
Strategic Reform: More than Systems and Processes

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Government's funding guidance is driving Defence to reduce its spending. The Strategic Reform Program (SRP) is planned to deliver \$20billion in savings to partly fund the capital program. Its targets include enhanced accountability, productivity and integrated planning. These are to be achieved through implementation of savings and non-savings reform streams. The lessons of other reform programs provide a beacon for the SRP. These lessons include: contestability improves performance; continuing political mandate maintains interest; out of the box thinking can lead to better solutions and efficiencies; and leadership drives reform. However, true reform will only be realised if the current focus on structural and mechanical change is augmented by a shift in organisational culture.

...success ahead will depend more on character, sense of purpose, and values—the nation's, the President's, my own and the troops—than on raw military power.

Tommy Franks, *American Soldier: an Autobiography* (New York: Harper Collins, 2004), p. ix.

Strategic Reform

Chapter Thirteen of the White Paper deals with the government's Strategic Reform Program (SRP) for Defence, which is targeted to fundamentally overhaul the Defence enterprise, producing savings of about \$20 billion. Success of the SRP requires that there be a sense of purpose to reform at all levels: Prime Minister, ministers, senior leaders, troops and staff. If this sense of purpose falters, at any level, the SRP will simply fail. Reform cannot be institutionalised simply through mechanistic structures or authoritarian behaviour. Reform must be a mindset for all. Defence's challenge is not just the here and now, but inculcating this mindset for the decade. Keen Defence observers may be asking: 'Is this SRP any different from many other reform programs of the past?'

There are two significant external factors that impact on this reform: the macro economic environment, dramatically shaped by current and, potentially, continuing global financial crisis, and micro-economic reform, government's apparent intent to constrain or reduce Defence's overall cost to the Australian taxpayer. Defence finds itself operating in a very different economy than it has done in the past. Federal Treasurer, the Honourable Wayne Swan MP, in his Budget Speech, 2009-10 focused the attention of major enterprises, public and private, when he stated:

The Budget is forged in the fire of the most challenging global economic conditions since the great Depression ... since September last year, almost all major economies have gone into recession, dragging ours into recession ... and it will take hard choices; doing more with less.¹

By this budget and the White paper, Government has declared the strategic context in which Defence is to operate. Consequently, Defence must do more with less, living within its means.

Although government continues to provide strong and sustainable funding for Defence with 3% real growth until 2017-18 and 2.2% real growth thereafter to 2030, it has changed the input cost indexation basis through the application of a fixed 2.5%. This funding scheme is intended to “constrain Defence’s call on national resources”,² thereby achieving the government’s reform objective. Furthermore, despite the appearance of commitment from the former and current governments, the rate of real growth in funding is in decline. From the period 2000-01 to 2008-09, Defence funding increased by 44% in real terms. This is equivalent to a compounding average annual rate of real growth of 4.7%, above the former and current government’s parameters.

There are two specific cost pressures on affordability of the capability plan. Treasury is forecasting a medium term return to growth in the Australian economy, potentially pressuring input prices. Major defence platform costs historically increase at a rate greater than a consumer index. Any increases in real costs in excess of the allowed rate would require Defence to generate additional efficiencies.

Government’s Directive: Chapter 13 of the White Paper

Government considers deep reform of how Defence does business to be a critical national priority, helping to ensure that the goals set out in the White Paper are delivered. Chapter Thirteen of the 2009 White Paper details what Defence should do to meet the required reinvestment of savings in capability and funding shortfalls. Linking the Strategic Reform savings to White Paper future capability means that failure to meet these targets would not only fail the taxpayer, but rob Defence of vital future capability funding. Accordingly, Defence must become a

cost-conscious enterprise in which leaders and managers at every level understand and act on the need to free-up the maximum amount of funding for reinvestment in current and future capability³

This must become a mindset for all. The SRP

¹ Wayne Swan, Treasurer of the Commonwealth of Australia, Budget Speech 2009-10, Second Reading of the Appropriation Bill (No.1), 12 May 2009.

² Department of Defence, *Defending Australia in the Asia Pacific Century: Force 2030* (Canberra: Commonwealth of Australia, 2009), p. 108

³ *Ibid.*, p. 107.

must be planned, led and managed on a whole-of enterprise basis. Defence leaders at every level must be clear about, and held to account for, their specific contribution to the success of reform and ultimately the organisation as a whole.⁴

The reform targets are improved accountability, improved planning, and enhanced productivity.

IMPROVED ACCOUNTABILITY

Government has been prescriptive on what Defence needs to do to achieve these objectives:

To meet the objective of improved accountability, Defence will:

- clarify who is accountable for what in relation to key deliverables, and
- improve its business planning and enterprise-level risk management functions and capabilities.⁵

OUTPUT DRIVEN BUDGET FRAMEWORK

Fundamental to the accountability objective will be a new budgeting framework that is based on an output driven budget model. It is intended to give greater responsibility to managers and drive greater transparency and accountability. It is envisaged that through the introduction of output-based budget management, capability managers and service providers, such as the Defence Support Group, will cut unnecessary costs and achieve value for money in delivering the outputs for which they are accountable:

This initiative will be based on clear, precise and documented service level agreements and other performance management arrangements. There will be much greater visibility of the true costs of goods and services used within Defence, without the need for complex transfer pricing arrangements. At the same time, Defence will continue to consolidate, centralise and standardise shared services.⁶

IMPROVED PLANNING

Several revised process steps and clearer accountabilities in the capability development process and a five year White Paper cycle are at the centre of the new risk-based planning regime. Defence Planning Guidance will inform

force structure and capability development, corporate planning, enterprise-level risk management and resource planning, the management of ADF [Australian Defence Force] preparedness and critical enabling functions.⁷

⁴ Ibid., p. 108.

⁵ Ibid., p. 109.

⁶ Ibid.

⁷ Ibid., p. 110.

BETTER MANAGING DEFENCE COST

An outcome from improving Defence's planning processes is better management of costs and financial risks. Government wants Defence to focus on

improving the way it plans and manages major acquisitions, and personnel and operating costs. These reforms will include changes to the capability development process to tighten the link between strategic requirements and capability decisions, and improve the quality of long-term cost estimates.⁸

ENHANCED PRODUCTIVITY

Government expects Defence to instil business-like practices into its 'backbone', including every facet of human resources management, personnel administration, financial services, procurement and contracting, general service delivery, and administrative support functions. This commercial reform, unlike previous initiatives, is to be undertaken on an enterprise-wide basis and look at the end-to-end process. Government's intent is that each capability and support function will be reviewed and made more commercial. Notwithstanding Defence's success in deep reform and fixing the backbone, government will get its way through the portfolio budget statements.

GOVERNANCE

Government is prepared to spend in order to save. On this basis, it is holding Defence to account for implementation of the White Paper's policy intent and recommendations. This will be achieved by development of a

robust governance structure and assurance framework. ... Accountability for implementation will be devolved to the line leadership responsible for each area of reform, but will be coordinated centrally through the [SRP] and underpinned by clear performance measures and milestones.⁹

A Defence Strategic Reform Advisory Board will be formed. In addition,

Defence will establish, and resource appropriately, internal arrangements to support and facilitate the reform effort. It will also build the expert capabilities, including by tapping commercial expertise where appropriate, to ensure that deep reform can be implemented successfully and to the standard required by Government.¹⁰

Defence's Response: Force 2030

Defence's response to the government's change directive is outlined in *Strategic Reform Program 2009: Force 2030*, which sets out 'how' the SRP will be achieved through comprehensively and fundamentally rebuilding the supporting 'backbone'.

⁸ Ibid., p. 109.

⁹ Ibid., p. 111.

¹⁰ Ibid., p. 112.

KEY OBJECTIVES

Defence has interpreted the government's key objectives, accountability, planning and productivity as meaning:

- Improved Accountability by Defence—providing much greater transparency—that is, visibility [leading to accountability] of how Defence manages [its] budget ...
- Improved Planning by Defence – [to] strengthen the link between strategic planning and the definition and development of military capabilities; better control the cost of military preparedness; and [enhanced forecasting and management of] major acquisitions.
- Enhanced Productivity by Defence –implementing smarter, tighter and more cost effective business processes.¹¹

REFORM STREAMS

Defence will execute government's intent through 15 interconnected work-streams “that will take between three to five years to fully implement and deliver mature savings.”¹² The reform streams are summarized in Table 1.

Table 1: Strategic Reform Program Savings Streams

Savings Streams	Non-Savings Streams
Workforce and shared services (\$3.3 billion)	Strategy-led planning
Information and communications technology (\$1.9 billion)	Preparedness
Smart maintenance (\$4.4 billion)	Output-focused budget model
Inventory (\$700 million)	Estate
Logistics (\$380 million)	Science and technology
Non-equipment procurement (\$4.4 billion)	Intelligence
Reserves (\$380 million)	Procurement and sustainment

Source: Department of Defence, *The Strategic Reform Program 2009* (Canberra: Commonwealth of Australia, 2009), p. 8.

IMPLEMENTATION FRAMEWORK

Defence has made it clear that it wants to own this “accountability framework and drive the reform process”.¹³ Defence is building an internal governance framework, with clear lines of accountability that includes the Strategic Reform Advisory Board. The Secretary and the Chief of the Defence Force will be responsible at the portfolio level for SRP delivery, and will be supported by a new Deputy Secretary for Strategic Reform. This position “will be responsible and accountable for high-level integration, coordination and oversight of the Strategic Reform Program”.

¹¹ Department of Defence, *The Strategic Reform Program 2009* (Canberra: Commonwealth of Australia, 2009), p. 5.

¹² Ibid. The list of 15 reform streams also includes the previously announced Defence Savings Program that is to achieve \$5.1 billion.

¹³ Ibid., p. 24.

The Defence Committee will monitor overall progress on reform while the Defence Audit and Risk Committee, with its independent chair, will be an important source of advice on risk mitigation in particular.

Each reform stream will be the subject of a formal, transparent, collaborative governance mechanism chaired by and comprising senior officials at the Senior Executive Service Band 3 and Military Three Star level. These 'Reform Stream Governance Committees' will meet quarterly while working groups chaired for the most part at the Senior Executive Service Band 2 or Military Two Star level will meet monthly.¹⁴

Case Studies: Commercial Support Program/ Australian Defence Production Assets

Defence's response to *Force 2030* provides a solid theoretical platform for it to meet the White Paper's challenges. Defence has detailed how it will: improve accountabilities; target streams of work; organise itself, and report on progress. However, the real test is the practical application of its blueprint. Examination of both Defence's Commercial Support Program (CSP) in the late 1990s and the commercialisation and ultimate privatisation of Australia's defence production assets from the late 1980s and into the 1990s provide some points of comparison and, potentially, lessons for the implementation of the current program. According to the Australian National Audit Office, the CSP largely achieved the stated goal of cost savings¹⁵ by introducing contestability in the provision of a range of logistic, garrison and administrative services previously provided from within the Defence organisation. The reform target was clearly cost savings. However, the cost and career benefits of a better aligned workforce, less reliant on military members in the performance of civilian functions, were recognised.

LESSON: CONTESTABILITY IMPROVES PERFORMANCE

In several contests the in-house provider won through against industry, usually through implementing new more cost-effective ways of working. The auditor also commented favourably on the 'top-down' approach to determining candidate services that were to be market-tested and found that overall there was an improvement in the quality of services provided, as assessed by the customer base. Some process improvement potential was noted in time taken and level of critical examination of demand requirements. A word of caution was also expressed that Defence would need to monitor service delivery, by both in-house and industry providers, for any potential adverse impacts on the core business through poor or degraded service provision.¹⁶

¹⁴ Ibid., p. 25.

¹⁵ Auditor-General, *Performance Audit Commercial Support Program Department of Defence*, Audit Report, no.2 (Canberra: Australian National Audit Office, 1998), p. 10.

¹⁶ Ibid., pp. 8, 11-12.

The program to commercialise and then privatise defence production through the late 1980's largely met the apparent reform targets by delivering enduring cost savings and allowing local productive capability and capacity to be developed and sustained, considering both the economics and imperatives of strategic supply. *The ADI Story*¹⁷ records the journey from industrial production in government ownership through efficiency initiatives, then progressive introduction of market forces—first in the commercialisation phase, then through ultimate privatisation.

LESSON: POLITICAL MANDATE

The launch-pad for change was recognition at the political level of the unsustainability of the current arrangements. Minister Beazley identified a

clear sense of outrage within Defence that they should be effectively carrying an organisation (the Office of Defence Production) with such extraordinary industrial practices and such a poor record of delivery.¹⁸

Notwithstanding, as the program evolved, the demand side was challenged; both strategic supply considerations and production economics were constantly re-visited. What was seen as a natural tendency of public servants to resist shedding any power and seemingly intractable problems of extant work practices were met by often abrupt and game-changing initiatives by the transformation management.¹⁹ This approach continued beyond the commercialisation phase as the enterprise was being readied for privatisation. This is not to suggest that the business was simply thrown at the mercy of the market. Progressively the business was exposed, first by being required to compete in other markets on the basis of full cost recovery, then through introduction of contestability and reduction of natural protection.

LESSON: LEADERSHIP DRIVES REFORM

Throughout its life, this transformation program benefited from strong leadership. There was political will and continuing involvement. Outsiders, although from the bureaucracy, were drawn in to execute on the plan and there was continuity in the senior team. On ammunition production, a major component, Chris Coulthard-Clark reflects on what was clearly a feature of the whole reform:

A confluence of factors, in the form of managers willing to take hard but sound commercial decisions and a government now sufficiently distanced from the political consequences to be prepared to support it, allowed this far-reaching reform to be implemented rapidly and confidently.²⁰

¹⁷ Chris Coulthard-Clark, *Breaking Free: Transforming Australia's Defence Industry: The ADI Story* (Melbourne: Australian Scholarly Publishing, 1999).

¹⁸ *Ibid.*, p. 75.

¹⁹ *Ibid.*, pp. 85, 100.

²⁰ *Ibid.*, p. 193.

The business transformation approach of Ken Harris, who together with Lionel Woodward is credited with much of the success, is typified by

keep you plans secret until finalised, obtain endorsement for action at the highest level, then move rapidly and ruthlessly before any opposition had time to delay, block or force modification.²¹

Cautions for the Strategic Reform Program

Although it is not publicly released, the focus of the Pappas review can be gleaned from its formal title, the *Defence Budget Audit*. Clearly, the core interest of the recent review was the potential for efficiencies to be obtained across the portfolio, manifesting in long-term cost savings. While the above two reform examples provide some lessons focused on 'efficiency' reform, and Pappas may have informed deliberations about savings potential, it should be recognised that the SRP has three reform targets: accountability, productivity (or efficiency) and integrated planning. Mortimer and Proust may have also influenced government's expectations and requirements of the SRP and, hence, establishment and elaboration on the reform targets.

Mortimer addressed issues that concern efficiency and funds management including the need for financial integrity in the capital program, processes of capability planning and efficient engagement between the capability development function and the acquisition function. Additionally, and perhaps more significant in this discussion of the SRP, Mortimer recommended, and government decided, on a range of measures to better integrate planning and clarify accountabilities. Proust also commented on management effectiveness paying particular attention to issues of accountability and cost-consciousness, and the role of systems and processes in the pursuit of efficiencies.

Testing the lessons from reforms and reviews discussed above against the SRP reform targets and approach, suggests several areas for consideration. These include: accountability, risk management; maintaining the appetite for reform; achieving fundamental change in the way business is done; and achieving fundamental change in the way the business is managed.

ACCOUNTABILITY

We would suggest that the *sine qua non* of a successful implementation framework is to specify bounds within which each 'accountability group' can operate relatively freely, but beyond which they must not traverse. These bounds not only have to be selected carefully so as to encourage and not stifle innovation, but they must balance incentives, workforce mix, operational readiness (including training levels, support services availability, platform availability, etc) and logistics efficiencies.

²¹ Ibid., p. 175.

This framework should be constructed in terms of a hierarchy, in terms of a layered series of implementations that ensures that various types of savings are not missed, and that are tailored to the specific reform streams. These structures will be entrenched for the next 5 years and longer. It will be interesting to observe how effective they are in driving the mindset of reform, not just the mechanical steps.

SRP IMPLEMENTATION: RISK PERSPECTIVE

Appropriately, the future strategic planning environment is risk-based. This should flow through to the implementation of the SRP. There is a case for active risk management and oversight at such a level that corrective action can and would be launched in the event that planning and execution part company. A risk framework could be built on three domains: risk to operations; risk to savings mandates and, given the political mandate, reputational risk. Features of the SRP that make risk management more important include: the ten year time-frame and increasing savings stream; the 'soft' elements that underpin the ability to secure and sustain efficiencies; expectation of leadership changes over the period of change; and unknown level of future operational activity.

THINKING OUTSIDE THE BOX

The above-mentioned reform programs fundamentally challenged boundaries, especially the boundaries between industry and the public sector. Defence may need to consider re-drawing or testing these boundaries in relation to broader solution-thinking in process-related areas. This broader view may be beyond the current scope of consideration in the savings-streams. Other defence-related reform programs have embraced a wide view of change. For example, UK Ministry of Defence has successfully moved its personnel processing to a 'PPP' vehicle, Armed Forces Personnel Administration Agency (AFPAA).²² AFPAA has subsequently incorporated administration of veterans' payments and benefits. This achieved costs savings but, importantly, also reversed the trend of increasing costs associated with the former arrangements. A further example can be found with US Army's Logistics Modernization Program,²³ which effectively outsourced the problem of supporting logistics information systems and the necessary generational change. This outsourcing initiative was the catalyst and enabler for the transformation of Army Logistics.

THE IMPORTANCE OF EARLY WINS

The reform program will span several governments and leadership changes. Accordingly, success will in part depend on the extent to an appetite for

²² UK Ministry of Defence, *Armed Forces Personnel Administration Agency Corporate Plan 2005/06-2009/10*, <http://www.mod.uk/NR/rdonlyres/A99CF352-D623-48E6-9E8F-EC09D956607F/0/afpaa_200506corporateplan.pdf> [Accessed 24 June 2009].

²³ US Army Logistics Modernisation Program, <https://www.po.lmp.army.mil/_site/index.html> [Accessed 24 June 2009].

reform can be embedded and early successes can provide demonstrable examples of the benefits of change. Bedding-down early some of the main processes, especially those that span multiple organisational units, such as capability development and acquisition processes, will be critical if resistance to change is to be contained and that energy re-directed. The 'soft' reform targets, accountability and integrated planning, may prove more difficult than more objectively determined efficiency initiatives, as they challenge the traditional boundaries. Yet early success in these reform targets is both difficult to measure and a critical foundation of the 'savings-streams'.

The SRP identifies several non-savings streams that are necessary for the achievement of reform targets of accountability and integrated planning. Notwithstanding, the SRP does not directly address cultural issues associated with cost-consciousness and a constant search for efficiency and effectiveness. Absent specific 'cultural change' programs, which have often only subjective outcomes, Defence may need to ensure that the non-savings reform streams are delivered in such a way as to instil some of these virtues through tight process, controls and reporting.

Conclusion

Government is forcing Defence to fundamentally re-think many aspects of its business, especially its service delivery framework, through the funding model and SRP stratagem. In the shadow of the global financial crisis, the emerging challengers to the United States of America and the heightened regional instability, it is Defence's moment to step up and deliver on the government's agenda.

Of critical importance will be empowerment of output managers to effectively manage the means of production and be rewarded for success. The emphasis in the implementation framework so far revealed is on structural and mechanical change. There is, indeed, a place for this. However, the reform process can only succeed if major changes also take place in the workplace culture across the portfolio. Such change is necessary to sustain reform and its outcomes over the period of the present funding guidance.

Furthermore, the White Paper will only be successfully implemented if Defence reforms are carried through with great effect—in fact with much greater effect than any previous peacetime defence reform programs. Whilst this poses a great challenge for the portfolio, government must also recognise the enormity of what it has asked Defence to do. A significant risk is that complexity overwhelms and success appears so distant that, aided by human frailty, Defence capitulates and takes the easy route.

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