

A CONCEPT PAPER FOR THE DEFENCE INDUSTRY LEADERSHIP PROGRAM 2021

# AN EXAMINATION OF THE MAJOR SERVICE PROVIDER CONSTRUCT

WARREN BOWDEN

NIGEL MAXTED

MELISSA WESTON





## Executive Summary

The Major Service Providers (MSPs) are alliances of companies that came together to support Capability, Acquisition and Sustainment Group (CASG) in aspects of workforce and supply chain planning and management, or so-called “above-the-line” activities. The use of MSPs was envisioned to lower costs for the Australian taxpayer and enhance supply-chain stability and Small and Medium Enterprise (SME) growth. It’s unclear if these objectives are being met by the MSP program, implemented in 2018. A current review of the MSP construct by Defence will be best placed to help quantify efficiency, quality and stability changes corresponding to the utilisation of MSPs.

This report seeks to complement the defence review findings with recommendations based on informal discussions with anonymous stakeholders. This report finds that a perceived lack of trust exists between stakeholders, particularly for the companies at the bottom of the CASG-MSP-subcontractor supply chain. The culture may breed adversarial interactions between stakeholders that are not conducive to increasing efficiency, quality, or stability in either the supply chain or the utilisation of limited human resources. SMEs are not expected to flourish in such an environment.

An alignment of mission and values is arguably simple within a single organisation. In contrast, the fragmented system of entities that provide defence with capability needs significant coordination to align missions/values. Under the assumption that the number of organisational bodies involved in defence procurement remains relatively constant (i.e. no future amalgamation of MSP expert personnel into an expanded CASG), we recommend comprehensive CASG-led values-based training to align the culture and behaviors of CASG, the MSPs and below-the-line contractors.

Aligning the mission and values of all parties involved in Defence capability procurement and sustainment will make relatively-low-cost progress in repairing the perceived lack of trust between stakeholders. As this paper suggests, the return on investment of such training could be significant.



## The Major Service Provider Construct

The Major Service Provider (MSP) construct was developed and implemented in 2018 to address perceived shortcomings in Defence Capability and Sustainment programs. It was and is hoped that the MSP construct will help deliver value for money to the Australian Defence Organisation and the Australian taxpayer. This concept paper looks at the effectiveness of the MSP construct and the impact on Australian small to medium sized businesses.

### What is the MSP Construct?

The MSP construct is a framework that allows the outsourcing of aspects of Defence workforce and supply-chain planning and management away from Capability Acquisition and Sustainment Group (CASG), towards the private sector<sup>1</sup>. The MSPs are private sector companies that come together in alliances that exist solely for the delivery of services to CASG.

There are 4 MSP alliances:

1. **Jacobs Beca Team (Jacobs Australia and Beca Consultants)**
2. **Team Nova (Nova systems Australia, QinetiQ and PricewaterhouseCoopers Consulting)**
3. **KEY Team (Kellog Brown & Root and EY)**
4. **Team Downer (Downer EDI Engineering Power, AGIS Group, DXC Technology Australia, Systra Scott Lister Australia, Envista, and Providence Consulting Group)**

These four players tender for contracts for workforce and supply-chain planning and management. They then subcontract out the physical delivery and/or sustainment of military equipment or systems. CASG imposes a condition of a set proportion of the tendered cost being passed onto Australian SMEs. Since the introduction of the MSP construct on the 1<sup>st</sup> of February 2018, more than 2 Billion Australian dollars has been committed to the 4 MSPs across more than 650 awarded contract tenders.

## What does the MSP Construct hope to achieve?

The joint objectives<sup>2</sup> of the MSP construct are:

1. Recognise industry's importance as a fundamental input to capability.
2. More effective engagement with industry to better leverage resources and experience.
3. Make the most effective and efficient use of 'above the line' industry resources to work with internal resources (APS and ADF) in an integrated way to deliver the CASG broader Defence capability outcomes.
4. Promote collaborative behaviours, strategic, co-operative and constructive working relationships, between the Commonwealth and Industry, and within industry (incl. Small Business in the MSP supply chain).
5. Ensure that the Commonwealth has the appropriate intellectual property rights in relation to any Deliverables.
6. Ensure the MSP makes reasonable return on its investment in being an MSP and performing the MSP Services, being a return that appropriately reflects the properly managed risks assumed by the MSP.
7. Deliver better value for money to the Commonwealth, including through highly competitive labour rates, pre-agreed terms and conditions for the various kinds of services and optimising economies of scale.
8. Minimise operating costs for both the Commonwealth and industry (incl. costs of tendering and other transaction costs).
9. Maintain a viable and vibrant Small Business sector for 'above the line' subject matter expertise, through the MSP Supply Chain.
10. Maximise the continuity and stability of the MSP's personnel (incl. Small Business personnel in the MSP supply chain) involved in the performance of support services for Defence.
11. Ensure that an enhanced and sustainable capability exists within both Defence and industry to support current and future Commonwealth work requirements.

## How do MSPs achieve these aims?

At its core, the MSP construct model relies on free markets to drive down cost and speed-up delivery. This was expected both for the activities of the MSPs themselves and the labour market they rely on. Competition between profit-driven MSP allies should theoretically streamline operations and reduce overheads, while flexible and attractive salaries allow highly skilled labour

to move efficiently between projects. Since the MSPs have vested interests in creating efficiencies, it was theorised that they would form strong and influential relationships with their below the line contractors, creating confidence in supply chains. The resultant stability in the market was expected to create conditions conducive to SME growth. The alternative to this system is to simply do all the above-the-line tasks in-house under the constraints of the public service.

### How did we get here?

Prior to June 2015, Defence acquisition, sustainment and disposal was the responsibility of the now-disbanded Defence Materiel Organisation (DMO). In response to several perceived emergent problems with DMO such as overspends and drifting project timelines, a subsequent review<sup>2,3</sup> identified several core issues, such as:

1. An excessive number of processes and policies creating complications for contractors
2. Lack of governance and accountability
3. Unnecessarily time-consuming handover points in acquisition life cycles.
4. Slipping quality control standards
5. Failure to properly account for project risk

The negative review led to the approximately 7000 personnel within DMO being redeployed to the newly formed 5000-strong CASG in 2015. The surplus of DMO personnel not re-employed in CASG were disproportionately at the executive level. Indeed, the DMO had been criticised as having a 'top-heavy' structure.

With fewer personnel and a growing portfolio of defence projects, in 2018, CASG made up for a shortfall in expertise through the so-called Defence Services and Support (DSS) Panel arrangement – a 500+ strong advisory panel linked to the four CASG centres of expertise:

1. Engineering and Technical
2. Program Management
3. Materiel Logistics
4. Commercial

The DSS Panel can be accessed by the Australian Defence Force and other Australian Government agencies. In contrast, the MSPs, created as a component of the DSS arrangement, are exclusively accessible to CASG. In this way, the MSPs can focus on long term strategic requirements.



## A review of the MSP construct

CASG have initiated a review into the MSP panel arrangement (henceforth “the Review”). The Review is conducted by an independent advisor and is seeking feedback from MSP construct stakeholders providing services above the line. An industry questionnaire has been created and will be used as the main input into the Review.

### CASG Questionnaire

The CASG questionnaire considers the MSP impact for Defence Industry including the value and type of work going to different industry segments such as SMEs. In addition, the Review considers, behaviours, value for money, and conflicts of interest. The CASG Questionnaire is structured in open answer format and not a multiple choice. This allows stakeholders to provide detailed input and encourages citing’s or examples to help provide context on responses. Furthermore, the CASG Questionnaire seeks feedback on improvement and suggestions on promoting and enhancing the sustainability of local industry and the maintenance of viable and vibrant SME sector.

The concept paper team engaged with the CASG Review representative. It’s clear that the Review is best placed to address the question of the effectiveness of the MSP construct and the impact on SMEs. However, as the Review is still open, the results to date are confidential and as such could not be used to inform the team’s recommendations.

### Concept Paper Team Review

To further investigate the MSP Construct, the concept paper team engaged with personnel from the MSP and SMEs. The MSP construct was discussed openly from both the MSP and SME perspectives.

**MSP Perspective:** MSP personnel were actively participating in the CASG Review and although open to discuss MSP construct with the concept paper team, were not committed to provide

input to a separate review or provide feedback on record. It is unclear to the MSP personnel what the next steps were after the Review was concluded or if there would be any engagement as highlighted in opinion pieces<sup>4</sup>. This also may have contributed to the reluctance to provide formal comment.

**SME Perspective:** Many of the SME personnel were aware of the CASG Review. Most of the SME personnel had worked in defence before, and directly contracted to CASG. SME personnel were also aware of free source literature reviews and opinion pieces.

The majority of SME personnel contacted had cited examples of poaching and felt that MSP have and are “continuing to look to replace subcontractors with their own people” as discussed in opinion pieces<sup>5</sup>. The concept paper team could also cite examples where they have been approached by MSP recruiting teams. “Many SMEs have complained loudly about the structure and amount of power the MSPs have” as discussed previously in magazine articles<sup>6</sup>. This also included SME feeling that the MSP were ‘keeping’ higher profile tasks and providing ‘crumbs’ to the SME.

SME personnel were aware of the CASG review, and most were actively participating. Although open to discuss their personal experiences or collective opinion of their peers, they were not committed to provide input to a separate review or provide feedback on record.

### Concept Paper Team Review Conclusion

It was evident from the discussion with personnel from the MSP and SME that there were citing’s and examples of negative impact on the SME and effectiveness of the MSP construct. It was also evident that regardless of the CASG Review, SME personnel did not feel comfortable to provide feedback or any additional information than what was already being requested on record. Because of this, it is the conclusion of the concept paper team that there is a lack of trust with the MSP construct. It’s not clear if the perceived trust-deficit identified by our team will be highlighted in the extensive CASG review. By focusing on this aspect, our team hopes to complement the CASG review without needlessly duplicating their formal surveying approach, the results of which are expected before the years’ end.

## Leadership Relevance

Throughout the Defence Industry Leadership Program of 2021 there has been a focus on leadership principles and the role of leaders. A key element of leadership is to create a safe, diverse and engaging environment which is built on trust.

**Industry Best Practice:** In 2017 Gallup Incorporated released a report into the state of the American Workplace. The report provides analytics and advice on various aspects of the modern workforce<sup>7</sup>. To assess the level of engagement and motivation of employees in an organisation, Gallup created twelve elements of engagement. The Gallup report is based on the twelve elements of engagement and studies a wide variety of industries. To maximise performance of the workforce, the Gallup report focus on culture development and the role of leaders.

**Future Leadership and Management:** Discussions in the Defence Industry Leadership Program of 2021 and the findings of the 2017 Gallup Report highlight key points that leaders in an organisation such as an MSP must consider:

- No longer enough for managers to be ‘task masters’
- Need to develop their employees and motivate to perform
- Leaders to be well-equipped to be coaches
- Need to develop trust



## The Importance of Culture

As highlighted throughout this paper, the MSP Construct has been developed to achieve outcomes, however it appears that the foundations of a successful organisation remain in their infancy. This section details the recommendations made by the team and in doing so aims to link back to the original concept paper question.

### Setting the Scene

The importance of culture in any organisation can be easily overlooked as it is often difficult to quantify, measure and change. Frequently the quality of work produced by an organisation is the focus of reviews and can lead to improvements. However, this will only take us so far and at some point, all organisations need to acknowledge that without looking at culture the outcomes will continue to be limited. As presented in Figure 1 a basic equation can be utilised to quantify the importance of culture. Even with a quality of 100% if the culture is low then the organisational outcomes will continue to be stifled.



Figure 1 The organisational culture equation.

Since its inception the MSP Construct has had a clear focus on the quality of the work provided to CASG (see page 3). From an external perspective, as observed by this concept paper team, a lack of organisational culture awareness and growth is impacting the key to any working relationship: trust.

This paper has identified what the review team believes to be missing from the current MSP review. Therefore, to provide a constructive way forward, several recommendations have been developed. Some readers may have seen these recommendations presented previously or find them too simple. We would like to remind the reader that it is a leader's responsibility to create the environment and structure for your people; perhaps the fact that similar recommendations continue to be made means that this has not yet been achieved.

### **MSP Construct Current State**

As discussed throughout this paper and presented in Figure 2, the MSP Construct provides a service to CASG to support management of "below the line" Contractors. This current state focusses on the transactional nature of the MSP Construct and extracting the most from each element. This transactional nature, in conjunction with the experiences of MSP members and SMEs (see page 7) leads to the question – has the MSP Construct become a tick-box exercise?

If the answer to this question is yes, then it is unlikely Australia's small to medium sized businesses are seeing the most value from the MSP Construct. A lack of role clarity, training and feedback cultivates a "tick-box" mindset. This results in a bias towards certainty and a lack of creativity. Having recognized this, it is also important to highlight the role of balance in developing an organisation's environment and structure, something that should be frequently assessed to ensure it has not shifted too far in one direction. This observation is a key factor behind the recommendations presented in this concept paper, to aid in developing a self-aware, and effective organisation which is open to feedback.

### **MSP Construct Future State**

A future state for the MSP Construct has been presented below by the concept paper team, Figure 3. This structure focusses on providing clarity of the MSP Constructs overall direction, roles within the structure, increasing leadership skills and safeguarding for the future. A complete breakdown of "Silos" may not be possible but there are areas of focus which will allow for the creation of "communication windows". This future state provides an environment and structure which focusses on passing goals, information, and skills rather than just dollar signs.

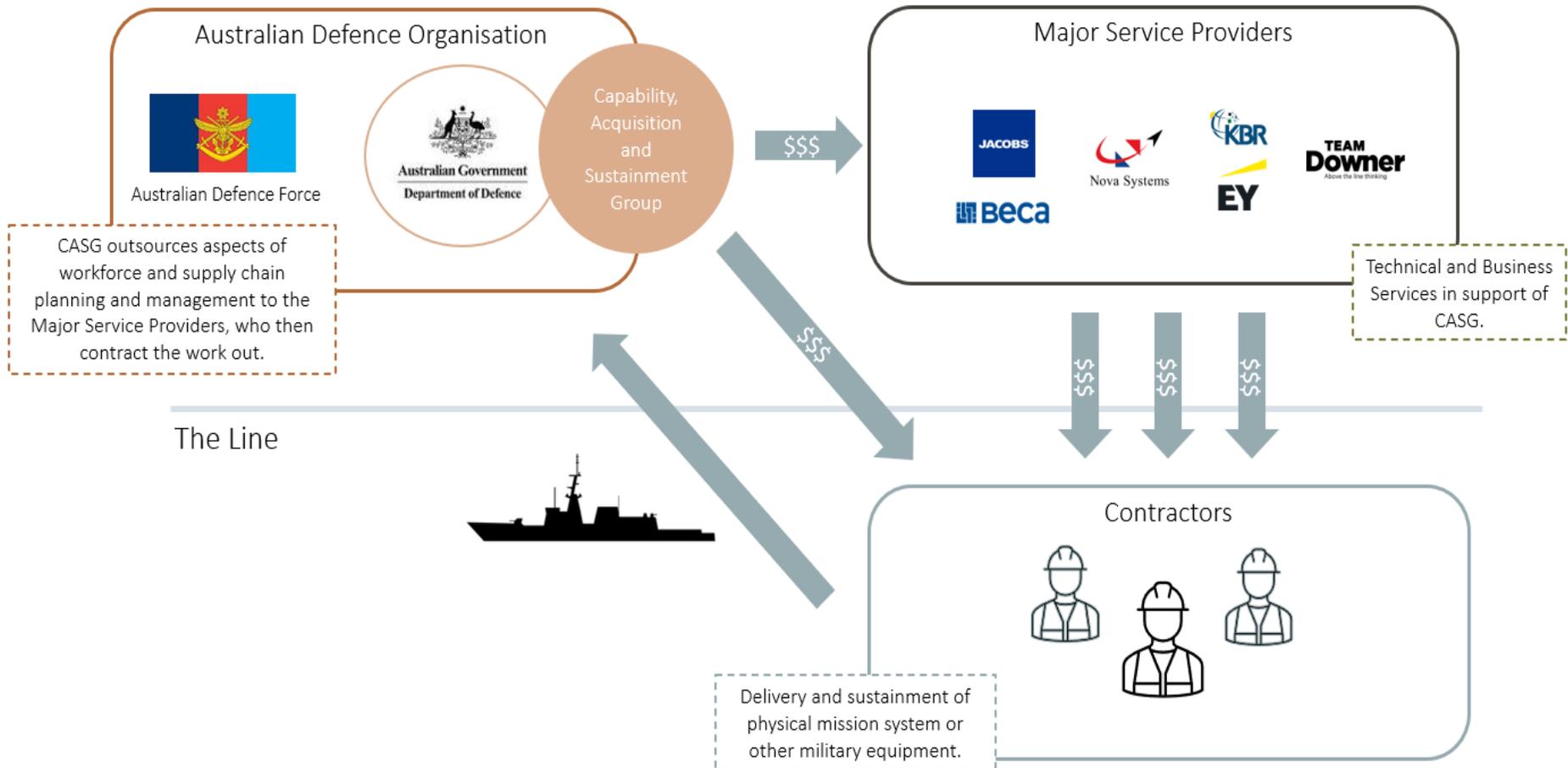


Figure 2 The current Major Service Provider Construct and interactions between organisations.

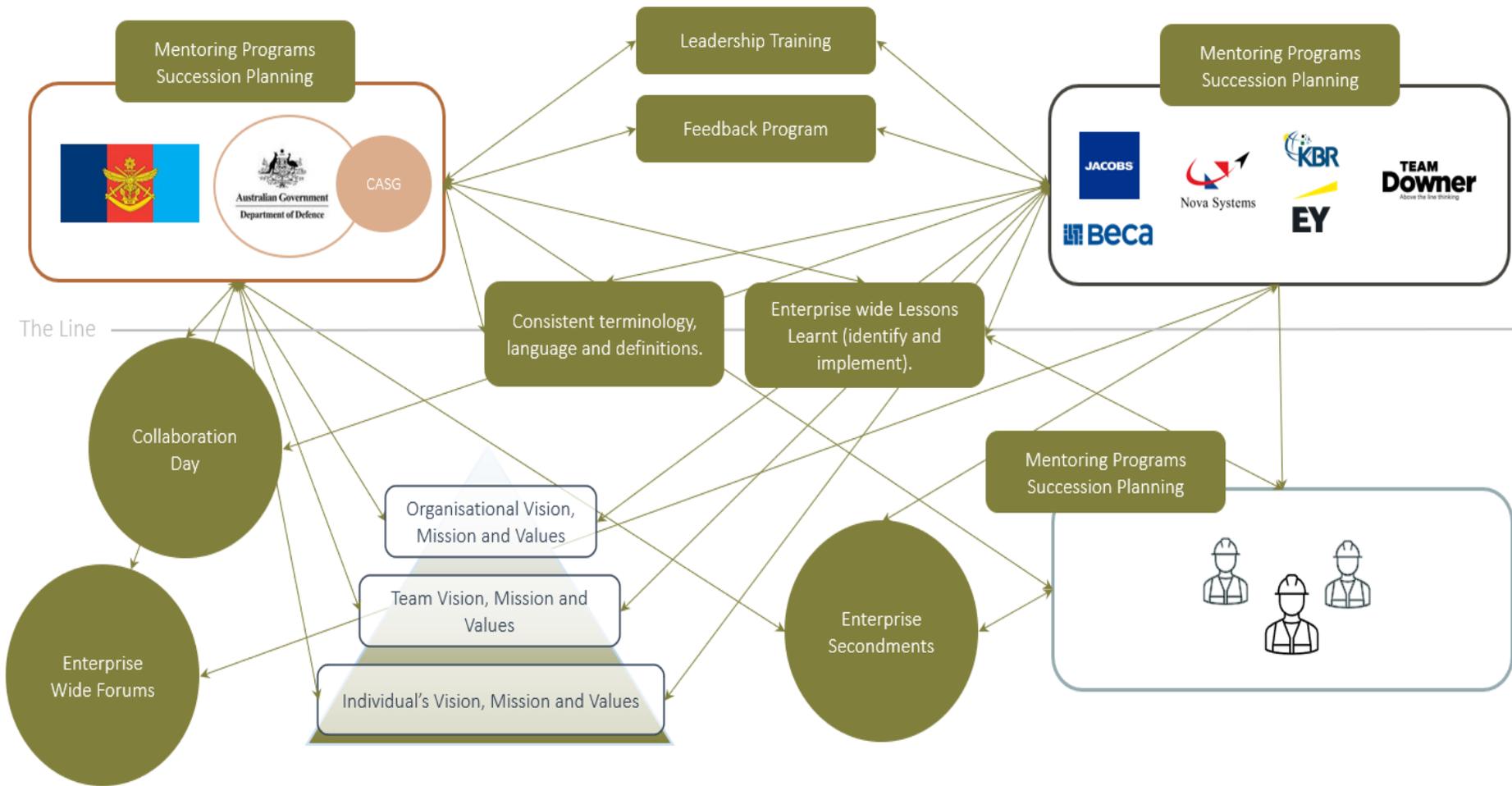


Figure 3 Possible future state for the Enterprise with focus on the MSP Construct.

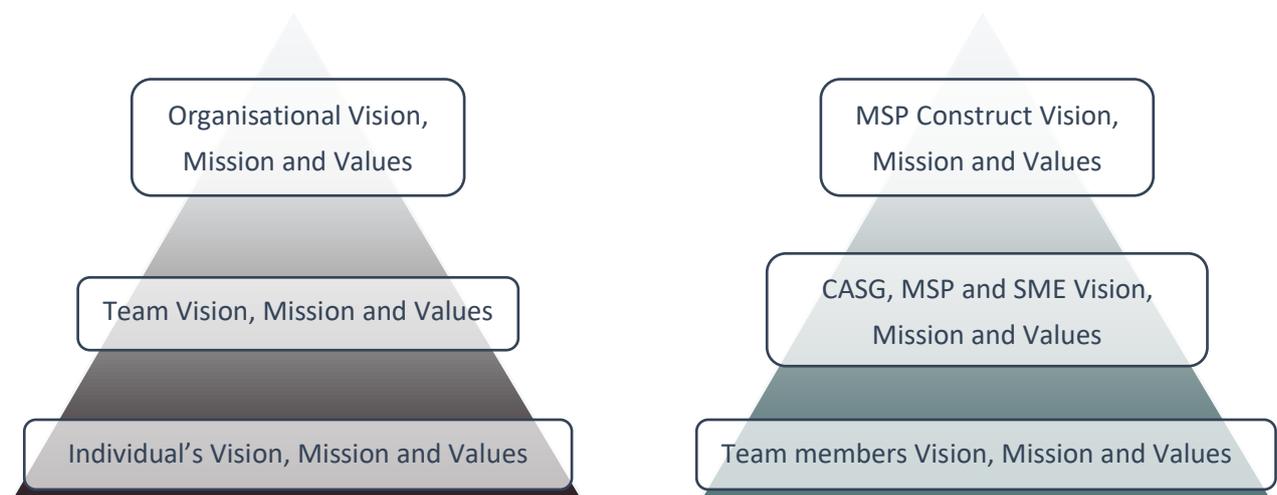
## Recommendations

The recommendations of this report link to questions that reflect key elements of engagement highlighted in the 2017 Gallup report (see page 7).

**The Why** – *The mission or purpose of my company makes me feel my job is important?*

**Align and Communicate Overall Vision, Mission and Values:** An alignment of mission and values is arguably simple within a single organisation. In contrast, the fragmented system of entities, that provide defence with capability, needs significant coordination to align missions/values. Under the assumption that the number of organisational bodies involved in defence procurement remains relatively constant (i.e. no amalgamation of MSP expert personnel into an expanded CASG will occur), we recommend comprehensive CASG-led values-based development and training to align the culture and behaviors of CASG, the MSPs and below-the-line contractors.

Aligning the vision, mission and values of all parties involved in Defence capability procurement and sustainment will make relatively-low-cost progress in repairing the perceived lack of trust between stakeholders.





**The What** – *I know what is expected of me at work?*

**Enterprise-wide Forums:** It is acknowledged by this team that enterprise-wide forums currently exist within defence. However, this recommendation focuses on open communication and the development of a collaborative culture. Quite often only senior management can attend forums and there is a lack of information flow down post these events. It is recommended that CASG and the MSPs jointly hold monthly forums in which a rotating attendee list, from various levels which the teams, can present and listen to the joint successes and lessons learnt.

**Consistent Terminology:** Often a communication breakdown is initiated by, or exacerbated by, a lack of consistent terminology. It is recommended that jointly CASG and the MSPs develop a consistent set of terminology to be flowed through all communication paths. If consistency is not possible, due to the construct of individual businesses, then a language map should be developed to aid anyone seeking to understand the ways-of-working within the MSP Construct.

**Enterprise-wide Lessons Learnt:** The past is where you learned the lesson and the future is where you apply the lesson. A simple fact that is often lost in fast-paced and multifaceted environments. It is recommended that CASG and the MSPs develop, and input, into a joint lessons learnt register. Regular identification and application of lessons learnt should occur, not just at the end of a Program. The open discussion of lessons learnt is recommended to occur at the enterprise-wide forum.



**The How** – *At work, I have the opportunity to do what I do best every day?*

**Leadership Training:** The leaders of any organisation will set the tone and have a responsibility to develop the structure and environment. Therefore, it is recommended that the leaders within both CASG and the MSPs undertake training together to develop their skills, understanding of each other's organisations and joint plans.

**Feedback Program:** In addition to undertaking training together it is recommended that a partnership between senior leaders in CASG and the MSPs be initiated. This would see the creation of a safe space for counterparts within the Construct to provide open and honest feedback to one and other. It is hoped that this recommendation would also increase leaders' openness to feedback and encourage them to provide feedback to their teams.

**Collaboration Day:** Looking more broadly this recommendation looks to encourage creativity and "out of the box thinking". By bringing together teams from CASG, the MSPs and below the line contractors and providing them an opportunity to address any issue they identify within defence. It is recommended that these ideas be presented to senior defence personnel to increase the diversity of thought and solution options.



**The Future** – *This last year, I have had opportunities at work to learn and grow?*

**Mentoring Programs and Succession Planning:** It is recommended that within each group of the MSP Construct mentoring and succession planning is undertaken. This is key to developing the future generation and ensuring that organisations are built around roles, not specific people. Finally, this also provides the opportunity for individuals to learn and grow into new roles as they progress in their chosen careers.

**Enterprise Secondments:** The final recommendation is for the extension of enterprise secondments to all MSP Construct employees, not just graduates. By providing the opportunity to work in a variety of environments, with a diverse group of people the teams within the MSP will become more informed, creative, and agile.

## Summary

The MSP construct was created to support CASG management of an array of Defence projects in an efficient, cost-effective and stable manner. Although it's unclear if these goals are generally being achieved, discussions with MSP and SME personnel indicate significant potential for improvement in working culture. This report delivers several recommendations about how this may be achieved, and in doing so, aims to complement the ongoing Defence review into MSP with an alternative perspective.

---

*The only thing of real importance that leaders do is create and manage culture. If you do not manage culture, it manages you, and you may not even be aware of the extent to which this is happening – Edgar Schein.*



## Bibliography

1. The Department of Defence Website, (2021). Retrieved from: <https://www1.defence.gov.au/business-industry/industry-programs/major-service-provider-arrangement>
2. Peever D., et al. (2015). First Principles Review: Creating One Defence. Retrieved from The Department of Defence Website: <http://www.defence.gov.au/publications/reviews/firstprinciples/>
3. Joiner, K., (2015), 'Implementing the Defence First Principles Review: Two key opportunities to achieve best practice in capability development', Strategic Insights.
4. Glen, J. (2021). Opinion: with baffling review process, no wonder MSPs haven't delivered for Defence. [online] Available at: Opinion: with a baffling review process, no wonder MSPs haven't delivered for Defence, <https://www.themandarin.com.au/151447-no-wonder-the-msp-model-hasnt-delivered-for-casg/> [Accessed 16 October 2021]
5. Hein, D. (2020). The Defence Major Service Provider (MSP) Model – Confidence, competition, value, and inclusion. [online] Available at: <https://www.linkedin.com/pulse/opinion-piece-the-defence-major-service-provider-msp-deborah-hein/> [Accessed 15 October 2021]
6. Ziesing, K. (2020). Rhetoric vs reality in treatment of Defence SMEs. [online] Available at: <https://www.australiandefence.com.au/defence/general/rhetoric-vs-reality-in-treatment-of-defence-smes> [Accessed 15 October 2021]
7. Gallup Inc. (2017) State of the American Workplace. Washington.