

## EXAMINING DEFENCE FROM FIRST PRINCIPLES<sup>1</sup>

### The Need for a Strategic Shift

The start point for adopting a first-principles analysis of Defence is to recognise the need for a strategic shift in its plans and priorities. The nation is witnessing an unpredictable, ambiguous, complex and dangerous security environment with accelerating rates of political, operational and technological change, all coupled with fiscal constraints that will demand hard choices and difficult prioritisation decisions. Significant agendas will be needed in areas such as political-military, operational, and force structure changes.

This means new strategic guidance, force structure priorities and force-sizing constructs, force employment frameworks, budget proposals, operational concepts, preparedness improvement plans, reform priorities, and alliance and partnership-building activities must be defined with greater precision. These changes would constitute an important and necessary shift in Australia's national security strategy and defence affairs.

Defence will need to muster and sustain the capacity to carry out complex and wide-ranging change that has many interacting parts. There will be difficult issues that cannot be finessed and hard decisions will be needed. Success will require exceptional skill in using scarce resources, pursuing difficult innovations, and fielding a future force that has the needed flexibility and agility to meet Australia's strategic requirements. New concepts will emerge and will need rapid testing and evaluation. Plausible alternatives will need to be considered.

All of this needs to be done well to ensure the future ADF remains capable of protecting Australia's national interests with acceptable, manageable risks. But implementation will be a challenge – it is a complex challenge that requires systems thinking and a system-of-systems approach allowing decision-makers to look at the situation holistically and to analyse and understand the evolving nature of emergent trends and patterns.

Implementation will demand greater alignment across strategy, force structuring, and changes in people, processes, organisational structures, and technology, particularly information technology. Implementing this successfully will demand coordinated and persistent approaches that leverage whole-of-government initiatives, public-private partnerships, and transnational approaches.

While a priority must be given to developing joint force concepts and constructs, assistance must also be provided to the Service Chiefs as capability managers in raising, training, and sustaining their forces so that their contributions can come together to form a cohesive and joint whole. Leadership development will be critical, emphasising as it must, innovative thinking and action under resource constraints and operational uncertainty. Concepts that support more rapid acquisition and deployment of capabilities deserve far greater attention.

Sustained quality governance in this changing world will be essential, particularly as new abilities required of Defence people – both in staff and operational roles – will need to be supplemented within public-private, whole-of-government, and transnational cooperative constructs. Greater networking across all areas will be needed to minimise stovepipes and maximise information flow.

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<sup>1</sup> This is sourced from the work of one of our consultants, with additional comment from the Managing Director of Jacobs. See Gary Waters, 'Pressing Issues for the 2015 Defence White Paper', Kokoda Foundation, 28 February 2014.

Feedback mechanisms must be in place to track progress and identify divergence from guidance early. Underlying assumptions will need to be revisited frequently, alternatives examined, and policies, strategies, and plans adjusted as needed. Decision-makers will require insights through actionable foresight early enough for them to act. Short-termism must be a thing of the past.

Core processes that address strategic policy and planning, the development of capability needs and requirements, the integration of joint capabilities, preparedness, programming and budgeting, acquisition, sustainment, and workforce planning all need to be responsive, agile and interactive enough to meet these new challenges.

### **The Need to focus on the Business of Defence**

A key secondary part of conducting a first-principles examination is the extent to which a strong focus is placed on the business of Defence. Indeed, the business challenges facing Defence are not that dissimilar to those facing companies. Many companies came into being at a time of limited competition and an abundance of resources but as they faced declining top lines and inefficient management practices they have been forced to respond so as to remain in business, especially in the face of newer, more nimble, innovative and low-cost competitors. So, they have had to develop efficient, agile management structures.

The lessons learned in industry should not have to be re-learned in Defence as it faces tough budget conditions in the face of increasingly competitive and complex threats. This means that Defence cannot institute quick fixes like across-the-board spending cuts. Instead, it has to look internally for fundamentally new ways to respond. Defence now has to reform its management practices as a source of competitive advantage — getting more capability out of each dollar spent. Granted, this idea is nothing new, but its implementation has now become an imperative.

While it is something of an anathema to view Defence as a corporation, the comparison is apt when listing the management practices of successful versus unsuccessful companies in the 21st century. Defence has much to do in emulating the success of the best performing companies and needs to address the following shortcomings urgently:

- Its heavily-centralised corporate governance model where control is concentrated at the very top, creating enormous complexity, driving up costs, slowing decision velocity, and stifling agility and innovation.
- Its culture where bad news is filtered out as it travels up the chain of command.
- The tendency to expend resources on non-core activities or capabilities.
- Multiple overlapping layers of redundant management.
- A system that takes too long and pays too much to acquire needed capability.
- Labour skills that are continuously atrophying because there is little infusion of fresh talent above entry-level.
- Increasingly expensive cost of labour and benefits.
- Little understanding of the cost of doing business or of the major cost drivers.

To truly transform, Defence needs to take a much more businesslike approach. It should reconsider its corporate governance model, work to foster an innovative, risk-based culture, baseline its costs, understand its major cost drivers, rethink its human resources strategy and reform key problem areas. It needs to learn from the best business leaders and business schools on how to be effective in the 21st century.

### **The Need for Structural Change**

Structural change is a vital outcome from this first-principles review. With an increasingly uncertain strategic environment, increasing budgetary pressure, too many competing capability aspirations, and lack of linkages between strategic planning documents, there is a need for making decision-making faster, expediting processes, and making Defence more cost-effective.

Costs, timeframes and the delivery of essential outputs must all be measurable and be measured. Through this, the benefits of any future functional restructuring can be determined in advance of embarking on the reform.

Structural reform, governance and decision-making must go well-beyond any simple tactical tweaking of long-standing processes. While solid steps have been taken to strengthen various forms of planning, reporting, accountability, consultation and review, there remains the need for a thorough-going process of effecting structural change around the priority functions of Defence, as determined by Government.

This suggests that the Government and Defence's leadership need to review carefully the priority outputs of the organisation and determine how well the current structures and systems represent world's best practice for delivering these priority outputs and what changes are required immediately, and over time, noting that current activities still need to be carried out. Stronger analytical skills and processes are needed to strengthen the quality of the Department's key decisions and other core outputs; and the senior output managers need to be properly empowered to more effectively manage the business of Defence.

### **Final Comment**

The next few years are going to be quite challenging for Australia's national security and its defence strategy and policy. There will be some very hard strategic decisions that will need to be made by Australia's leaders.

One of those decisions will be to avoid the natural temptation under budget pressure to adopt a triage approach to defence funding and deal with this year-by-year and do what has to be done to live within the funding levels, particularly if the budget does not improve. Defence cannot afford to adopt a year-by-year approach, shaving margins as it goes.

The second decision to avoid will be the typical mistake nations tend to make in straightened economic times, which is to reduce their force readiness, modernisation and logistics support. Australia cannot solve the budget challenges on the back of the force; rather, it needs to look at the defence enterprise as a whole. There has been substantial growth in overhead, infrastructure, and in personnel costs and Australia needs to ask how does it resize and reshape the defence enterprise so that it can protect the investment in readiness and modernisation that will be needed to deal with the more complex strategic environment envisioned.

Australia's national security framework has been based around a strategy of a technological or capability edge; and if the nation wants that to continue, it needs to be investing more in

Research and Development (R&D) and its people capacity that provides that edge. And this extends to Australia's defence industrial base, which means Australia must be able to attract and retain the talent needed to be able to provide an edge through both the ADF and the defence industrial base. Australia's human capital base must have technological currency and readiness.

The natural temptation to succumb to the tyranny of the inbox – to focus on the detail at the expense of the big picture – does need to be addressed. Decision-makers need to have the 'head-space' to raise their sights and frame some of the more long-term choices – both programmatic and strategic ones - that are required for the future.

Healthy commercial organisations that have gone through the economic crisis have had to carry out substantial de-layering or de-thatching. They've done a lot of workforce reshaping and resizing to be more agile and more profitable. There is a very basic principle when corporations are going through a transformation in their cost structure: they don't start with the budget they have and work out what they can cut; they start at zero and figure out what they need.

While difficult, this is also an opportunity as it illuminates assumptions that are made in an organisation about the way it has to operate that are typically historical assumptions that might no longer apply. This is not a negative reflection on the management of the Department of Defence because their hands are tied in so many different dimensions. Government actually needs to help to make any real transformation work.

Government does tend to address problems in Defence by laying on more and more regulation and reporting, without ever going back and seeing how that additional layering has really played out. A mechanism for periodic review of this additional 'soft governance' is sorely needed.

Much is expected of the first-principles review and it needs to seize the many real opportunities on offer. While part of the task is determining the way forward, the smart strategy and the associated choices, an even harder part is creating the political support for smart defence enterprise reform that can support some of the hard choices that will have to be made.

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