

DILP 2021 Concept Paper

Industry Engagement with Defence

Kirsteen Sweet Lockheed Martin Australia
Glen Gallagher Boeing Defence Australia
Peter Schumacher University of South Australia

AIC policy requires defence primes to engage and maximise opportunities for Australian industry in programs. Similarly we are seeing a broader appetite by Defence to engage with industry.

Is this quality engagement? What does quality engagement look like and how do the information needs of SMEs differ to primes when engaging with Defence?

Introduction

When considering the above question, our team consulted a number of Small to Medium Enterprises (SMEs) and reviewed the various policies, strategies and plans that have been released by the Australian Government (Government) since the Department of Defence's (Defence) 2015 First Principles Review (refer Figure 1).



Figure 1 - Defence Strategic Direction

The 2018 Defence Industry Capability Plan provides industry insight into Government's long term plan and vision for Australia's defensive capabilities. A crucial element of this is the development of a sovereign industry base. Defence spends about one third of its annual budget on materiel acquisition and sustainment, in an industry where 27 of the

top Australian defence contractors (materiel and sustainment) are overseas owned (Markowski, 2019).

While there is not a single Australian Industry Capability (AIC) policy document in itself - the 2019 Defence Industry Participation Policy in conjunction with the Australian Industry Capability (AIC) Program provides guidance regarding the Government's and Defence's expectations of Australian industry engagement, participation, and contributions in the defence sector.

Background and context

The trends since the 1980s of increasing commercialisation of the defence industry, a desire for self-reliance as well as efficient and effective procurement and now a broad concept of industrial sovereignty presents increasing challenges (Markowski, 2019). Defence's 2019 Industry Participation Policy, capability Implementation Plans and corresponding Industry Plans provide clarity around Defence's expectations of industry emphasizing the need for synergistic engagement to develop Australia's defence industry capability. The AIC Program was established to encourage involvement of Australian industry in defence program supply chains as part of a larger goal of increasing Australia's sovereign capability and capacity in key industries.

To establish a strong defence industry capable of achieving the outcomes required by Government and Defence, there need to be good relationships between the different stakeholders. Any engagement also needs to be mutually beneficial. To that end, the context, the players, their aspirations and capacities, and the tensions and conflicts need to be clear in order to structure and achieve the quality engagement required to support national outcomes.

The relationships between the players

The three main players in this engagement are Government, Defence and Industry; each have their own drivers, agendas and goals, (refer Figure 2). It is useful to understand the differences between them and where there are tensions.

- Defence requires materiel; it needs to be available, regionally superior and fit for purpose for the Australian conditions. Defence is not necessarily concerned about the source of the materiel, however it is understood that sovereign capability and capacity is required in certain industries to ensure continued access to critical supplies when the nation or its allies are under threat. This is a key focus of the AIC Program.
- Government is responsible for providing Defence the resources it requires through budgets and procurement/sustainment programs. The Government also has a wider agenda that includes fostering Australian economic development and employment. In this context, the Government seeks to use local Defence procurement as a means to address (in part) the decline in Australian manufacturing. At face value this appears to be mutually beneficial however

Defence needs may not be sufficient to support and sustain local businesses and will only go so far in addressing the underlying decline of manufacturing in Australia.

- Industry requires stability and policy clarity as well as opportunities for profitable businesses.
 - The local defence industry landscape is dominated by overseas primes who seek to ensure their own profitability. They are focused on defence work and are well equipped to manage the bureaucracy that comes with working in the defence industry sector. SMEs are employed by the Primes for specialist capabilities. There are not many Medium Enterprises (MEs) in the Australian defence industry sector and this is the area the Government would like to foster and grow. However, most Defence procurement is via the primes, so the development of the MEs ultimately relies on the primes. This presents challenges to ensure that the primes' engagement with local industry moves beyond transactional engagement to longer term strategic partnerships to promote genuine and sustainable long term growth of MEs. Developing local sovereignty and potentially seeding future competitors is not a core business of the primes and there is tension between Government imposed requirements such as the AIC Program and business behaviour.
 - Locally strong MEs with intellectual property and know-how are vital for Australia to operate effectively in a globalised supply situation (Kalms, 2019). Many of the existing Small Enterprises (SEs) work on a transactional basis without the ambitions of longer term suppliers. Some SEs wish to grow in the sector and to become strategic suppliers however, they face a number of issues that make it challenging in order to develop into significant MEs. SMEs typically derive their primary stable revenue from industries other than defence. As such, SMEs devote a smaller percentage of their workforce to defence work, are usually less able to manage the bureaucratic overhead required to engage with defence industry parties, and may not be able to manage the long time lines between capital expenditure and sales.

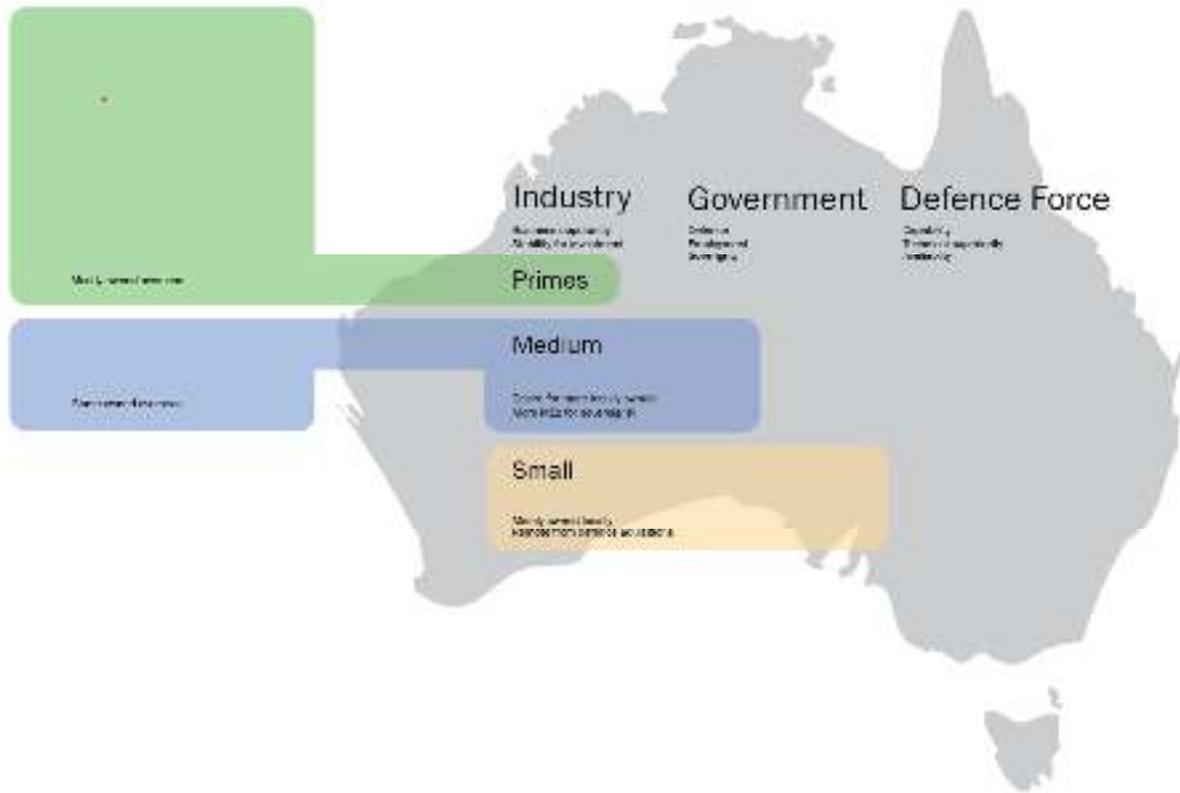


Figure 2 - The various players in Australia's defense industry.

Quality engagement

The quality of engagement in terms of the relationship between these three players varies, and is strongly influenced by each entity representatives, their level of empowerment, the value of what they can offer, and what's in it for them. Primes generally have a greater quality of engagement by virtue of direct access to Defence and, with Defence being their primary customer, there being a greater imperative for them to engage positively. SMEs, due to being engaged via Primes and due to Defence not being their primary industry or customer, typically experience a lower quality of engagement with Defence.

Quality of engagement in terms of ease of engagement is critically influenced by engagement complexity and quality of information. The information needs of Australian industry, irrespective of whether they are a Prime or a SME, include but are not limited to:

- Defence's current and future capability requirements
- criticality and intent of Defence's capability requirements
- Defence's capability support requirements
- Defence timelines and project lifecycle
- direct and indirect engagement paths
- commercial and regulatory requirements

- business system and infrastructure requirements
- customer engagement expectations.

The primary difference between a SME's information needs and a Prime's information needs is customer engagement expectations. A Prime needs to understand and cater to Defence's engagement expectations. A SME needs to understand and cater to its customer's engagement expectations where its customer may be Defence, or may be a Prime, noting that engagement expectations can vary from Prime to Prime. The engagement complexity faced by a SME is consequently greater than that of a Prime, and the complexity is compounded by the fact that the SME is less well equipped to deal with Defence requirements than a Prime.

For Defence to forgo all or some of the checks and balances of its normal business through tailoring, and actively support a SME to establish a successful and achievable contract, the SME must have a compelling capability on offer such that it can positively influence terms of engagement. Such situations do exist (some examples may include the CEA FAR Active Phased Array Radar (CEA Technologies) and the Cyro Clock Sapphire) however these are the exception rather than the rule. There are also other avenues for SME direct engagement such as Defence Science and Technology Group (DSTG) which can be used to raise the profile of the SME capability and secure Defence insiders as advocates.

The challenges faced by SMEs when seeking to enter the Defence industry are recognised, and have been one of the principle catalysts for a number of government initiatives which have included the establishment of the Centre for Defence Industry Capability (CDIC), Defence Innovation Hub (DIH) and the AIC Program, and also for the Government actions detailed in each of the capability implementation plans.

Change is good

The structure of Defence procurement has changed over time, transitioning from the Defence Materiel Organisation (DMO) to the Capability Acquisition and Sustainment Group (CASG). One principle difference between the two structures is the inclusion and ongoing engagement of the Capability Manager within the CASG organisational structure, thereby promoting closer engagement with the operational user representative.

This is of benefit to all parties, Defence, Primes, SMEs; having an operational user voice in the procurement process is critical to understanding and maintaining a focus on capability intent. In the past, the lack of a user voice has resulted in (figuratively speaking) - a compliant red cat solution being delivered against a set of requirements that sought the procurement of a blue dog.

Additionally, to foster clear communication and increase engagement during contract execution, the Commonwealth is moving towards the establishment of Government/ Industry enterprises. The key stakeholders of an enterprise generally include the

operational user, CASG representatives, industry partners, and other stakeholders from government. The industry partners are typically restricted to Primes however, this concept could also be extended to include SMEs who are involved in the delivery of enterprise capability. This would promote clear and transparent communication through the supply chain providing greater (controlled) industry access to the operational user and their operational capability requirements.

Quality engagement - what does it look like?

If the Defence Industry Participation Policy in conjunction with the AIC Program is intended to provide a framework for quality engagement it is useful to examine what quality engagement looks like.

Quality Defence engagement would entail an approach with a detailed strategic plan to increase Defence satisfaction with SMEs and Primes via positive and transparent interactions. In some essence, and as obscure as it may seem – SMEs and Primes need to enhance the ‘open connection’ between Defence and the brand, brand in this case being ‘Defence Industry’. This can be looked at in part as providing high-quality service to promote loyalty and, ideally this level of high-quality service is provided as a ‘cradle-to-grave’ approach stemming from the operational concept of project inception through to the capability disposal plan. Quality engagement is gained via mutual trust and transparency on both sides of any large Defence capability proposal and, additionally this mutual trust must be displayed outwardly and, as a united front and as a team.

But the challenge is, how to achieve this mutual trust, transparency and loyalty?

Depending on your perspective, there are a few examples of what could be construed as a ‘betrayal of trust and lack of transparency’ on both sides relating to cancelled, delayed or re-scoped Defence programs in recent times [ANAO – Major Projects Report], namely:

- SEA1000 – Future Submarine Program – pivot 2021,
- SEA1411 – ANZAC Ship Helicopter Project (Seasprite) – cancelled 2008,
- JP2048 Phase 1A – LPA Watercraft – cancelled 2010,
- AIR9000 Phase 2,4,6 - Phase-out of NHI MRH-90 Helicopters (in-service date 2007) and replaced by 12 MH-60R Helicopters – 2021
- AIR8000 Phase 2 – Battlefield Airlift Caribou Replacement – Revised Final Operating Capability date, availability concerns – 2017

The above list is by no means exhaustive but serves to highlight that on both sides of the equation, the Commonwealth (inclusive of Government, ADF & CASG) and Industry (inclusive of Primes, SMEs) have a track record of wavering from transparent openness.

So let’s look at what quality engagement should look like across the defence projects and the Australian Industry Capability landscape:

- Knowing your product, platform and achievable capabilities,
- Responding quickly,
- Exceeding expectations,
- Exercising patience and flexibility,
- Respect of company/country cultural backgrounds, shared and differing values, journey until now, lineage and networks,
- Forging and supporting local connections,
- Competency,
- Clear, concise & timely communications,
- Resourcefulness,
- Methodical approach,
- Ability to handle surprises,
- Empathy at all levels, and
- Ability to give and receive candid feedback

To promote this type of engagement, instead of adopting an adversarial approach, it would benefit stakeholders to engage following a mutually accepted, base set of ground-rules. This combined with a philosophy of calling out deviations in a non-judgmental manner would facilitate the establishment of trust and transparency, promoting clear, accurate communications resulting in improved Defence/ industry collaboration.

In Summary

Defence Industry engagement has evolved over time. The current Defence Procurement framework has a layered complexity, introduced and influenced by multiple stakeholders with varying agendas (Defence, industry and Government). While there is the necessary complexity of regulatory and requirements compliance, the contractual obligations placed on Primes and SMEs alike at times are overly bureaucratic with questionable value for money outcomes.

An effective and capable Australian Defence Force requires a strong relationship with industry for the provision of materiel. This relationship is mediated and fostered by the Government's policies. Are the settings of the current Defence Industry Participation policy and AIC Program achieving this goal? Part of the challenges is the "C" in AIC. C is for capability, not just content. A policy framework to measure the amount of local content is relatively straightforward, however this does not necessarily provide insight into long term industry capability development, particularly in key areas of sovereign interest. On the other hand measuring capability is challenging as enduring capability will only be evident over the longer term. The AIC Program has recently been through a review and changes made in an attempt to improve insight into Australian capability outcomes – time will tell if these measures will provide the required insight, and it is likely that how this is measured will continue to evolve.

The inclusion of the operational user's voice within the CASG organisation as part of the Defence Capability Life Cycle initiative is positive. This creates a controlled opportunity for discussion between relevant stakeholders and the development of a clearer common understanding of the end to end capability life cycle requirements, contributing to improved capability outcomes. This in conjunction with the establishment of enterprises in support of the spiral capability sustainment augers well for a more collaborative Defence/industry approach to realizing required capability outcomes.

To improve Defence/ industry engagement and achieve better capability outcomes, it is recommended that:

1. Engagement charters be utilised to set the base ground rules and document acceptable behaviours. This should include all relevant stakeholders (Defence, Primes and key SMEs).
2. Engagement complexity be reduced through appropriate consideration and allocation (including possible retention by the contracting party) of risk.

These recommendations can reasonably be expected to contribute to the realization of the following capability outcomes:

1. successful timely and cost effective delivery of capability or operation/ maintenance/ sustainment services that meet the operational end users' requirements; and
2. sustained economic health of an Australian Defence Industry that provides key sovereign capability capacity aligned to Defence's capability Implementation and Industry Plans.

References

- Australiandefence.com.au. 2021. Tips on accessing Defence business as an SME - Australian Defence Magazine. [online] Available at: <<https://www.australiandefence.com.au/business/tips-on-accessing-defence-business-as-an-sme>>.
- Australian National Audit Office. 2021. Major Projects Report. [online] Available at: <<https://www.anao.gov.au/pubs/major-projects-report>>.
- Kalms, M., & Williams, C. (2019, April 4). Why So Hollow? Australia's Defence Industry Middle and what to do about it. KPMG <https://newsroom.kpmg.com.au/hollow-australias-defence-industry-middle/>
- Kinexus.com.au. 2021. 6 Things Going on in the Defence SME Market. [online] Available at: <<https://www.kinexus.com.au/blog/2019/05/6-things-going-on-in-the-defence-sme-market>>.
- Markowski, S., Bourke, R., & Wylie, R. (2019). Defence industry in Australia. In *The Economics of the Global Defence Industry* (pp. 462-481). Routledge.

Smith, A. and Smith, A., 2021. SMEs hold the key to developing Australia's defence sector. [online] Defenceconnect.com.au. Available at: <<https://www.defenceconnect.com.au/key-enablers/4426-smes-hold-the-key-to-developing-australia-s-defence-sector>>.

Stanton, K. and Stanton, K., 2021. How much does an SME need to know about Defence policy and the strategic environment?. [online] Defenceconnect.com.au. Available at: <https://www.defenceconnect.com.au/blog/2590-how-much-does-an-sme-need-to-know-about-defence-policy-and-the-strategic-environment>.

2021. [online] Available at: <<https://www1.defence.gov.au/sites/default/files/2020-08/Industry-Skilling-STEM-strategy.pdf>>.