



Building defence capability

**The vital role
of collaboration**

kpmg.com.au



“Collaboration may be the single most important skill needed in the 21st Century security environment. But unless it can be embedded in the people, commercial models and incentives for the whole defence sector it will become a box ticking exercise.”

Steve Clark,
Defence and National Security Sector
Leader, KPMG Australia

Building defence capability	2
Adapting to a new security and policy environment	3
Opportunities and challenges	4
Kick-starting collaboration	6
Nourishing a culture of collaboration	11
An innovation ecosystem at risk?	18
Supply chain integration through collaboration	22
Summary	24

Building defence capability

87%

are either implementing a model of collaboration or planning to in the next 12-24 months

48%

rank culture as the biggest barrier to collaboration

Majority rate their organisation's collaborative maturity as average

57%

rate their partner's ability to measure outcomes from collaboration as either very poor, poor or average

In an age of increasingly complex challenges and global uncertainty, Australia's defence force must be ready with a potent and agile capability. With the Australian Government rightly focused on sustainable public expenditure and fiscal responsibility, the question is how to build and sustain that capability without simply increasing spending.

In this report we argue that a principled practice of collaboration can be the foundation. Collaboration is an effective response to change and complexity and vital for innovation. It is an effective strategy for the smarter deployment of resources, more effective management of risks and improved performance.

In a survey of Defence and industry staff we found a strong grasp of the benefits of collaboration with 87% either implementing a model of collaboration planning to in the next 12 to 24 months.

However, significant challenges remain with 74% ranking culture and leadership of both their own organisation and their main partner as the most significant barriers to more collaborative relationships.

Effective collaboration, whether between the Department of Defence and industry, between industry players or parts of Defence comes down to attitudes and behaviours. Simply relying on contracts and policy to drive more collaborative relationships will not deliver the best results.

Changing the many entrenched views and ways of working will not be easy but the potential benefits in the evolution and sustainability of Australia's defence capability make it imperative to work better together.

Adapting to a new security and policy environment

Australia's security environment is changing rapidly with the emergence of cyber-security threats, terrorist actions, fragile states and diminished rule of law in some parts of the world. The geo-political context continues to evolve with obvious strategic implications for Australia while our defence forces also continue to have a role in providing humanitarian assistance and disaster relief in the Indo-Pacific region and further afield.

Four recent policy documents create a framework for dealing with and adapting to this.

This broad policy stance implies an enormous change for defence in its structure, culture, practices and its relationship with industry – change that will bring its own challenges. It also represents a commitment to building stronger relationships with industry and driving change in Australia's innovation practices. This provides new opportunities to defence's industry partners and an opportunity to build a diverse, competitive and export-oriented Australian industry.

To achieve this, collaboration will be essential.

“To further cement and underscore this policy, it is my intent to reset the partnership between defence and industry by generating new levels of cooperation.”

Kim Gillis,
Deputy Secretary, Capability and Sustainment Group,
Department of Defence



The **First Principles Review**, released in April 2015, recommends 'root-and-branch' reform for a professional, well-governed agile and unified Defence organisation.



The **2016 Defence White Paper** describes how capability will be strengthened over the coming ten years, with a new emphasis on enabling capabilities, innovation and the role of industry, academia and other research institutions.



The **2016 Integrated Investment Plan** outlines a whole-of-capability, whole-of-life investment strategy for the ten years until 2025-26 that recognises industry as a Fundamental Input to Capability and supports both agile decision-making and long-term planning.



The **2016 Industry Policy Statement** commits to a reformed capability development process, a new approach to innovation and less red tape, designed to make it easier for industry to be a partner in building capability.

Opportunities and challenges

“Quite simply, early engagement with industry is going to be the key to taking advantage of what industry has to offer so that we are all working together to ensure that our warfighter has the best.”

Raydon Gates,
Former Chief Executive,
Lockheed Martin Australia & New Zealand

As the scale and complexity of problems increase, collaboration between organisations is increasingly recognised as an effective response. By working in deeper partnership with others organisations can solve problems that alone would be too difficult while also driving innovation, efficiency, growth and shared value.

Globally, over the next three years, CEOs plan to drive shareholder value principally through collaboration.¹ In the aerospace and defence sector collaboration is becoming a central part of growth strategies with:

Survey methodology

The online survey opened in May 2016 and received 186 responses, 56 percent from industry and 44 percent from the Department of Defence. Respondents were asked to rate the collaborative maturity of their own organisation and the organisation they collaborated with across eight characteristics shown. Ratings ran from 1, 'Very Poor', to 5, 'Excellent'.

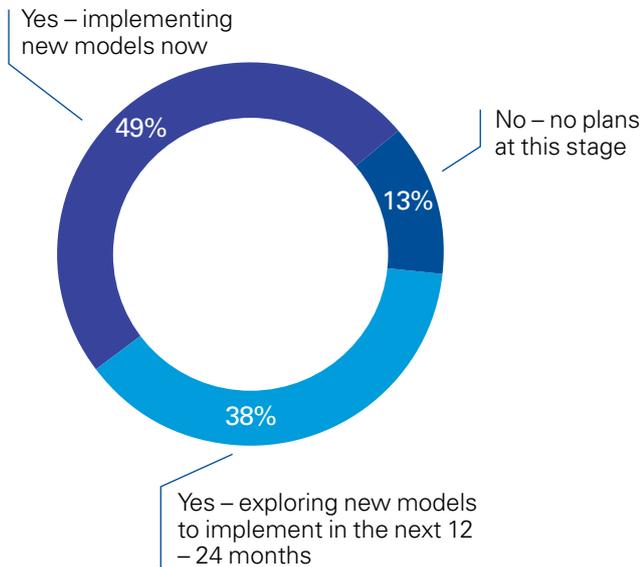
36% of executives looking to grow their businesses through joint ventures and strategic alliance.

42% of executives pursuing opportunities for informal collaboration with other organisations.

Progress in the Australian defence sector

The results of our survey showed that the majority of organisations (87 percent) are either implementing or exploring new models to improve collaboration.

Does your organisation have plans to adopt more collaborative models with customers and suppliers?



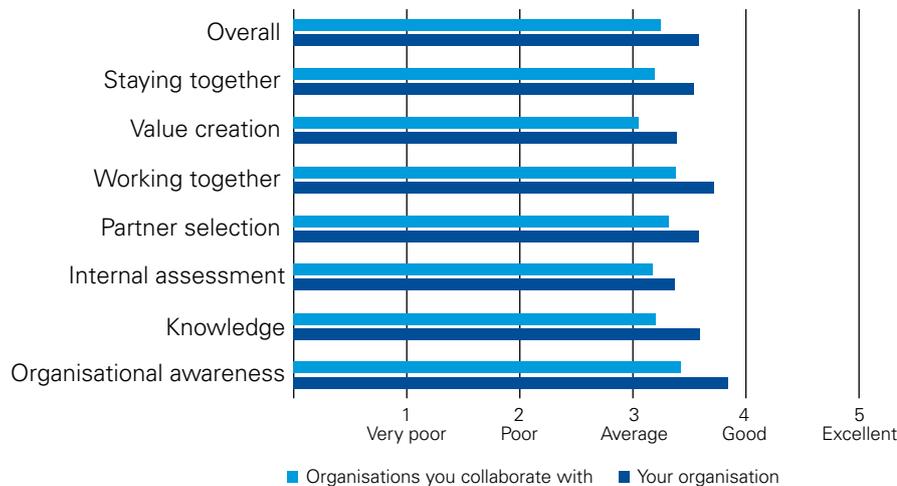
Source: KPMG defence collaboration survey, 2016.

Gaps in collaborative maturity

While the appetite for greater collaboration is a positive sign, the survey also showed gaps in the level of collaborative maturity across the sector in both Defence and industry with the majority rating their own and their partner’s level of collaborative maturity as ‘Average’.

We also see a degree of ‘them and us’ attitude with consistent ratings of their partner as weaker at collaboration than their own organisation.

There is also a consistent view that organisations rate themselves more highly than their partners.



What’s stopping us? The barriers to more collaborative business models



#1 Cultural



#2 Leadership



#3 Risk management



#4 Funding/budget

Source: KPMG defence collaboration survey, 2016.

Kick-starting collaboration

“Never lose sight of why you are collaborating – structures, systems, processes and contracts all follow from that.”

Col Thome,
Engineering Advisory Lead Partner,
KPMG Australia

There’s a clear understanding in the defence sector of the benefits of collaboration and a willingness to do it better. The question is how.

Frameworks, standards and models are an important part of any answer. They guide the design of organisational structures and processes, inform goals and governance, and set benchmarks for evaluation and continuous improvement.

Important as these are, our experience tells us that it is the culture of the organisation that makes or breaks collaboration. By this we mean the style of leadership, the language used, the unspoken attitudes and norms of practice, the organisation’s openness to change or to the new, and the incentives and deterrents that shape the behaviour and interactions of staff.

Effective collaboration emerges from an intelligent balance of both ‘hard’ and ‘soft’ skills and should be seen as an evolving, dynamic relationship.

Checklist for successful collaboration

- 1 Is there a shared vision and purpose?
- 2 What about the end user: how is customer-centricity embedded in the partnership?
- 3 What form of collaboration will best achieve the desired goals?
- 4 How well do you know each other: what research and planning needs to be done before entering the partnership?
- 5 Is the organisational culture is ready to make the collaboration successful?
- 6 What are the ground rules: what governance, knowledge, intellectual property sharing and learning frameworks need to be set up?
- 7 What’s the exit strategy to end the collaboration when needed?

Quantifying the benefits of collaboration

Defence organisations around the world are looking to transform their relationships at every part of the value chain, from research and development through to maintenance services. As this case study shows, the benefits are tangible and durable with lessons that can be applied widely to other parts of the defence organisation.

Case study: UK Ministry of Defence and Rolls-Royce

In 2003, the Ministry of Defence in the United Kingdom entered into a partnership with Rolls-Royce for support of its Turbounion RB 199 engines, with the goal of reducing the overall operating cost of logistics by 20 percent by 2005-06.

Under the terms of this contract, Rolls-Royce was the prime contractor for all repairs and overhaul work and was responsible for spares, inventory, technical support and logistics. A 'contract for availability' model was used, according to which Rolls-Royce delivered an agreed number of engines at an agreed level of capability over the length of the contract.

Lean techniques were applied to improve the efficiency of maintenance workflows, reduce costs and improve performance however some of the most notable changes were to team culture and in the department's attitude to primes—attitudes that it acknowledged were 'adversarial'. Integrated project teams with staff from the department and the prime, collocated staff and the use of gain-share and incentives payments have all contributed to a culture of partnering.

Performance

- 100 percent availability of the Tornado RB 199 engines
- Less time spent on maintenance and greater visibility of spares inventory
- Savings in maintenance costs of around £12 million in the first year shared between the department and Rolls-Royce according to the terms of the gain-share model
- Between 2001-02 to 2006-07, the Department accumulated savings on the support of Tornado of £1.3 billion and reduced the number of its staff involved in depth repair by about 360.

In 2010, the Rolls-Royce contract was renewed until April 2025.

The many forms of collaboration

Collaboration can take many forms, from joint ventures to peer networks and informal interaction.

Whether they use formal frameworks or best practice guidelines, organisations that deliberately deploy standards and procedures for inter-organisational collaboration tend to collaborate better².

- Joint ventures
- Public private partnerships
- Joint research
- Joint development, prototyping and evaluation of solutions
- Special purpose teams
- Peer review
- Shared data and information for the purposes of design, operations and service delivery
- Joint production, construction and maintenance
- Mentoring and organisational development
- Integrated supply networks and value chains geared to building capability
- Peer networks and formal interaction
- Common governance
- Sharing assets and resources

A strong and resilient framework

For a large organisation looking to put its whole enterprise on a collaborative footing, a formal framework of standards may be the way to go.

An accredited framework such as ISO 11000, Collaborative Business Relationships is one of those options and there are others. This formal framework sets standards on partner selection, knowledge management and value creation along with several other dimensions of collaboration, and can be integrated into operations, processes and procedures to optimise the benefits of collaboration between organisations.

In the UK, the Ministry of Defence, Lockheed Martin, Raytheon and others adopted this standard's predecessor, the BSI 11000 in 2010 to help guide their many collaborative partnerships.

In the United States the Department of Defense has also recently acknowledged³ the value of the framework as a guide to sustaining public-private partnerships.

2. Why Do Agencies Work Together? The Determinants of Network Formation at the Subnational Level of Government in Thailand, Krueathep, Riccucci, and Suwanmala (2010) http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1528337

3. (https://www.jisc.go.jp/international/nwip/nwip_collaborative_business_relationship_management_framework.pdf)

8 characteristics of effective collaboration



Awareness

Partners have articulated the benefits and risks and set clear and measurable business objectives. Leaders in both organisations have a strategic mandate to lead and lines of authority and accountability have been clearly established.



Knowledge

Staff in both organisations have the right competencies, behaviours and skills. Information is shared within and between organisations and there are processes and controls to capture, manage and share knowledge.



Internal assessment

Partners internally assess their collaborative effort and have systems and controls in place for supporting continuous improvement.



Partner selection

The foundation for an open, trusting and productive relationship is laid with good governance and transparent and mutually beneficial methods of contracting. Thought is given to the implications of the partnership for the rest of the organisation.



Working together

Partners have a shared approach to setting objectives, managing delivery and working out solutions to problems. They have the right leadership, strategy and behaviour in place for lasting collaboration.



Value creation

Lessons learned are incorporated into business practice and mechanisms put in place to generate ideas and innovations. Staff are encouraged to be champions of change, new ideas and innovation.



Staying together

Partners promote and monitor behaviour that maintains trust and respect and empower their staff to resolve issues. They focus on measuring benefits and the value of outputs and outcomes and are willing to adapt working styles to suit both parties.



Exit strategy

A strategy is in place to efficiently and effectively transition to another partnership or maintain business continuity if collaboration ends earlier than expected.

Defence learning from others – A cure from the Healthcare sector?

Public hospitals must deliver complex and critical services to patients in an environment characterised by shrinking budgets, large bureaucracies and fast changing technology. Collaboration between hospitals in a healthcare system is vital to deliver patient outcomes.

Eight lessons learned to facilitate successful collaboration

Eight key elements of best practice emerge from the experience of the expert commentators contributing to this paper, and the successful case studies:

1 Design the solution to match the problem

The form of collaboration should match the goals and the challenges of the institutions involved and the needs of the local health economy. A merger may be right for some Trusts, whereas others may benefit from looser alliances such as franchises.

2 Prioritise sustainability over short-term financial aims

Collaboration is complex and difficult, and leaders need time to right past wrongs and create successful new working structure and relationships. Ultimate success should be based upon care quality and value, which should be methodically tracked.

3 Ensure that both parties have something to gain...

Create common goals via binding contracts and joint performance targets, to stimulate commitment.

3 Remember, it's all about the patient

Retain a focus on patient care that transcends the egos of leaders and avoids a culture of 'winners and losers'.

5 Engage and communicate with staff

Collaboration cannot succeed without clinical involvement in planning and redesign of services. And it is an unsettling time, and all staff will want to know the progress of the transaction, and, crucially, how it may affect them.

6 Don't underestimate the importance of culture

Leaders need to understand cultural similarity difference in order to address divisive sensitivities and hence ways of working to suit all parties.

7 Standardise and codify good practice

It is much easier to transfer standardised, documented operations that are based around people, not processes, as these ensure a common approach to care.

8 Align payment and incentives

New care models should encourage collaboration across tiers of care, such as primary and community, which call for payments and incentives focused on patient value.

Nourishing a culture of collaboration

Culture is often seen as a ‘soft’ attribute with, at best, a loose connection to the performance of an organisation or partnership, while ‘hard’ factors like contracts and regulations are given disproportionate attention. With nearly half of respondents to the survey (48 percent) citing culture as the single biggest barrier to collaboration – it’s simply too big an issue to ignore.

Organisational culture emerges from a range of factors including language, unspoken attitudes and norms, openness to change and the incentives that shape behaviour and interactions of staff. It is these organisational qualities and competencies that make or break collaboration. After all, people motivated to achieve the best will address gaps or failures of practice or strategy and seek out opportunities to improve. Those that aren’t, won’t and they will also not use the tools of collaboration effectively.

A major barrier

The Ministry of Defence in the UK acknowledged, for example, that its ‘adversarial’ approach hindered the kind of partnership with Rolls-Royce which saw £12 million of savings in the first year of the contract. Excessive regard for legacy practices, red tape or simply ‘the way things are done’ obstruct work and create bad will. Teams with domineering voices and a lack of diversity in skills and backgrounds run the risk of group-think. If an organisation allows cultures like this to grow then it will put its own effectiveness, sustainability and growth at risk.

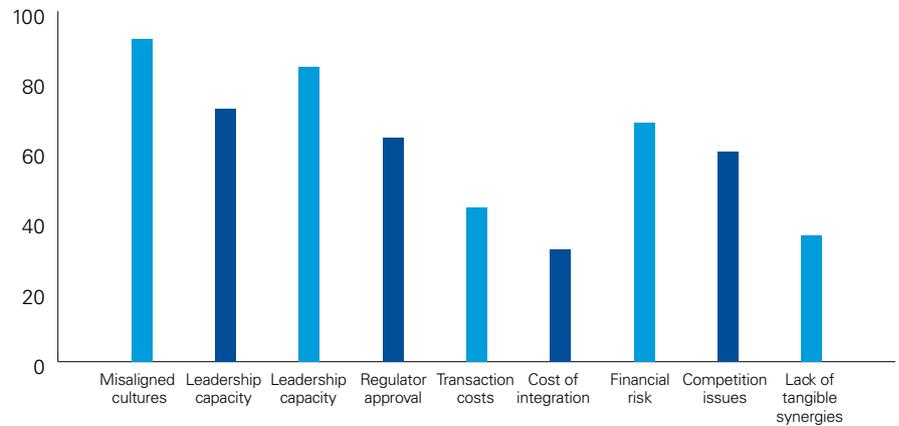
“My aim is to make sure our personnel at all levels are comfortable dealing with industry and show leadership in engaging with them and building mature, equal relationships.”

Warren McDonald,
Deputy Chief of Air Force

“Culture, more than anything, makes or breaks a partnership. There has to be trust, respect and a desire to learn and improve which can be lacking in the defence sector.”

Jane Gunn,
Partner, People & Change, KPMG Australia

The Defence sector isn't alone. Hospitals face very similar challenges to collaboration.



Source: Take me to your leader – Hospital collaboration in the NHS, KPMG, 2016.

Seeing things from the other side

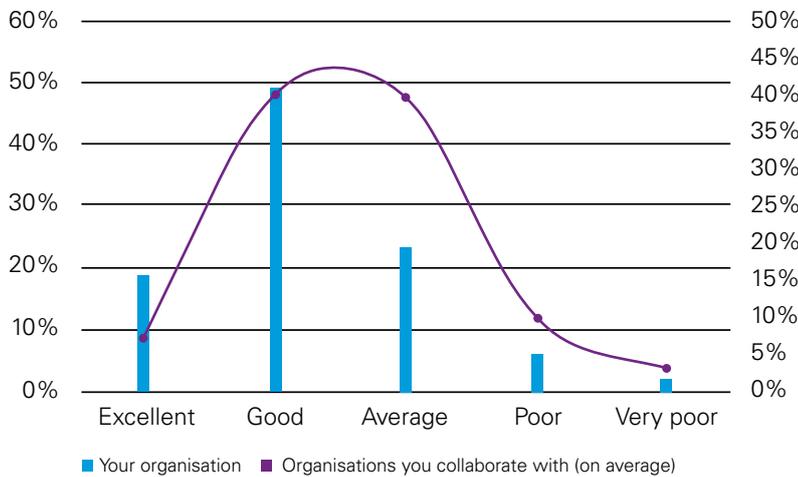
Collaborating with others requires an ability to understand their cultures and a willingness to adapt working styles accordingly. Effective collaboration also requires a realistic evaluation of the expertise and capacities of your own team member as well as those of your partner. Attitudes that ‘point the finger’ at others will hinder collaboration.

When working with others there can be a risk of overconfidence in our abilities and a perception of weakness in the partner.

When it comes to having the right leadership, strategy and behaviour for long-lasting collaboration just over 49 percent of respondents in KPMG’s defence sector survey rate their own organisation as Good. Another 24 percent rate their organisation as Average and 19 percent say their culture is Excellent.

If we turn to their perceptions of the organisations they collaborate with, we see that 40 percent rate the other organisation as Good, 40 percent Average and only 7 percent Excellent.

Rate your organisation and your partner: Good collaborators have the right leadership, strategy and behaviour to support a long lasting collaboration.



Source: KPMG defence collaboration survey, 2016.

“In uncertain environments we need to cultivate a practice of leadership, rather than the position of leadership”

Jane Gunn,
Partner, People &
Change, KPMG Australia

Cultivating leadership

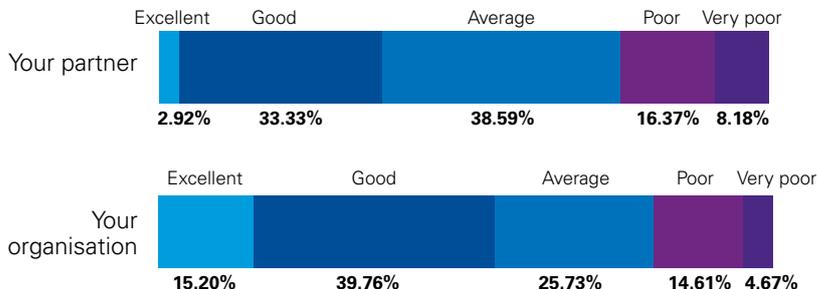
With leadership ranked as the second largest obstacle to effective collaboration, a new model of leadership is needed – one that rewards those who are open, adaptive, communicative, respectful of difference and always ready to learn. Leadership practised in this way is mindful of the interdependence of people in a partnership and wider networks and removes barriers to the flow of information. It encourages shared decision-making and a controlled experimentation with ideas and options with the aim of achieving the best outcome for all parties.

By rewarding a practice of leadership in this way rather than the position, we can start to see its potential in a collaborative partnership. We can see that these qualities and attitudes are essentially collaborative in nature, which suggests that people in all positions must be empowered to perform within the context in which they work. A widely exercised practice of leadership can open up the full bandwidth of skills, knowledge and talent in a partnership, leading to innovation and a wiser use of resources in an intelligent search for optimal solutions.

26%

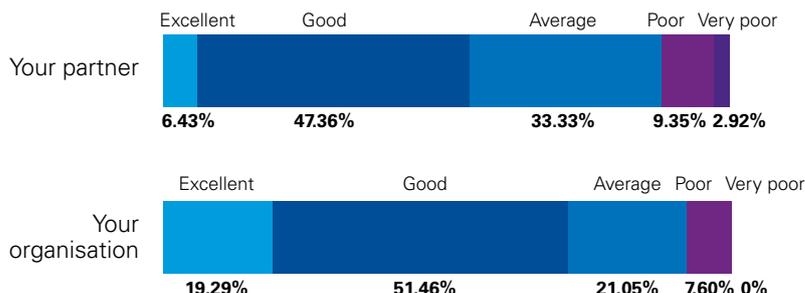
rank leadership as the biggest barrier to collaboration.

Rate your organisation and your partner: Good collaborators focus on champions of change, alternative thinking and innovation rather than see if can summarise traditional technical, command and control capabilities.



A common sense of purpose and alignment of values and behaviours is as important within an organisation as it is between organisations. Highly collaborative people build rapport, form relationships and establish mutual respect more easily. In time this leads to improved communication and greater recognition for each other’s capability and ability to innovate. The survey findings indicate that there is a level of mistrust and lack of understanding between organisations. The result is that people have a higher sense of their own organisation’s ability to be innovative and view their partner as being at less mature level. This mismatch may be a source of tension and risk.

Rate your organisation and your partner: Good collaborators have senior executives who have a strategic mandate, for creating, leading and implementing collaborative relationships. They have clear lines of authority and accountability, are empowered and held responsible for delivering agreed outcomes.

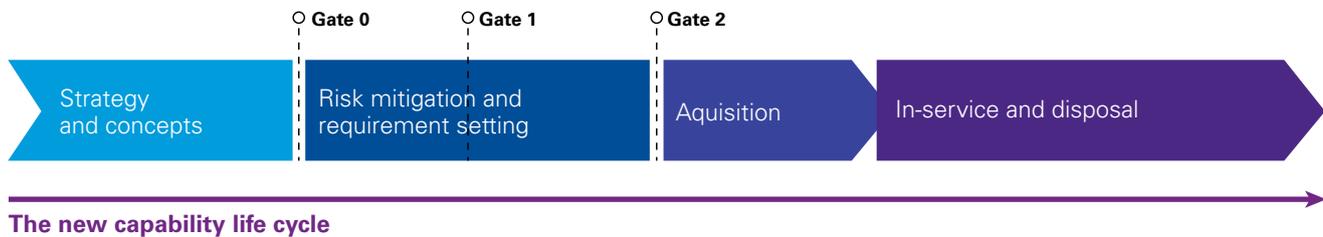


The survey found that people see their own leaders as having the freedom to operate and drive change within their own organisation, including fostering collaborative relationships and culture. Not surprisingly, people were less aware of leaders in other organisations. This result may be due to perceptions or observed behaviour. Further investigation would be required, but this trend is similar to the gap we see in how people perceive their own organisation compared to the organisation they collaborate with.

How essential is collaboration to Defence's new Capability Life Cycle?

In the 2016 Defence White Paper, Defence brought together the key elements of investment needed to deliver and sustain Australia's defence capabilities. The Integrated Investment Program is intended to facilitate the whole-of-capability and whole-of-life approach to investment. High levels of collaboration between industry and Defence's capability managers will be required to prioritise proposals and retain agility in investment decisions.

Defence's new Capability Life Cycle (CLC) requires industry involvement earlier in the process, with engagement expected to commence routinely before Gate 0 for most projects. This new approach requires capability developers to be flexible and fast, and requires a change in behaviour from all involved.



Not since the Tange Review in 1973 has there been a plan for such a fundamental change to Defence. There is strong alignment about the need to improve and do things differently. Defence acknowledges that such a significant reform agenda makes it likely that some mistakes will be made as new approaches are bedded down, but with new behaviours people should quickly learn – making the new CLC a success.

“Collaboration is effective when everyone in the organisation is working with a common vision and shared practice, with all staff empowered to show leadership and flexibility when it comes to managing risks and solving problems.”

Sally Freeman,
Partner in Charge,
Risk Consulting, KPMG
Australia

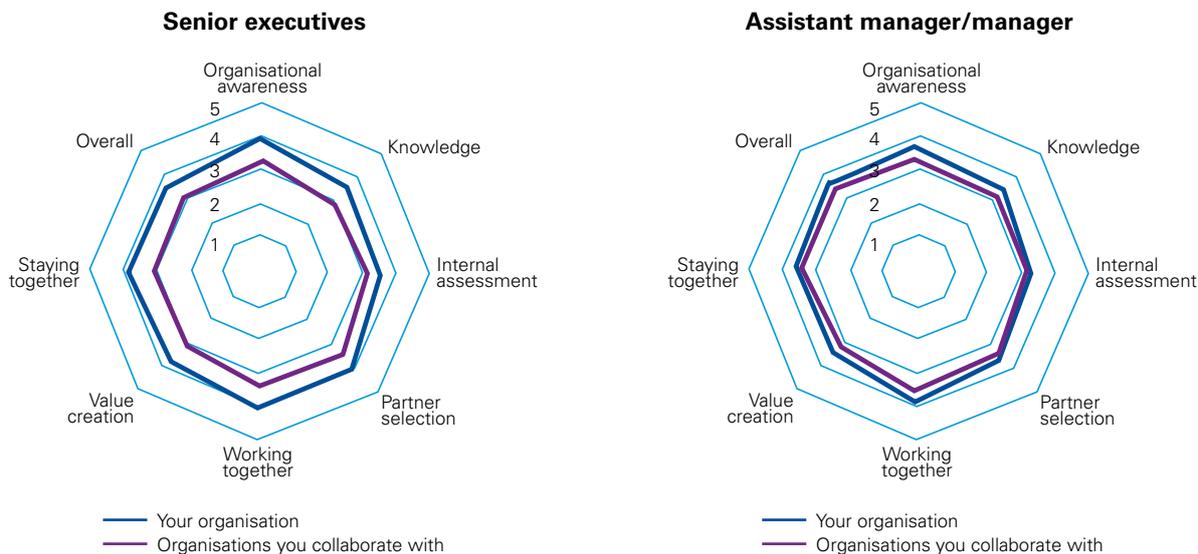
Are there organisational barriers to implementing the Smart Buyer concept?

Smart Buyer is an integral part of the CLC providing the primary means for tailoring the way in which projects pass through the CLC, based on key project risks. It provides the primary means for tailoring the way in which projects pass through the CLC, based on key project risks. Within the Defence environment, a Smart Buyer:

- first and foremost achieves good outcomes for its customers,
- enables appropriate financial return for its suppliers, and
- uses industry best practice tools and techniques to execute projects throughout the Capability Life Cycle, including through sustainment, with an optimal balance between performance, time and cost.

Smart Buyer will make the Capability and Acquisition Support Group more efficient, increasing its capacity to execute projects and programs, reducing the risk of major cost and schedule overruns and getting equipment into service more rapidly. To succeed Smart Buyer will require high levels of trust and collaboration at all levels within Defence and industry.

In KPMG’s recent survey, we found a notable difference between executives in the organisation and managers. More senior executives perceive a wider gap in collaborative maturity than their junior colleagues. The reasons for this are not clear and further analysis would be required. This ‘gap’ or lack of alignment at senior level needs to be addressed.



It's always been a matter of trust

Trust is what makes us willing to freely communicate, challenge ideas, share information and rely on the expertise of others. It also makes us willing to invest time and other resources in situations of uncertainty. It's what makes leadership effective. Without trust, there are only transactions and contracts. Collaboration is not possible nor is innovation.

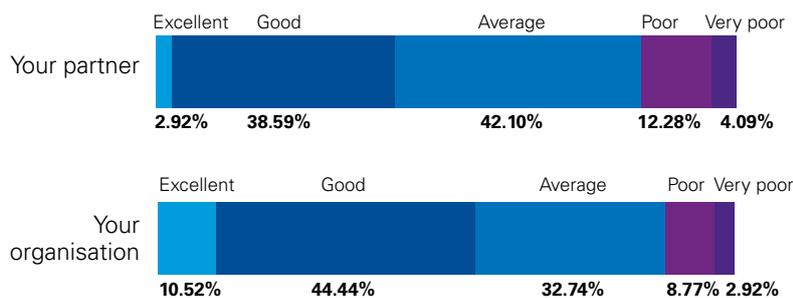
Trust cannot be commanded into existence. It depends on evidence – the behaviours and actions that signal trustworthiness, or its absence.

Actions that build trust

- Aim for lower-stake, near-term goals to demonstrate commitment,
- Find common ground and learn about new team members
- Acknowledge mistakes preconceived views
- Agree goals and performance criteria, align interests and provide incentives
- Keep the interests of all partners in mind and act fairly and consistently
- Create a non-threatening and respectful environment that favours listening as much as talking

Focus on facts and evidence but also pay attention to the motivations, values, histories.

Rate your organisation and your partner: Good collaborators have defined processes to monitor behaviours that focus on maintaining trust and respect within the collaboration. Personnel are empowered and encouraged to resolve issues at the optimum level.



Having the right environment for cultural and behavioural change is only one part of sustaining transformational change. Equally important, is having the policies, processes, technology and systems in place to monitor, measure and continuously improve collaboration. The consistent finding in this study is that people seem to have greater confidence in their own organisation than in the organisations they collaborate with. This represents an opportunity for greater integration and visibility between organisations.

“Start small. Build trust. Work out what matters to each partner and where their strengths and weaknesses are. Focus on getting the first thing right so that you have the foundation of a long-term relationship.”

**A/Prof. Regina Crameri,
Associate Director,
Defence Science Institute**

An innovation ecosystem at risk?

Innovation is critical at all stages in the Capability Life Cycle, but is a clear differentiator during the concept phase.

Disturbingly, results from the survey show that both Defence and industry see low levels of collaborative maturity in the mechanisms that generate ideas and innovations that bring additional value to partners. In fact, on the question of innovation, average ratings of collaborative maturity across the sector, dropped to their lowest values.

Rate your organisation and your partner: Good collaborators have mechanisms for generating ideas and innovations to develop additional value for collaborative relationships.



Consistent with the survey findings, people view their own organisation more highly in terms of collaboration. However, this difference is more striking when looking at innovation and ideation. The reason behind this is unclear but must be better understood as innovation relies on:

- A strategically focused commitment to research and development
- The right incentives for investment
- Agile and temporary teams that explore the solution space before large resources are committed
- An emphasis on connecting interests and building relationships, rather than organisational structure and process

Whatever the solution, collaboration will be essential to both inform the innovation strategy and implement it.

Innovation at DARPA – Sources of Success

The Defense Advanced Research Projects Agency in the United States, for example, has produced a remarkable number of game-changing innovations by bringing together experts from industry and academia in temporary teams to deal with specific challenges. Its approach to collaboration is flexible but tightly framed. It is multi-disciplinary, with an open competition of ideas. It is agile and able to respond to changing requirements or new information.

The most important factors that define the DARPA creative culture and explain its long and continuing history of innovation are:

- Limited tenure and the urgency it promotes
- A sense of mission
- Trust and autonomy
- Risk-taking and tolerance of failure

Source: http://www.darpa.mil/attachments/DARPA_Innovation_2016.pdf.

Lessons from defence R&D

Research and development in the defence sector between universities, private sector and the department has a long tradition of collaboration. Indeed the Defence White Paper 2016 points to a deepening of this:

- the Defence Science and Technology Organisation strengthen partnerships with academic and research institutions to leverage knowledge and create pathways with academia and industry
- Defence, in partnership with academia and industry, review its research priorities, their alignment with future force requirements and capacity to leverage allied partners to promote innovation

Source: 2016 Defence White Paper.

“The key is open and continuous communication – real connections between people and organisations not just electronic portals”

Annette McLeod,
Defence Science Institute

Case study: The Defence Science Institute

The Defence Science Institute based in Melbourne facilitates relationships between academia and industry for research and development addressing Australia’s defence and security needs.

Rather than investing in or carrying out research and development, the institute connects people and institutions, builds skills and showcases academic research and development and innovation capabilities to industry. So far it has assisted more than 100 universities, SMEs, primes, start ups, funders and government agencies identify potential partners and funded and supported more than 60 projects and 3 major collaborative research initiatives.

The Defence Science Institute doesn’t have a ‘bucket of money’. Instead it looks to remove barriers to collaboration with small amounts of funding or in-kind support, or to facilitate activities that will lead to larger projects, sustained with other funds. Every dollar that it has put into facilitating a collaboration has been multiplied 12-fold from other sources.

So, why has it been so effective? The Defence Science Institute puts its success down to its deep local expertise and wide network across academia, defence and industry. It uses that expertise to uncover barriers to collaboration and apply resources to it. It draws on its relationships to build cooperation on new initiatives. Importantly it also takes a neutral position, with no stake in the intellectual property, investing instead in collaboration, rather than its products.

Sustaining Defence capability – staying outcomes focused

When dealing with complex pieces of equipment or service agreements it can be easy to lose sight of the goal, the outcome that the end user will depend on.

The majority of respondents (58%) to the survey believed that their collaborative partner was either very poor, poor or average when it came to their ability to measure the value of outcomes generated from collaboration.

The realities of sustainment can put service contracts, generally agreed in the acquisition phase, to the test and re-focusing on outcomes can only be achieved through collaborative teamwork.

“We’re moving from outsourcing maintenance to outsourcing outcomes - and that leads to far longer commercial relationships and therefore an increased need to partner and collaborate.”

**Major General Andrew Matthewson,
Head of Helicopter Systems Division**

Case study: The KC-30A aircraft sustainment

In 2015, Heavy Airlift Systems Program Office (HALSPO), the team responsible for managing sustainment for the KC-30A aircraft, set out to apply the concepts of the First Principles Review to the reform of the contract with Northrop Grumman, the prime providing through-life support.

This meant focusing on becoming a smart buyer and assuring compliance, appropriately managing risk and recognising and making full use of the knowledge and experience of the industry partner.

HALSPO took a collaborative approach to the reform, bringing together participants from Northrop Grumman, Materiel Procurement branch and the Performance Contracting Branch to apply lessons learned from the sustainment effort so far and ensure the new contract aligned the interests and strengths of HALSPO and Northrop Grumman.

Key outcomes of the reform were:

- Re-focusing the contract on what had to be delivered, not how it was delivered
- Removing unnecessary constraints on Northrop Grumman’s delivery of the services
- An explicit requirement and a framework for continuous improvements to cost control, productivity and overall value for money
- Reinforcing the contractor’s role as the Sustainment Enterprise Steward in partnership with HALSPO.
- Promoting behaviours that support delivery of capability outcomes.

These reforms laid the foundation for an appropriate distribution of responsibilities between the Commonwealth and the contractor and for the effective strategic management of the KC-30A and the Sustainment Enterprise as a whole.

Supply chain integration through collaboration

Effective deployment of capability depends on a well-functioning supply chain, both to efficiently maintain hardware and services in readiness and to get it to the frontline in a timely manner. Integration is key. Integrated supply chains are more resilient under the stress of deployment. From a management point of view, they are more efficient and productive and can be better aligned to organisational goals in order to leverage the most value for an organisation.

To achieve integration you need information at all stages: defining requirements, designing contracts, processes and practices, for operation and for performance management.

A lack of visibility into the supply chain is a risk for any organisation. 87 percent of senior aerospace and defence executives see supply chain failure as a risk yet only 9 percent have complete visibility into their supply chain.⁴

Technology clearly has a role. With information and communication technology we are now able to connect networks together much more completely than before. We can move materiel around at a lower cost. We can have better insight into where things are so that we can plan with precision where they should be and when they should be there. With the huge volume and diversity of defence materiel, not to mention the security requirements associated with moving it, technology will be essential to collecting, moving and reporting information across the supply chain.

This is not just about having technology though. Also needed are incentives to share local information that is of value to the whole supply chain, and then use it to improve it in a way that benefits all.

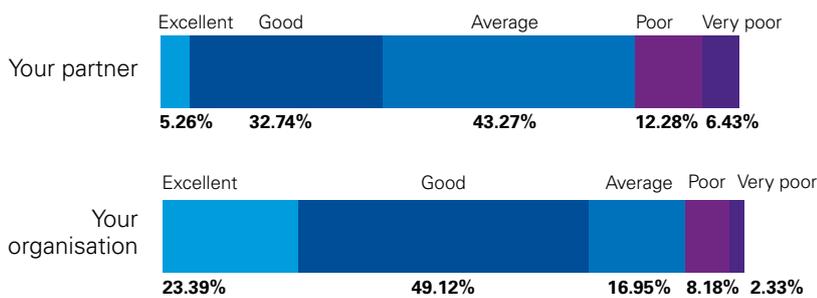
4. <https://home.kpmg.com/au/en/home/insights/2016/07/global-a-and-d-outlook-infographic.html>.

Learning to share

Defence and industry need to move from a traditional model of commodities and spares and repairs, to one where industry provides technical knowledge, innovation and integrated services with full understanding of the defence outcomes being sought.

To do this information must be shared. KPMG’s survey revealed low collaborative maturity when it comes to trust, communication and information management practices, all of which are barriers to the flow of information. This damages the supply chain in two ways: in the design of the contracts, systems and processes that deliver defence outcomes, and during operation and delivery.

Rate your organisation and your partner: Good collaborators have a transparent and continuous flow of information to prevent potential conflicts, duplication, inefficiency and misunderstanding. There is honest and open behaviour which allows working across teams and hierarchies, minimising silos.



On this question, respondents’ ratings of both their own organisation and the organisation they collaborate with most dropped below the averages: 34 percent thought that their own organisation had good knowledge management practices and 34 percent rated their own organisation as average.

When they looked at the organisations they collaborated with, they thought that 31 percent of organisations had good knowledge management practices and 41 percent average.

Incentives to withhold and not use information for the benefit of the whole supply chain emerge when partners are not aligned in their interests. To address this, Defence and industry need to take a collaborative approach right from the start, with a frank conversation about where their interests align and where they diverge. It is on this basis that truly collaborative partnerships, with incentives aligned to delivery of capability, can be built.

With an approach like this, Defence would be in a position to budget more accurately for the whole capability life cycle because it has a clearer view of costs from acquisition, through introduction to service, to sustainment. It will be in a better position to seek out suppliers that can deliver to requirements at a lower cost. And it will lead to efficiency dividends which it can then invest into the partnership and in building capability.

Summary

So where are we now? How can we build a stronger defence capability?

The *First Principles Review: Creating One Defence* was quite clear about the nature of the problem. Defence's organisational model and processes were complicated, slow and inefficient. Its approach to engaging industry, especially early in the project life cycle, was unsophisticated and staff were obsessively focussed on probity and competition requirements.

The review made a number of recommendations to address these widely-acknowledged structural and cultural issues including;

- a Smart Buyer model that would allow industry to provide its expertise in managing projects in the acquisition and sustainment phases
- a shift to viewing the outputs of Defence industry as a Fundamental Inputs to Capability integrated into the acquisition life cycle.
- stronger partnerships with key academic and research institutions, to leverage the knowledge of scientists and creating pathways into and out of academia and industry
- a recognition that industry is part of Defence's enabling workforce with an estimated 25,000 people employed by industry delivering inputs to capability, including major military equipment, and several thousand staff employed by contractors to maintain and secure Defence bases.

A path forward

The importance of collaboration cannot be understated during this time of change. In fact, we believe that it is the foundation for success.

We need to stress that frameworks, standards and models are important but our experience shows that it is the culture of the organisation makes or breaks collaboration. People at all levels need both 'hard' and 'soft' skills as relationships evolve over time during the capability and acquisition life cycle and in response to new information.

Leadership will be essential. All staff will need to look for ways to model openness and trust and demonstrate a willingness to embrace difference and diversity. Timely and honest communication, a learning mindset, agile and adaptive behaviours will be essential.

The challenges are great, both organisationally, culturally and in the wider policy and strategic context. Only collaboration can give Defence and its partners the resilience and agility to anticipate and respond effectively in this environment.

Acknowledgements

Thanks to

- Kim Gillis, Deputy Secretary Capability Acquisition and Sustainment Group, Department of Defence
- AVM Warren McDonald, Deputy Chief of Air Force, Department of Defence
- Rayden Gates, Former Chief Executive, Lockheed Martin Australia & New Zealand
- Major General Andrew Mathewson, Head Helicopter Systems Division, Department of Defence
- Respondents to the KPMG online survey
- Defence Science Institute including; Adrian Pearce, Regina Cramer, and Annette McLeod and Craig Butler
- KPMG experts including; Steve Clark, Mike Kalms, Col Thorne, Jane Gunn, Bill Petreski and Peter Griffiths

Contact us

Steve Clark

**National Sector Leader,
Defence & National Security**

T: +61 3 9288 6937

E: steveclark@kpmg.com.au

Mike Kalms

Lead Partner, Defence Industry

T: +61 3 9288 6426

E: mkalms@kpmg.com.au

Bernard Lauinger

Partner, Defence

T: +61 410 585 840

E: blauinger@kpmg.com.au

Peter Robinson

Lead Partner, Defence

T: +61 3 9288 5403

E: pfrobinson@kpmg.com.au

Col Thorne

Lead Partner, Engineering Advisory

T: +61 417 213 928

E: colthorne@kpmg.com.au

kpmg.com.au

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

© 2017 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo and are registered trademarks or trademarks of KPMG International.

Liability limited by a scheme approved under Professional Standards Legislation.

February 2017. QLDN14711LOBS.