processes (accountability, performance management, assurance); that is, an organisational or “corporate governance” approach. The divergence between the two approaches is huge, but not surprising given the lack of any established definition of governance in the scholarly literature and the variety of interpretations of the term among different disciplines. What is interesting is the implicit assumption embodied in the White Paper that governance is difficult abroad but tractable at home. Recent experiences in the Defence portfolio suggest otherwise—and that there is more to be done at the interface between national political governance and organisational governance. Some of the internal governance changes outlined in the White Paper are likely to have broader implications over time in any case—especially, the Defence Strategic Reform Advisory Board is likely to have an impact that goes well beyond simply advising on and assisting with defence reforms.

The Many Faces of Governance

Governance, semantically, is a highly malleable term. It is used in a multiplicity of contexts with very different substantive meanings and connotations, not only in the governance literature across multiple disciplines (including political science, development studies, economics, accounting, law, and management), but also in the 2009 White Paper.

Rhodes identified “at least six separate uses of governance”¹ and later listed seven distinct definitions: Corporate governance, “the way in which business corporations are directed and controlled”; New Public Management, including corporate management and marketization in the public sector; Governance in the normative sense of “good governance” as used by the World Bank and others; International interdependence, characterized by a hollowing out of the nation state and multilevel governance; governance as a socio-cybernetic system, emphasizing interactivity, blurred boundaries and interdependence; the new political economy approach which identifies interrelationships between civil society, state and the market economy (not dissimilar to institutional economics’

¹ R.A.W. Rhodes, ‘The New Governance: Governing without Government’, *Political Studies*, vol. XLIV (1996), pp. 652-667.

accounts of governance); and Rhodes' own particular interest, governance as networks.²

These are only some of the many uses of governance, which have proliferated over the past decade. No consensus on a definition has emerged; in revisiting developments in the field of governance, Rhodes again identifies the problem of the multiplicity of uses to which the term is now put, and observes that “the several uses have little or nothing in common”.³

Governance in the White Paper

We should not therefore be surprised in the White Paper, commonly the product of numerous authors, to find similar divergences in the conceptualization of governance. Fortunately, rather than seven or more, there are only two. As identified by Bartos,⁴ in the Australian public sector context governance is employed most commonly in the following two of its many potential uses: in the political sense, referring to the institutions of the state and civil society (corresponding to the ‘good governance’ notion) and second, in the organizational or ‘corporate’ governance sense. These are the distinct usages of governance that appear in the White Paper.

In the earlier chapters of the White Paper, governance is problematic. Poor or weak governance gives rise to security threats. Problems with governance occur in developing countries (or in whole continents such as Africa, which at least is characterized as having reasonable prospects for better governance). This is firmly in the tradition of governance as a normative concept, often prefixed with the word “good” to signify that it measures up to the “Washington consensus”,⁵ economist John Williamson’s term for a fiscally conservative, free market orientation to development aid.

It is the governance promoted by Australia in its own international development aid.⁶ It is the governance measured by the World Bank Institute over the past decade in its governance indicator papers.⁷ The six criteria used in those studies—voice and accountability, political stability and

² R.A.W. Rhodes, ‘Governance and Public Administration’, in Jon Pierre (ed.), *Debating Governance* (Oxford: Oxford University, 2000).

³ R.A.W. Rhodes, ‘Understanding Governance: ten years on’, *Organization Studies*, vol. 28, no. 8 (August 2007), pp. 1243-1264.

⁴ Stephen Bartos, *Public Sector Governance Australia* (Sydney: CCH, 2004).

⁵ John Williamson, *Latin American Adjustment: How Much Has Happened?* (Washington: Institute for International Economics, 1990).

⁶ AusAID, *Australian Aid: Approaches to Building Demand for Better Governance* (Canberra: Commonwealth of Australia, 2008).

⁷ D. Kaufmann, A. Kraay, and P. Zoido, *Governance Matters*, World Bank Policy Research Working Paper, no. 2196 (Washington DC: World Bank, 1999); D. Kaufmann, A. Kraay, and M. Mastruzzi, *Governance Matters VIII: Aggregate and Individual Governance Indicators, 1996-2008*, World Bank Policy Research Working Paper, no. 4978 (Washington DC: World Bank, 2009).

absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption—are undoubtedly important indicators of economic development. Their absence is a source of discontent among the people of the country or region concerned. This has implications for potential conflict—recognized in the White Paper’s discussion on Australia’s strategic outlook and strategic interests.

Table 1: Governance in the White Paper: Problem Abroad, Opportunity at Home

Governance in Other Countries	Governance within Defence
<p>State fragility, including in the South Pacific and East Timor, has demanded Australia’s attention...we have also become increasingly more conscious of the potential security impacts of...poor governance in many parts of the world. (1.9)</p> <p>[in many South Pacific states and East Timor] Weak governance, crime and social challenges will continue to jeopardise economic development and community resilience (4.35)</p> <p>In Africa, there are reasonable prospects for better economic growth, governance and reduced frequency of conflict. (4.39)</p> <p>Success in Afghanistan will require the implementation of a genuinely integrated political-military strategy to address security, economic reconstruction and development, and political governance issues (4.45)</p> <p>...new security risks that might arise from the potential impact of climate change and resource security issues...are likely to exacerbate already significant population, infrastructure and governance problems in developing countries... (4.60)</p> <p>Australia should continue to play a leading role in supporting internal stability and effective governance within the countries of our immediate neighbourhood, which makes sense from both a humanitarian and a strategic perspective. (5.9)</p> <p>Australia’s security interests in the South Pacific require that we continue to lead efforts to promote economic security, good governance and internal stability. (11.3)</p>	<p>To enable the Government to oversee the implementation of the Strategic Reform Program, a robust governance and assurance framework will be developed. (13.26)</p> <p>funding will provide the workforce to plan and introduce new capabilities... and improve the delivery of the Navy’s essential governance systems. (14.6)</p> <p>...improving workforce strategy and alignment through the defence people management framework, improving governance arrangements, and an integrated workforce intelligence model (14.12)</p> <p>More robust governance arrangements for Defence’s ICT spending and the management of the Defence information environment will also be implemented. These measures will improve operational effectiveness and corporate functions. (15.6)</p> <p>ICT Reform...delivering the required governance arrangements to take the reform program forward. (15.10)</p> <p>...enterprise resource management system coupled with stronger governance arrangements to deliver an improved performance management framework. (15.26)</p> <p>...implementing an enhanced governance model for the DSTO. (17.8)</p> <p>The DSTO will integrate robust priority setting and reporting into its governance arrangements to ensure greater accountability and more transparent program management. (17.20)</p>

Source: Department of Defence, *Defending Australia in the Asia-Pacific Century: Force 2030* (Canberra: Commonwealth of Australia, 2009), references to paragraph numbers.

Governance is also a staple of the management literature, and it is this organizational sense of governance that dominates the later chapters of the White Paper. There, governance is an organizing concept, often prefixed with “robust”, a characteristic of internal systems that can be strengthened and improved in order to assist with the Defence management task. It is derived primarily from the audit, accounting and legal compliance approaches to governance. The Australian National Audit Office (ANAO) definition reflects this:

Broadly speaking, ‘corporate governance’ refers to the processes by which organisations are directed, controlled and held to account. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in the organisation.⁸

This has been embraced within sections of the Defence department—for example, it is promulgated by the Chief Information Officer Group in its online publication on IT governance—despite the ANAO itself recognizing that a broader approach was more appropriate in the public sector:

Public sector governance has a very broad coverage, including how an organisation is managed, its corporate and other structures, its culture, its policies and strategies and the way it deals with its various stakeholders. The concept encompasses the manner in which public sector organisations acquit their responsibilities of stewardship by being open, accountable and prudent in decision-making, in providing policy advice, and in managing and delivering programs.⁹

The bifurcation of governance in the White Paper is shown in Table 1. In the first column, the political sense of governance is apparent, and it is linked with economic development, growth, security, and stability. That is, governance is a matter of national and international political concern. In the second column, references to governance in Chapters 13-17 of the White Paper, governance is linked to assurance mechanisms, accountability, program and performance management, and operational effectiveness. Governance in this section of the White Paper is a tool for oversight, monitoring and control.

There is a conceptual chasm between the two columns. A White Paper cannot cover every issue, but this particular lacuna is unfortunate—it represents a missed opportunity to address fundamental governance issues in the Defence portfolio that rest in the intersection between the political and the organisational spheres.

⁸ Australian National Audit Office, *Corporate governance in Commonwealth authorities and companies*, Discussion Paper (Canberra: Commonwealth of Australia, 1999).

⁹ Australian National Audit Office, *Public Sector Governance, Better Practice Guide* (Canberra: Commonwealth of Australia, 2003).

The Intersections Matter

There is a significant degree of overlap between national/political and organisational governance, especially in the public sector. Through policy, programs and regulation, public sector organisations themselves become elements of national governance. How well they conduct themselves internally as an organisation translates into many of the indicators of “good governance”,¹⁰ including accountability, political stability, government effectiveness, and regulatory quality. This is especially true of the Defence portfolio: not simply a collection of organisations, it functions as an important institution of society in the fundamental sense of the “humanly devised constraints that shape human interaction”.¹¹ The capacity of the state to employ force to achieve its ends is itself a governance institution in this wider political and economic sense. The portfolio embodies many of the ‘rules of the game’ whereby Australians interact with each other and the world. Internal governance within the armed forces, the Defence department and the portfolio’s other agencies is important not only for the operational needs they might have from time to time, but also for the international standing of the country.

Inherently, then, the space between the two distinct governance concepts found in the White Paper is not vacant: there is a nexus between them that can and should be addressed. More importantly, it is in this space that most of the identified problems with Defence governance have arisen. The portfolio has a reputation for experiencing its most difficult moments at the interface between political and organisational imperatives. From its 2009 troubles with Minister Joel Fitzgibbon, through previous Ministers (including Peter Reith and the “children overboard” scandal), Defence has been characterized by political commentators as having a difficult relationship with the government and Minister of the day. Journalist Paul Kelly sums them up as “systemic crises that plague this portfolio” that require a Minister able and skilled enough to exercise authority over it.¹²

The White Paper Sidesteps the Diarchy

The 2007 Defence Management Review chaired by Elizabeth Prout came close to some of these issues, albeit constrained by its terms of reference from addressing them directly. It identified a wide range of other management problems in Defence,¹³ which were addressed in the official response to the review and subsequently implemented. It also tangentially considered governance. It recommended clarifying and separating roles and

¹⁰ Kaufmann, Kraay, and Zoido, *Governance Matters*.

¹¹ Douglass North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990).

¹² Paul Kelly, ‘Oh What a Lovely Crisis’, *The Australian*, 6 June 2009.

¹³ Paul Dibb, *Independent Management Review Highly Critical of Defence*, at <http://rspas.anu.edu.au/sdsc/analysis.php?person=dibbp_sdsc> [Accessed 4 July 2009].

responsibilities in the so-called diarchy whereby responsibilities are shared between the Chief of the Defence Force (CDF) and the Secretary of the Department, as a way of addressing the governance problems. This was the one recommendation not accepted by the Minister.

The Defence hierarchy seems comfortable with the arrangement:

The diarchy is a governance structure unique in the Commonwealth public service. It reflects the amalgamation of what were previously discrete entities into the one Defence organisation.

The diarchy reflects the individual responsibilities and accountabilities of the Chief of the Defence Force and the Secretary, and also their joint responsibilities and accountabilities, in ensuring that the Defence organisation delivers to the Australian Government outcomes that go to meeting the goal of defending Australia and its national interests...¹⁴

Its opponents include the Australian Defence Association, which sees it at the core of governance problems in Defence:

Every review of the defence structure has offered obeisance to the diarchy without ever justifying that near religious devotion... Nowhere is any clear division of actual responsibility stated and the separation of roles is effectively neutralized ... the very proper political control of the military was replaced by an improper public service control. This fundamental weakness resulted in more than two decades of conflict between the military and the public service...¹⁵

In a more measured approach, Quigley examines the rationale for the abolition of the diarchy in New Zealand. He identifies some initial problems following the split of the New Zealand defence portfolio into effectively two departments, but concludes that there have been two important advantages over the diarchy: the Secretary of the Ministry of Defence can be “an alternate and independent source of distinctive but informed views” and accountability, especially financially, has been enhanced.¹⁶

The White Paper does not consider these questions. This may in part be simply a reluctance to pick an unnecessary fight: opinions amongst external observers differ widely and are strongly held. Moreover, the issues were considered extensively, in the lead up to the Defence Management Review released, together with the government’s response, in April 2007. Assuming the diarchy is off limits, what other avenues are there to examine the links between Defence’s political and organisational governance?

¹⁴ Department of Defence, <www.defence.gov.au/cdf/diarchy> [Accessed 12 June 2009].

¹⁵ Australian Defence Force Association, ‘Defending Australia’, <www.ada.asn.au> [Accessed 13 June 2009]. A detailed exposition of the theme is at Neil James, *Reform of the Defence Management Paradigm*, Working Paper (Canberra: Australian Defence Studies Centre, 2000).

¹⁶ Derek Quigley, *The Defence Diarchy: A Case Study on its Abolition in New Zealand*, Working Paper, no. 402 (Canberra: Strategic and Defence Studies Centre, Australian National University, 2007).

Splitting Defence is Not the Governance Answer

An integrated and cohesive Defence organisation is strategically important (as discussed elsewhere in the White Paper) but entails transactions costs in governance—it multiplies the degree of effort required to ensure consistency and alignment in the governance of the multiple different elements that make up the whole. Put simply, governance is harder both politically and internally within the organisation because of the size and complexity of the Defence portfolio. Since the amalgamation of the former separate departments of Army, Navy and Air in 1973, Defence has always been one of the largest portfolios in the Commonwealth. This has entailed a huge span of governance responsibilities for both Ministers and the senior military and civilian leadership.

Previous governments have attempted to solve the problem through the administrative arrangements orders (the allocation of responsibilities to Ministers, departments and agencies). In recent years, these have eschewed splitting the Defence department. The lessons from the experience of the Department of Defence Support (created following a recommendation by the Utz review in 1982, but then abolished in 1984) were that splitting accountability and responsibility between Ministers along purchaser-provider lines was distinctly unhelpful.

Successive governments since then have been inclined to integrate rather than separate Defence. The most recent instance accompanied the White Paper. The Mortimer Review of Defence procurement recommended that the Defence Materiel Organisation (DMO) should become a separate executive agency under the Public Service Act 1999. The government did not agree, because “Defence and DMO administrative structures are completely interlinked”, and the proposal would

weaken Defence’s capacity to conduct operations; undermine the CDF’s statutory authority for command of the ADF [Australian Defence Force], and the Secretary’s statutory authority for administration of Defence; entail potentially significant costs to separate DMO from Defence, and in isolation would not achieve a cultural transformation to make DMO more business-like...¹⁷

Splitting Ministerial Responsibilities Helps Manage Workloads, Not Solve Governance Problems

Rather than separation, the mechanism of junior Ministers and Parliamentary Secretaries with responsibility for distinct elements of the Defence portfolio has been more successful. The current version of this division of labour has a Minister for Defence, Minister for Defence Personnel, Materiel and Science, and a Parliamentary Secretary for Defence Support; there have

¹⁷ Department of Defence, *Response to the Report of the Defence Procurement and Sustainment Review* (Canberra: Commonwealth of Australia 2009), pp. 35, 37.

been numerous variations on the theme in previous Ministries. It helps spread the workload but whether it aids in ensuring effective government guidance and building confidence in Defence as an effective institution of Australian society is debatable.

The Minister for Defence retains the key role in governance, acting as the conduit for the accountability of the portfolio to the government, parliament and people. This is an inevitable consequence of Australia's version of the Westminster system. Although Westminster takes many forms, and has evolved considerably even in Westminster, let alone in the Pacific,¹⁸ ministerial accountability for his or her portfolio remains at the heart of Australia's interpretation of the Westminster legacy. The role of the Minister at the apex of that accountability relationship is not easily delegated to junior Ministers or Parliamentary Secretaries, except in the rare cases where a highly specific project can be carved out of the portfolio and very clearly designated as a separate responsibility.

This means that governance responsibility continues to rest with the Minister, who as a consequence carries an extraordinarily large workload. The capacity of Ministers to deal with their responsibilities varies depending on the person, but for even the most diligent and efficient Minister there are limits to how much responsibility they can manage effectively, given the complexity of the issues involved and the demands on the Minister's time. The problem of Ministerial overload has been recognised for many years¹⁹ and governments have sought to deal with it primarily through internal mechanisms such as greatly increased staffing for Minister's offices and an increased role for the Prime Minister's office and department.

In some portfolios, a workable solution has seen a stronger delineation of a Minister's role as being strategic oversight of policy, where the Minister sets broad directions and leaves the Department and agencies concerned to manage the detail. This is more difficult in Defence, a portfolio where most of what engages Ministers is detail: operations, personnel, organisation and the like. Examination of recent Ministerial media releases shows that almost all (aside from travel announcements) relate to administrative matters: seeking or awarding tenders, project plans and funding reports, contractual matters, employment, housing and other conditions. Most of these were issued by the Minister for Defence Personnel, Materiel and Science or the Parliamentary Secretary. Nevertheless, experience shows that although a Minister for Defence will attempt to keep focused on broader strategic issues, when problems arise the Minister will become involved (not always by choice). The last months of the tenure of the former Defence Minister

¹⁸ H. Patapan, J. Wanna and P. Weller (eds.), *Westminster Legacies: Democracy and Responsible Government in Asia and the Pacific* (Sydney: UNSW Press, 2005).

¹⁹ Patrick Weller and Michelle Grattan, *Can Ministers cope? Australian federal Ministers at work* (Richmond: Hutchinson Australia, 1981).

Joel Fitzgibbon were dominated by the department's handling of recovery of overpayments from Special Air Service pay packets: an issue not of grand strategy, but humble detail of administrative processes.

The interface between the portfolio and the government would probably improve were Ministers less involved in detail, but for that to happen, Ministers and the Prime Minister would need a high level of assurance on administrative matters. There is a legacy of matters of details that have caused public embarrassment to Ministers—ranging from contracts that have not delivered the desired capability to regular qualifications of departmental accounts by the Auditor-General (for the first time in many years, the department last year produced unqualified accounts). Here again, the organisational governance structures in Defence—including its assurance and control mechanisms—have a broader impact on Australia's reputation for government effectiveness.

The Significance of the Strategic Reform Advisory Board

In that light, the most significant governance initiative in the White Paper is the creation of a Defence Strategic Reform Advisory Board (DSRAB). This will be

chaired by a person from the private sector with the appropriate skills and experience to advise on a significant reform program in a large and complex organisation. The key functions of the Board will be to provide advice on how the reforms should be implemented, and assist in ensuring the reforms are being implemented in the way intended by Government. The Board will comprise an appropriate balance of internal and external members. Public sector members of the Board will include the Secretaries of...the Department of the Prime Minister and Cabinet [PM&C], the Treasury, the Department of Finance and Deregulation; and the Secretary of Defence, the Chief of the Defence Force and the Chief Executive Officer of the DMO. To ensure that strategic reform is pursued on a whole of portfolio basis, the Board will encompass the functions of the former Defence Procurement Advisory Board. The Board will report to the Minister for Defence, who will in turn advise the National Security Committee of Cabinet of progress in Defence reform.²⁰

This is a powerful group. It is also unprecedented in recent administrative experience. The Secretaries of the three key central agencies (PM&C, Treasury, Finance and Deregulation) participate in forums such as the Management Advisory Committee that include all Secretaries, and many committees and taskforces will include representatives of their three departments; but the DSRAB is the only instance in the current government where the heads of all three central departments have been appointed to a governance body advising on reforms in another department. The appointment of an independent chair from outside the public service means

²⁰ Department of Defence, *Defending Australia in the Asia-Pacific Century: Force 2030* (Canberra: Commonwealth of Australia, 2009), para. 13.31.

that the agenda for the DSRAB will be guided externally rather than set within the Defence organisation. Its reporting line through to the National Security Committee (NSC) of Cabinet will ensure its voice is heard.

This does have risks for Defence, especially if the objectives of the reform program are not met. It also opens up the organisation to a higher level of scrutiny than it has experienced in recent years. There are, however, potentially aspects of the proposal that offer the prospect of significant improvement in Defence governance. The focus of the NSC, since the changes in the international environment brought about by the 9/11 attacks in the United States, has been on the so-called war on terror. This has meant that intelligence and policing have come to the fore. While Defence has been an active participant, the attention given to its activities outside the immediate anti-terror concerns has been relatively lower than in previous years. The priority being afforded to the Defence Strategic Reform program will bring the Defence portfolio back to a prominent place on the agenda.

Moreover, the DSRAB will introduce a greater level of transparency into the operations of the Defence organisation. Transparency is one of the key indicators of good governance—something recognized in the White Paper.²¹ A lack of transparency has contributed to some of the greatest governance scandals in Australian history:

[any] field in which small, tight-knit policy communities drive the political agenda—media, communications, defence and security—all have the potential to develop equivalents to the AWB [Australian Wheat Board] scandal ... transparency is the best defence.²²

A governance body of the standing and importance of the DSRAB will not confine itself simply to passively monitoring progress. It is more likely to interpret its remit to advise government as an opportunity to exercise a guiding role in support of the government's strategic intentions for the Defence portfolio. Although the White Paper does not explicitly bridge the gap between the political and organizational concepts of governance, the DSRAB is likely to end up doing so.

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²¹ "Transparency in strategic affairs is crucial in building confidence in the international community ... no less importantly, members of the ADF and other parts of the Defence organisation should have a clear sense of what is expected of them" Ibid., para. 1.28-1.29.

²² Stephen Bartos, *Against the Grain—the AWB Scandal and Why it Happened* (Sydney: UNSW Press, 2006).