

# Higher-level NZDF organisational arrangements

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# Executive summary

## Introduction

- 1 This review examined the NZDF's new higher-level organisational arrangements. These arrangements include restructured and recently-established internal organisations, which provide support functions to all parts of the NZDF.
- 2 We focused on accountability and the associated concepts of responsibility and authority, because the accountability system is how decisions about organisational direction are translated into action. It is key to the NZDF's business model. Our primary objective was to provide the Minister of Defence and CDF with an independent assessment of the appropriateness and effectiveness of those arrangements.
- 3 Field work for this review was completed in November 2011.

## The new arrangements

- 4 The NZDF's new organisational arrangements comprise new structures and processes. The new structures resulted mainly from the Defence Transformation Programme, which aimed to make savings through changed business processes. The main changes are centralised logistics, personnel, and capability functions. The Defence White Paper directed further organisational change, notably the appointment of a civilian Chief Operating Officer.
- 5 As well as the structural change, the NZDF has introduced a new business model, a revised strategic planning process, a new NZDF Annual Plan (which combines the previously separate annual plans of the various parts of the NZDF), 'customer/supplier' relationships between output deliverers and support organisations, and a revamped senior leadership board.

## The role of CDF

- 6 The CDF, as the chief executive of the NZDF, has two roles that do not always facilitate a single management approach. Unusually amongst Western democracies, the CDF in New Zealand is both the head of the defence bureaucracy (and the employer of civil staff), and the commander of military forces. HQ NZDF, as a head office, needs to be managed in a way that enables efficient and effective management of the NZDF business. As a strategic headquarters HQ NZDF should also have a strong, hierarchical military command and control organisation.

- 7 It is our observation that HQ NZDF as a 'bureaucracy' may at times conflict with HQ NZDF as the strategic headquarters. The experience of most military officers posted to the headquarters is more suited for the latter (military HQ) role than the former (departmental head office) role.

### The business model

- 8 The NZDF describes its new business model as a matrix. Along one axis are the Service Chiefs and Commander Joint Forces New Zealand (the 'output owners'). Along the other axis are the 'business owners': the Chief Operating Officer (whose responsibilities include the centralised personnel and logistics functions), and VCDF (whose responsibilities include the centralised capability function). For the purposes of this report we have termed the heads of the supporting organisations that report to the Chief Operating Officer and VCDF 'service providers' (examples are Commander Logistics, and Assistant Chief Personnel who heads the Defence Personnel Executive).
- 9 This new business model means a fundamental change for the Service Chiefs in the way they deliver outputs. They continue to be accountable for delivering outputs, but must now rely on business owners and service providers for support functions, which they formerly owned themselves.
- 10 The Annual Plan, read in conjunction with CDF's Command Directives to the Chiefs and Commander Joint Forces New Zealand, is the mechanism by which the senior leaders align their respective 'performance agreements'. One of the Plan's objectives is to achieve 'ownership and accountability'. The document is therefore key to achieving the NZDF's purpose in implementing its new business model.

### Our expectations

- 11 We expected that in NZDF business planning:
- a Authorities, accountabilities and responsibilities are clear. (Responsibility is the onus of duty to carry out a task; responsibility can be shared. Accountability means being liable for results, the manner in which they are achieved and an account of why results are not achieved. Accountability cannot be shared.)
  - b Accountabilities and responsibilities are backed by authority and resources. (Authority is the power that people have to carry out their responsibilities, and assign authority and responsibility to others.)
  - c Managers/commanders are well informed about progress towards objectives.
  - d Managers are held accountable.

## What we found

### *Accountability*

- 12 We found some confusion about where accountability lies at the higher levels of the organisation. We think this is due in part to a perception that the Defence Force Leadership Board and its sub-committees make decisions by consensus, although we understand that CDF does not intend this to be so. We agree committee members have a collective responsibility to advise and support the chair. But we think that where action is required as a consequence of Board deliberations, CDF should promulgate his decision via directions or instructions, or authorise a committee member to do so.
- 13 The Defence Force Leadership Board is an essential forum for achieving agreed plans and objectives for the NZDF. In our view, committees are generally most effective when used to advise and support accountable decision-makers, not for consensual decision-making. This view is supported by reviews of defence agencies in Australia and the United Kingdom.
- 14 The new combined Annual Plan has contributed to the process of examining and explicitly stating the requirements of each part of the NZDF and setting out accountabilities and responsibilities. The process is still evolving and some sections of the Annual Plan are more detailed than others about the level of support to be provided. Also, a full set of performance measures against the Annual Plan is yet to be developed. Such information is essential for monitoring the efficiency and effectiveness of the business model, and for holding managers to account.
- 15 The Annual Plan sets out negotiated and agreed levels of performance between output owners, business owners, and support providers in the form of 'performance agreements'. The term 'agreements' clouds the command relationships in a military organisation such as the NZDF, and confuses accountability and the consequences of poor performance. We agree that levels of service should be negotiated and agreed between different parts of the NZDF; but, for uniformed personnel, it should remain clear that failure to achieve standards of performance may be dealt with through military command and disciplinary processes, not by reference to 'business contracts'.
- 16 The following could strengthen the accountability system under the new arrangements.

- a Issuing collective decisions of the Defence Force Leadership Board as CDF directives or instructions.
- b Emphasising the role of management committees as advisory bodies to accountable individuals.
- c Developing the agreements in the Annual Plan into service level specifications.
- d Continuing to develop performance measures to assist monitoring, decision-making, and the holding to account of business owners and output owners.

#### *Other findings*

- 17 Much of the emphasis in the recent structural change in the NZDF has been on increasing efficiency within its business processes. This has been in response to financial pressures on the organisation. We acknowledge these pressures, but encourage the NZDF to keep sight of the effectiveness of its business processes as it continues to look for efficiencies.
- 18 Lack of clear responsibilities has led to some tasks being neglected, at least until an owner for the problem was found. Instigating a lessons learned process to record roles and responsibilities, update manuals, or ensure Standard Operating Procedures are written for roles in new business areas would assist clarification of responsibilities.
- 19 Changes in reporting to the Defence Force Leadership Board mean personnel issues are no longer reported as stand alone items. However, throughout our review, personnel issues, especially the effects of reducing headcount and the civilianisation process, were to the fore. We think the NZDF should consider re-introducing separate reporting of personnel measures.

#### **Recommendations**

- 20 It is recommended that the NZDF:
  - a amends the Defence Force Leadership Board's Terms of Reference to:
    - (i) reflect its status as the senior management board, not a governance board;
    - (ii) provide that CDF will issue directives or instructions in his own name or authorise a Board member to do so, and
    - (iii) refer to 'collective responsibility' rather than 'collective accountability';



- b establishes the Defence Force Leadership Board as an advisory body to CDF and amends its Terms of Reference to reflect that role;
- c develops the performance agreements in the Annual Plan into service level specifications with associated performance measures;
- d restores separate reporting of personnel measures in its reporting to the Defence Force Leadership Board;
- e introduces a lessons learned process for roles and responsibilities; and
- f defines responsibility and accountability in the Annual Plan, and applies these terms consistently throughout NZDF documentation.



# Chief of Defence Force response

## Chief of Defence Force response

- 1 The contents of this report and its recommendations are noted. A number of changes in the NZDF have already overtaken a number of the recommendations made.
- 2 CDF Directive 24/2012 dated 30 May 2012 changes NZDF governance arrangements. It will remove the DFLB as currently constituted. The recommendations made in relation to the DFLB Terms of Reference will be taken into account in drafting the new terms of reference for the replacement strategy and management fora.
- 3 As recommended performance agreements in the Annual Plan will be developed into service level specifications with associated performance measures. Responsibility and accountability will be more clearly defined and applied consistently throughout key NZDF documents.
- 4 Rather than establishing a lessons learned process as recommended, I intend to reinvigorate the accountability for publications and their maintenance.



# Section 1

## Developments in higher-level organisation

### Introduction

- 1.1 This review examined the NZDF's new higher-level organisational arrangements. Our primary objective was to provide the Minister of Defence and CDF with an independent assessment of the appropriateness and effectiveness of those arrangements. Our work might also assist the NZDF by identifying issues needing management attention.
- 1.2 The new arrangements include restructured and recently-established organisations, which provide support functions to all parts of the NZDF. The NZDF's Annual Plan for 2011-2012 sets out the relationships between these supporting organisations and those parts of the NZDF delivering outputs (HQ Joint Forces New Zealand and the three Services). We looked at whether the NZDF has established commonly understood responsibilities, accountabilities, and authorities.
- 1.3 We did not examine arrangements within the Services or the business units/service providers. Nor did we look at the command and control arrangements for the strategic military direction of the NZDF.
- 1.4 Field work for this review was completed in November 2011.

### Definitions

- 1.5 The NZDF uses the term 'output owners' to refer to Commander Joint Forces New Zealand and the Service Chiefs, who deliver force elements; and 'business owners' to refer to the Chief Operating Officer and VCDF, who support the output owners. We also use the term 'service providers' to refer to those organisations reporting directly to the Chief Operating Officer and VCDF.<sup>1</sup>

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<sup>1</sup> Examples are Assistant Chief Personnel, Assistant Chief Capability, Commander Logistics, and Director Defence Shared Services.

## Background

- 1.6 The Defence Transformation Programme (which ran between July 2007 and June 2011) initiated significant organisational and structural change in the NZDF. The purpose of the Defence Transformation Programme was to investigate potential financial savings, and to change business processes to achieve those savings. Its vision was for a 'single organisational approach enabling simpler and better support functions to the three Services and Operations'.<sup>2</sup> The Programme's aim was to free up resources to invest back into the front line.
- 1.7 The Defence Transformation Programme resulted in restructured and new organisations in the NZDF. The new organisations centralised those functions that provide common areas of support to the Services. They include:
- a Defence Logistics Command;
  - b Defence Personnel Executive, including Training and Education Directorate; and
  - c Capability Branch.
- 1.8 Restructured organisations include Finance (all staff report through to the CFO rather than Service Chiefs) and Defence Shared Services (renamed from the Joint Logistics Support Organisation, to differentiate it from Defence Logistics Command). Other centralised organisations are being developed, such as a single Defence health service.
- 1.9 The Government's Defence White Paper 2010 signalled further change to the organisational arrangements in Defence, including the appointment of a Chief Operating Officer to the organisational management of the NZDF. The person in this (civilian) post reports directly to the CDF and acts as his deputy in managing the NZDF as an organisation.<sup>3</sup> The Chief Operating Officer is responsible for ensuring organisational reforms are planned, executed, and monitored. The Chief Operating Officer sits alongside, and is equal in status to, the VCDF, who is primarily responsible for military functions.

## The role of CDF

- 1.10 The Defence Act 1990 gives CDF the authority and responsibility to undertake two distinct roles. First, he is the chief executive of the NZDF,

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<sup>2</sup> NZDF Annual Report 2009, page 16.

<sup>3</sup> Defence White Paper 2010, para 9.11.

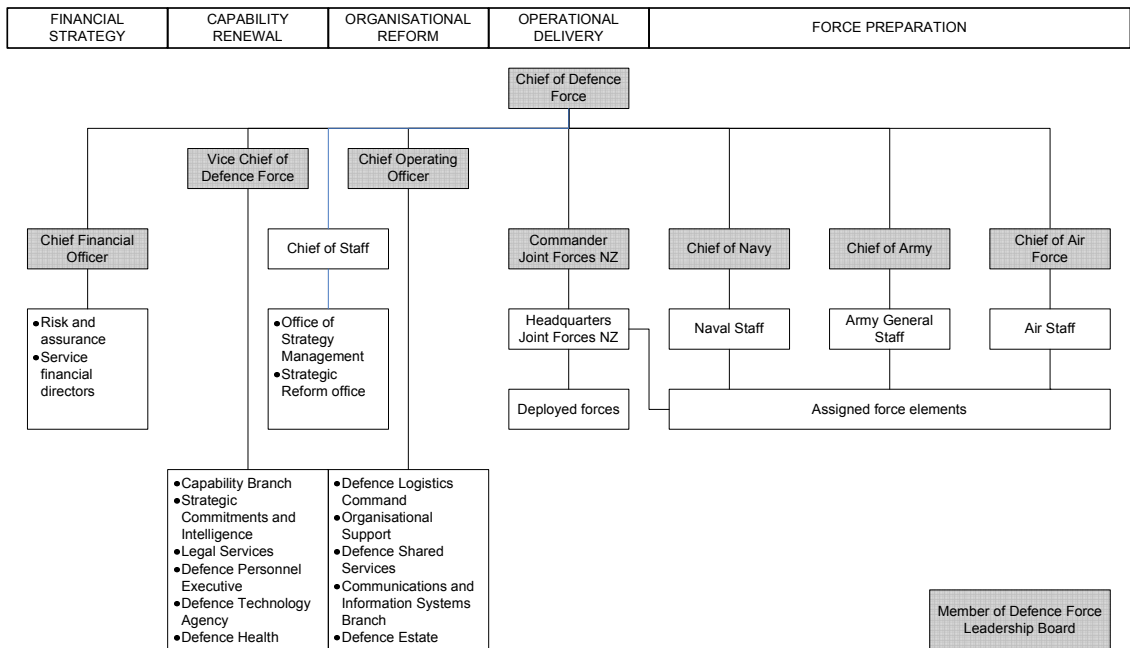
responsible for carrying out the functions of the NZDF, for its general conduct, and for management of its resources.<sup>4</sup> Second, he commands the Services through the Service Chiefs, and the joint forces directly.<sup>5</sup>

1.11 Previously in New Zealand (that is, before the passing of the Defence Act 1990), and currently in other Western democracies such as Australia, Canada and the United Kingdom, responsibilities are shared between a military chief and a public service departmental head. Under these arrangements the military chief is responsible for military matters including operations and personnel; and the public service head is responsible for resource management, business processes, and civilian personnel. Under the Defence Act 1990, CDF has all these responsibilities.

### Organisational structure

1.12 Fig 1.1 summarises the organisational structure of the NZDF.

Fig 1.1: NZDF organisational structure (as at 1 July 2011)



Source: Adapted from 2011-12 Annual Plan, Figure 4, page 19.

<sup>4</sup> Defence Act 1990, s.25(1). Compare with State Sector Act 1988, s.32. See also s.104 in respect of application of the Public Finance Act 1989.

<sup>5</sup> Defence Act 1990, s.8(3).

## Implications for the delivery of outputs

- 1.13 The organisational arrangements implemented through the Defence Transformation Programme have resulted in a fundamental change for the Service Chiefs in the way they deliver outputs. Previously, Service Chiefs were accountable for raising, training, and sustaining their respective forces; and for the support functions that enabled them to raise, train, and sustain. Now, Service Chiefs' accountabilities to raise, train, and sustain are the same. But the business owners deliver the support functions necessary to achieve this.
- 1.14 The result is a matrix of accountabilities and responsibilities that in many respects represents an unfamiliar style of management for the NZDF. It also has the potential to create tension between the Service Chiefs and business owners through conflicting objectives—effective force elements versus reduced cost.

## A new business model

- 1.15 The NZDF has 'fundamentally change[d] the business model the NZDF will use to achieve its strategy'<sup>6</sup> with the aim of ensuring it can operate within its capped appropriation to 2014/15. CDF engaged with the Minister of Defence, Secretary to the Treasury and the State Services Commissioner in regards to this new model. Under the new business model, adopted in mid-2011, 'output and business owners will control resources and be accountable for delivery'.<sup>7</sup>
- 1.16 The purpose of the new business model is to:<sup>8</sup>
- a focus on military capability development required over the next 25 years
  - b re-orientate the current output delivery to focus on those things CDF wants to purchase from output and business owners to meet Government priorities
  - c use efficiency studies generated over the last few years to drive better financial performance with the overall aim of redistributing resources to close performance gaps and build military capability
  - d reform the NZDF particularly in the HQ and shared services functions. Force elements will be also scrutinised to maximise utility and minimise duplications across the services.

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<sup>6</sup> SRO Minute 02/2011, *Strategic Reform Programme: Implementation of the Strategic Reform Programme*, 8 May 2011, para 15.

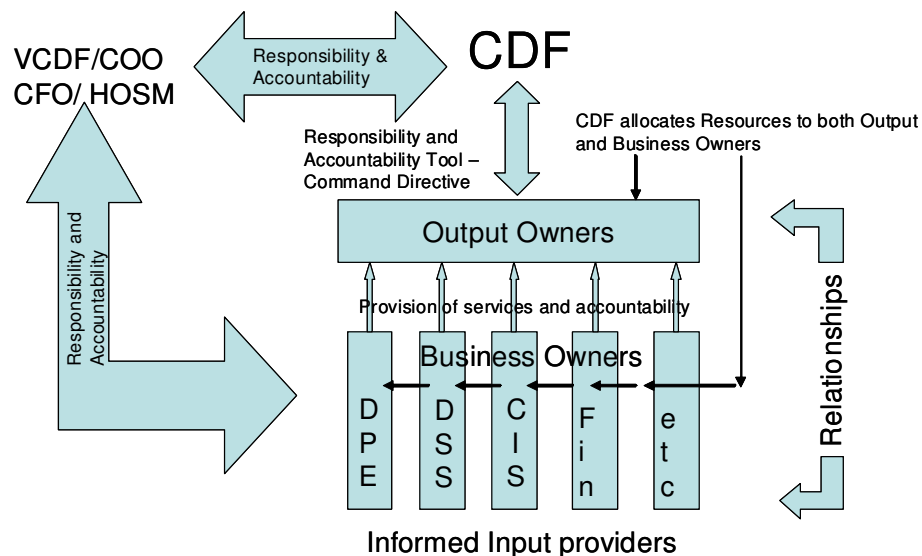
<sup>7</sup> CDF Directive 16/2011, *Production of the NZDF Annual Plan for FY2011/12*, 4 May 2011, para 13.

<sup>8</sup> SRO Minute 02/2011, *Strategic Reform Programme: Implementation of the Strategic Reform Programme*, 8 May 2011, para 4.



- 1.17 The model is based on five principles, four of which relate to cost. The fifth is: '[a] model which defines output and business owners accountabilities and responsibilities, [which] will be translated into individual 'performance agreements'.'<sup>9</sup>
- 1.18 The business model deals with responsibility and accountability through negotiated 'performance agreements' between output and business owners. The agreements set out what each output and business owner is expected to provide to the others. They are intended to ensure arrangements are in place for the output owners to receive adequate support from business owners; and state clearly who is responsible for delivering services and outputs. The agreements form part of the annual planning process, which cascades from CDF down through the output owners to business owners. We comment in section 3 on the appropriateness of the term 'performance agreement' in the NZDF context.
- 1.19 The business model is shown in Figure 1.2. (The NZDF has used the term 'business owners' here to refer to the heads of the supporting organisations. In this report, we refer to them as 'service providers'.)

Fig 1.2: NZDF business model: accountabilities and responsibilities

**Requirements**

- Account management provided by Shared Services
- Annual Plans which outline Single Service requirements and Shared Service outputs (at a high level)
- Quality relationships between providers and customers (no need for detailed SLAs/MOU's)
- Accountability to customers by providers (incl - in Performance Management)

Source: SRO Minute 02/2011, *Strategic Reform Programme: Implementation of the Strategic Reform Programme*, 8 March 2011, paragraph 7.

<sup>9</sup> Ibid., paragraph 5. We consider the principles to be goals.

## New and restructured centralised functions

### *Defence Personnel Executive*

- 1.20 The Defence Personnel Executive, stood up at the end of May 2010, drew together the HQ NZDF Personnel Branch and Service human resources staff. It centralised human resource processes, structures, policies, and delivery under a single point of accountability.

### *New Zealand Defence College*

- 1.21 The New Zealand Defence College (previously the Training and Education Directorate), designed to develop consistent training policy and strategy, is a single point of contact for external organisations, and delivers areas of common training. The Services remain responsible for environment-specific training, and career management and postings.

### *Defence Logistics Command*

- 1.22 The Defence Logistics Command began operating in July 2010. It amalgamated HQ NZDF logistics policy staff and Service supply, engineering and maintenance staffs. It includes environment-specific groups as well as a 'common lines' group. For the Navy and the Air Force, much of their logistics functions transitioned to the new structure without significant change. For example, the Navy's fleet support organisation has not changed, but now reports to Commander Logistics rather than the Chief of Navy.
- 1.23 The Army has a greater portion of its logistics capability embedded with force elements than the Navy and Air Force do. Therefore, proportionately less of the Army's logistics function transferred to the Defence Logistics Command.

### *Capability Branch*

- 1.24 Capability Branch, stood up in October 2010, integrated HQ NZDF Development Branch and the three Service capability branches. The expected benefits of the changes included better assessment and strategic linking of capability requirements.

## Other supporting services

- 1.25 Other branches that deliver common functions to the Services include Defence Shared Services (functions such as facilities management, purchasing, and travel), Communications and Information Systems Branch, and Finance Branch. These branches have undergone some changes, but the effect has not been as great as the changes outlined above. These organisations and processes had been in place for some years.

## The Services

- 1.26 Under the new arrangements, Service Chiefs have significantly fewer headquarters staff, although there is considerable variation in absolute numbers.<sup>10</sup> The Chiefs are accountable, with the assistance of the Joint Force Headquarters component commanders, for ensuring force elements are available as required by the Output Plan. But they have no accountability for the support functions described in paragraphs 1.20 to 1.25.

## Command and management

### *Command*

- 1.27 A strict hierarchy is one of the defining characteristics of military organisations. Every person has authority over another on the basis of his or her respective ranks. A superior exercises command over a junior. Instilling compliance with the orders and directions of seniors is a fundamental component of maintaining discipline and order in battle, and ensuring soldiers don't panic or act imprudently, risking further danger. The rank hierarchy also allows for continuity of command if the officer commanding is killed or incapacitated. As a general principle, the next highest ranking officer takes command.

- 1.28 In military organisational context, command is:

the authority a person lawfully exercises over subordinates by virtue of rank or assignment. Command includes the authority and responsibility for effectively using available resources and for planning the employment of, organising, directing, coordinating and controlling military forces for the accomplishment of assigned missions. It also includes responsibility for the health, welfare, morale and discipline of assigned personnel.<sup>11</sup>

- 1.29 Command may be associated with control, which is:

the authority exercised by a commander over part of the activities of subordinate organisations, or other organisations not normally under his command, which encompasses the responsibility for implanting orders or directives. All or part of this authority may be transferred or delegated.<sup>12</sup>

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<sup>10</sup> For example, the Air Force retained within its Air Staff a large Directorate of Engineering and Technical Airworthiness. The Directorate provides the Chief of Air Force, as the NZDF Airworthiness Authority, the staff resource he needs to produce engineering and technical regulation and policy, and to provide assurance in those areas. In contrast, the Chief of Navy has less than 12 in his staff.

<sup>11</sup> NZDDP-D *Foundations of New Zealand Military Doctrine*.

<sup>12</sup> *ibid.*

*Authority and responsibility in relation to command*

- 1.30 Underpinning the organisational arrangement of HQ NZDF is this constant of command relationships and authority. While similar relationships are not unique and occur to some extent in any organisation, they are a cornerstone of the military organisational and management structure. Every Service person in the organisation must recognise that an instruction from a superior is backed by the force of the Armed Forces Discipline Act. The Armed Forces Discipline Act 1971 makes it an offence punishable by up to five years imprisonment to disobey the lawful command of a superior officer. Further, it is an offence punishable by imprisonment of up to two years to fail to comply with a written order.
- 1.31 The relation between authority and responsibility determines the degree to which command is effective. Balanced command occurs only when the authority to act corresponds with responsibility. When these two dimensions do not correspond, the results are dangerous or ineffective command; or the inability to command. This model is shown in Table 1.<sup>13</sup>

Table 1: Command relationship between authority and responsibility

	<b>RESPONSIBILITY</b>	<b>NO RESPONSIBILITY</b>
<b>Authority</b>	Balanced command	Dangerous command
<b>No authority</b>	Ineffective command	Inability to command

- 1.32 Every person in a position of authority must recognise that he or she is solely accountable and responsible for decisions made. That responsibility cannot be shared or off-loaded to a board, committee or group.

*Management of civil staff*

- 1.33 Civil staff in the NZDF are subject to the same employment laws and managerial relationships as in any other civilian organisation. Employment contracts set out responsibilities and accountabilities, and expected standards of performance. They also set out the disciplinary processes that apply should an individual fail to meet the requirements of his or her contract. Under their employment contracts, civil staff in the NZDF are also subject to a Code of Conduct. They are not subject to the Armed Forces Discipline Act 1971.

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<sup>13</sup> Pigeau, R. and McCann, C. (1995), cited in Lieutenant-Colonel Jon Burbee (2007), *Faded Lines and Tangled Chains: Command and Control Challenges for the Canadian Support Command*, Master of Defence Studies Research paper, Canadian Forces College.

- 1.34 Employment contracts and the Code of Conduct ensure that managers' (lawful) instructions are acted upon. As for military commanders, civil staff in positions of authority are solely accountable for their decisions.

### A matrix organisation

- 1.35 The NZDF has referred to the new arrangements as a 'matrix environment'. In matrix organisations, people with similar skills are grouped under, and report to, one manager; but they may also report to other managers for specific projects or tasks. Matrix organisations are frequently used in commercial organisations where project managers draw on people from different functional areas to work on particular projects.
- 1.36 The claimed advantages of a matrix organisation are that it allows for individuals' professional development, and grows specialisation and depth of knowledge. Information and knowledge can be shared more easily. Disadvantages are that responsibilities are less clear. One view is that a properly managed co-operative environment can achieve the same advantages as a matrix, without the disadvantages.
- 1.37 In the NZDF, the matrix is formed by the business owners and service providers along one axis and the Service Chiefs and Commander Joint Forces New Zealand along the other. Those working 'inside the matrix' have responsibilities towards both these sets of managers. This differs from purely hierarchical structures (such as traditional military organisations) in which managers achieve their objectives by exercising their authority (their command authority in the case of the military). Under a matrix, commanders/managers must rely more heavily on interpersonal skills, and achieving objectives through negotiation and influence.

### The Defence Force Leadership Board

- 1.38 In February 2011, the NZDF renamed its senior management board from the Executive Leadership Team to the Defence Force Leadership Board. The full members of the Defence Force Leadership Board are CDF, VCDF, the Service Chiefs, Commander Joint Forces New Zealand, the Chief Financial Officer, the Warrant Officer Defence Force, and the Chief Operating Officer.

1.39 The Defence Force Leadership Board is:<sup>14</sup>

... the strategic decision-making body for the NZDF; it is a collective forum for CDF and the senior leadership team to decide significant issues affecting NZDF strategy. [The Defence Force Leadership Board] will establish and promote the NZDF's ethics, values and strategic objectives through the Strategic Plan. [The Defence Force Leadership Board] will also monitor performance against strategic objectives and NZDF's compliance with legislative requirements.

1.40 The Board's Terms of Reference discuss members' individual and collective accountability and the Board's governance accountabilities. The Terms of Reference also define what actions the Board may take. These are to approve or endorse matters before it, direct action, or note issues.

1.41 At the time of writing this report, the Defence Force Leadership Board had three sub-committees:

- a Strategic Human Resources
- b Strategic Reform Programme
- c Audit and Risk.

## Strategic and annual planning

### *Strategy management*

1.42 The NZDF has established in HQ NZDF an Office of Strategy Management and a Strategic Reform Office. The Office of Strategy Management oversees the NZDF's entire strategy management process. The Strategic Reform Office co-ordinates efforts across the NZDF to create the structure and develop the processes to ensure it is a strategy-led organisation.

1.43 To give effect to the business model and the new processes under the matrix, the NZDF has revised its strategic planning processes. Two key documents are the Strategic Plan and the Annual Plan.

### *Strategic planning*

1.44 The Strategic Plan incorporates two (interrelated) strategic themes: Capability Renewal and Organisational Reform. The intent of the Organisational Reform theme—'deliver an efficient NZDF'—is to improve the productivity and performance of the NZDF. Key to achieving this intent is meeting the savings targets of the NZDF Efficiency Programme, which incorporates the Defence Transformation Programme targets.

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<sup>14</sup> *The Terms of Reference of the New Zealand Defence Force Leadership Board (DFLB) and the Subordinate Committees Within the NZDF Governance Framework*, 3 May 2011, paragraph 13.

- 1.45 The Organisational Reform theme also aims for organisational improvements in line with the Defence White Paper, and improvements in governance.
- 1.46 The Strategic Plan is made up of the Strategy Map (strategic themes and objectives), the Strategic Journey Map (strategic initiatives), and the Balanced Scorecard (measures and targets for the initiatives).
- 1.47 The NZDF's intention is to transform the previous 'bottom-up' planning process into a more strategy-led 'top-down' approach. Under this approach, the NZDF Strategic Plan is written first; then the Services and supporting areas write their individual strategic and annual plans to align with it. Only activities in line with the overall Strategic Plan are approved. The Strategic Plan feeds into the 10-year resource plan, which allocates resources only to those activities that align with the strategy. The NZDF expects this approach to change financial planning, project initiation, and (eventually) exercise planning.

#### *Annual planning*

- 1.48 Financial year 2011/12 is the first in which the NZDF has produced a single Annual Plan covering all parts of the organisation. The objectives of the 2011-12 NZDF Annual Plan include the 'achievement of ownership and accountability', 'implementation of a strategy-led organisation', and 'adoption of the top-down business model'.
- 1.49 The annual planning process is designed to ensure the execution of the Strategic Plan cascades down through the NZDF, with a focus on output delivery being supported by the enabling functions. It is a top-down approach, with plans developed in the following order (although with some overlap):
- a VCDF, Chief Operating Officer, Service Chiefs and Commander Joint Forces New Zealand
  - b Assistant Chief Personnel, Assistant Chief Capability (and others)
  - c Commander Logistics and the heads of other directly supporting branches (and others)
  - d Chief Financial Officer and Chief of Staff.
- 1.50 CDF Directive 16/2011—*Production of the NZDF Annual Plan for FY 2011/12* details the requirements and processes for producing the Plan. With respect to the delivery of services to output owners, it states:

Business Owner plans [service provider plans, in the terminology of this report, for example Assistance Chief Personnel, Commander Logistics] are to specify what services are to be delivered, to whom, and to what extent. The level of service delivery is to be only that required to enable the planned output performance, with support to the wider organisation being fit for purpose and no more.

- 1.51 Read in conjunction with CDF's Command Directives to the Chiefs and Commander Joint Forces New Zealand, the Annual Plan is the mechanism by which the senior leaders align their respective 'performance agreements'. The Annual Plan states:

...the Annexes, and where applicable the component Appendices, within this Plan will constitute the Performance Agreements between CDF and [the Defence Force Leadership Board] members for FY 2011/12. The Appendices to Annex B and C also constitute Performance Agreements between VCDF/COO and their respective direct reports.

The signing of this NZDF Annual Plan advances the implementation of the new business model as agreed by [the Defence Force Leadership Board] members at the 14 Mar 11 meeting. That business model included the requirement for Performance Agreements to flow out of the broader annual planning process. Accordingly, [the Defence Force Leadership Board] members have specified within respective Annexes (and Appendices as applicable) both the level of performance delivery CDF will hold them accountable for, and how that performance will be delivered within the level of resources provided.

- 1.52 Each member of the Board has a section in the Annual Plan, part of which sets out negotiated and agreed supporting activities and, in some cases, performance levels. The Plan states that meeting these requirements 'is a key part of making the matrix environment work across the Portfolios'.

### Monitoring and performance reporting

- 1.53 The Defence Force Leadership Board monitors performance against the Annual Plan. CDF requires quarterly reports from Commander Joint Forces New Zealand, the Service Chiefs, VCDF, and the Chief Operating Officer.<sup>15</sup> The reports are to include sections on:
- a the delivery of normal business;
  - b strategic change (delivery of projects and programmes on the NZDF Strategic Roadmap);
  - c risks to outputs, deployment, other operations, and to the delivery of the 2015 vision; and
  - d recommendations.

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<sup>15</sup> Office of Strategy Management, Minute 7020/RP/9/2011, *Reporting Against Annual Plans*, 3 August 2011.



- 1.54 The NZDF performance reporting system for tracking progress on the Annual Plan is the Executive Strategy Manager. The Executive Strategy Manager is based on Kaplan and Norton's Balanced Scorecard, a management system that adds non-financial performance measures to the traditional financial metrics used by managers and executives. The structures of the scorecard and the Plan are aligned and the NZDF intends that each scorecard should include measures of output delivery or service delivery.
- 1.55 The Executive Strategy Manager system does not yet include all the measures from the Annual Plan, but the NZDF expects this process to be completed by the fourth quarter of FY 2011/12. It is also intended to include benchmarking information for support services.
- 1.56 A Performance Management Working Group supports the production of quarterly reports against the Annual Plan. The 'end state' of the working group is:<sup>16</sup>

Performance management will become fully embedded in the way [the] NZDF does business. We will clearly understand what good performance looks like and how to measure it, we include effective performance measures in our plans, monitor results and make decisions to bring performance back on track, and report actual performance against plan to support effective governance.

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<sup>16</sup> *Performance Management Working Group (PM WG) Terms of Reference, 27 January 2011, page 1.*



## Section 2

# Concepts of authority, responsibility, and accountability

### Overview

2.1 In this section, we discuss the concepts of authority, responsibility, and accountability. We also consider governance and its relation to accountability.

2.2 Accountability is how decisions about organisational direction are translated into action, and is therefore key to the success of the NZDF's business model. As stated in a recent review of the Australian Defence accountability framework:<sup>17</sup>

...the structures, process and culture an organisation uses to create accountability – its accountability system – is the backbone of organisational governance and of its leaders' ability to exercise strategic control over what the organisation delivers and how it delivers it. The quality of the accountability system has a major impact on organisational performance in all its dimensions.

2.3 Also in this section, we summarise findings from a review of repair and maintenance practices in the Royal Australian Navy. These findings have informed our own assessment of the NZDF's new arrangements.

### Definitions

2.4 The terms accountability, responsibility, and authority have reasonably standard meanings in management and organisational writing, but it is useful to set out here our understanding of these terms in the context of the NZDF Annual Plan and other related documents.

- a Accountability<sup>18</sup> means being liable for some output or result, for the manner in which it is achieved, and for explaining any failure to achieve the output or result.

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<sup>17</sup> Black, R. (2011). *Review of the Defence Accountability Framework*, Department of Defence (Australia), January 2011, p.13

<sup>18</sup> Accountable: required or expected to justify actions or decisions (Concise Oxford English Dictionary).

- b Responsibility<sup>19</sup> relates to duties to be performed. Anyone assigned a duty or task is responsible for carrying it out, and responsible to whomever assigned it. More than one person may be responsible for a task, but each is individually accountable.
- c Authority<sup>20</sup> is the power that people have to carry out their responsibilities, and assign authority and responsibility to others.

2.5 These principles can be illustrated thus.

- a In the process of delegation, a superior transfers certain duties or responsibilities to a subordinate and gives necessary authority for performing the responsibilities assigned. But the superior is accountable for the performance of his or her subordinate. Accountability is multi-layered—if a subordinate is accountable, then so too is the superior. Accountability cannot be delegated or shared.
- b Responsibility is all of the elements of duty up to the point that a decision is made. Accountability is all of the elements of duty after a decision is made.

2.6 In a hierarchical organisation, people are usually responsible and accountable to the same person (and these terms often seem to be used synonymously). In a matrix people may have two or more managers to whom they are responsible for carrying out duties; however, they have only one manager to whom they are accountable for properly carrying out those duties. That manager is identifiable as the one able to discipline for poor performance, or with the ultimate authority to determine what tasks the person performs. So it is important, especially in a matrix environment, to differentiate clearly between responsibility and accountability.

### An accountability system

2.7 Accountability in itself is of limited use in ensuring good organisational performance, because it is a calling to account after the event. However, it can be an effective form of managerial control if top-level outputs are translated into initiatives for which individuals at lower levels are accountable; and those initiatives are managed and checked to ensure they meet the requirements of the relevant leader at the next level up. This approach means each individual is accountable for his or her part of

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<sup>19</sup> Responsibility: the obligation to carry forward as assigned task to successful conclusion. With responsibility goes authority to direct and take the necessary action to ensure success (AAP-6 (2008) NATO glossary of terms and definitions. Responsible: having an obligation to do something, or having control over or care for someone (Concise Oxford English Dictionary).

<sup>20</sup> Authority: the power or right to give orders and enforce obedience (Concise Oxford English Dictionary).

the delivery of the required output. The management task is to ensure each individual has the right targets and authority and will be held accountable for delivering them, so that in aggregate the organisation's targets are achieved.

- 2.8 Recent Australian Defence reviews<sup>21</sup> have posited accountability as a set of arrangements or a system which 'ensure principles of personal responsibility and consequences for outcomes, clarity of roles, and clarity of communications about decisions and actions'. These arrangements subsume responsibility, accountability and authority as we have described them above along with other elements of an effective and efficient accountability system.
- 2.9 A synthesis of the Australian Defence reviews suggests an accountability system should have the following features.
- a Clarity and transparency about who is responsible for carrying out duties and making decisions.
  - b Authority delegated to responsible persons.
  - c Resources allocated to responsible persons so they may effectively and efficiently discharge the duties for which they are responsible.
  - d An environment of 'why first—then who'. A high accountability organisation should look first at why something went wrong and how then to fix it. It should not look first for someone to blame. Of course accountability may entail blame if that becomes necessary, just as it will also include rewards for outstanding performance.
  - e SMART<sup>22</sup> outputs with lead and lag measures.
  - f A committee structure with a focus on role clarity, size, and the ability to follow-up and audit decision making.
  - g A vertical chain of individual or personal accountability. Accountability applies at all levels.

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<sup>21</sup> (a) *Report of the Defence Management Review*, Australian Government, Department of Defence, 2007; and (b) *Review of the Defence Accountability Framework*, Australian Government, Department of Defence, January 2011.

<sup>22</sup> SMART = Specific to the business, Measurable (the overwhelming majority with numbers and units), Achievable (realistic and stretching), Relevant (to the overall objectives of the business and the relevant superior), and Time-bound.

## Individual versus collective accountability, and the role of committees

### *Responsibility can be shared, but not accountability*

- 2.10 For the most part, accountability can not be shared.<sup>23</sup> A committee can not, usually, be collectively accountable unless it is an authorised decision-making entity in its own right, such as a statutory body or a commercial board whose authority derives from its articles of incorporation.
- 2.11 The public sector emphasises processes for holding public office holders (ministers and public servants) to account for the exercise of authority granted to them by virtue of their office. For example, the Cabinet is, by convention, collectively responsible for its decisions; but it has no statutory authority. It is ministers who remain individually accountable (answerable) to Parliament. In public sector agencies it is individuals, not collective bodies, who are accountable.

### *The role of committees*

- 2.12 Black, in his review of the accountability framework for the Australian Department of Defence suggests committees should be used only for providing advice to a decision-maker, and securing commitment to decisions already made. Informal mechanisms should be used for information exchange and consensus building.<sup>24</sup>
- 2.13 A report into the structure and management of the UK Ministry of Defence also concluded that the role of committees is to support the decision-making of accountable individuals.<sup>25</sup>

[T]he Department should move away from its current culture of consensual, committee-based decision-making and should instead move to a system under which senior individuals are empowered to take personal responsibility for achieving their objectives and are held rigorously to account for their performance. It should create committees only where absolutely necessary to support effective decision-making.

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<sup>23</sup> Black (2011) states that 'from time-to-time' in a matrix organisational structure, accountabilities will be shared. If so, the nature of shared accountability must be clearly defined in terms of what the shared output is, who shares in its delivery, and which person delivers what towards the shared output.

<sup>24</sup> Black, R. (2011). *Review of the Defence Accountability Framework*, Department of Defence (Australia), January 2011.

<sup>25</sup> Lord Levene (2011). *Defence Reform: An Independent Report Into the Structure and Management of the Ministry of Defence*, Ministry of Defence (UK), paragraph 4.6.

2.14 The UK report goes on to say:<sup>26</sup>

With the exception of the Chiefs of Staff Committee ... and a proposed ... strategy group ... the remainder of business should be the responsibility of individual executives, who are empowered to take (or advise Ministers on) decisions without having to go through a formal committee. This does not mean that meetings will cease: clearly executives will need regularly to gather key people from across Defence together to ensure such decisions are properly informed. But exactly how and when they do that should be their responsibility, rather than something required by the Department's operating model.

2.15 Boards or committees are therefore used most effectively:

- a in an advisory role to the chair(s) of the committee;
- b as an information-sharing mechanism;
- c as a way to communicate or build consensus around a decision already made; and
- d as a mechanism to commit to a decision people who will subsequently be accountable for implementing it, or elements of it.

### The Rizzo Report: repair and maintenance practices in the Royal Australian Navy

2.16 In July 2011, an independent team headed by Paul Rizzo produced a plan to reform the repair and maintenance practices in the Royal Australian Navy.<sup>27</sup> The Australian Government requested the report as part of its response to the early decommissioning of one of the Navy's ships and availability problems with two others.

2.17 The Rizzo Report drew on previous work that had identified causal factors for the repair and maintenance problems. It also identified further causes, which included the following.

- a The engineering organisation of the Royal Australian Navy was under-resourced and fragmented with complex lines of accountability.
- b The Chief of Navy was unable to perform his responsibilities of delivering maritime outputs because of under-resourcing and ineffective reporting on the Fleet's condition up the chain of command.

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<sup>26</sup> Ibid., paragraph 4.9.

<sup>27</sup> Rizzo, P. (2011). *Plan to Reform Support Ship Repair and Management Practices*, Commonwealth of Australia.

- c The Defence Materiel Organisation (the part of the Australian defence organisation responsible for logistics and maintenance for naval forces) and the Royal Australian Navy did not have a 'business-like' relationship based on formal, measurable agreements at multiple levels throughout the organisation.

2.18 The report stated:<sup>28</sup>

The Chief of Navy, as the Capability Manager, has responsibility for the delivery of maritime capability outputs, but in practice has only loose control over several of the fundamental input functions. One method to address this uncertainty would be to transfer full control and resources for sustainment of maritime capability back to Navy, as it was prior to 1997. A second, and preferable option, is to significantly tighten the agreements between Navy and [the Defence Materiel Organisation] to clearly define the requirements and responsibilities, with associated performance measures and reporting.

- 2.19 Rizzo noted that strong accountability is an essential component of high-performing organisations; and that personal performance agreements, job specifications, and organisational-level agreements are all accountability mechanisms.

- 2.20 Further, organisational complexity is a major factor affecting accountability. Rizzo considered that a complex organisation demands sophisticated agreements, with clear performance measures, to ensure personal accountabilities are clear. These agreements must be business-like 'contracts' that are actively managed and include realistic performance indicators. Indicators should:

- a clearly set targets and enable effective management, reporting, and control;
- b define the consequences of non-delivery (the costs and consequences of which should be borne by the responsible party); and
- c include a balance of lead and lag indicators.

### Job tenure and accountability

- 2.21 The Rizzo report commented on the importance of personnel having the skills and knowledge required to perform their respective roles and be accountable. It considered the short Navy posting cycle and workforce planning mechanisms did not adequately prepare officers for some of the more complex roles within the Defence Materiel Organisation.

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<sup>28</sup> Ibid., page 41.



- 2.22 Researchers into defence organisational behaviour suggest ‘[i]t is unreasonable to hold leaders accountable for organisational improvements if the time needed to bring about an improvement initiative is likely to exceed the tenure of the leaders in question’<sup>29</sup> They cite a classic study of executive behaviour,<sup>30</sup> which argues executive tenure should depend on the amount of time between a decision and being held accountable for its effectiveness (the ‘time span of discretion’). Junior leadership roles have a time span of discretion of a few weeks and so young officers can learn much in a few months. Therefore, frequent reassignment can benefit both individual and organisation.
- 2.23 However, the span of discretion at the top of a corporation can often be gauged in years. The posting cycle for senior military personnel is usually much less than this.<sup>31</sup>

## Governance

### *Definition*

- 2.24 Governance is the means by which an organisation is directed, administered or controlled. It is where overall accountability and financial responsibility lie. At its highest level governance involves setting the strategic direction and the outcomes to be achieved; allocating resources at a high level; and analysing, evaluating, and mitigating risk. In the commercial world, shareholders elect a board of directors, which is accountable to them for strategies, compliance and performance.

### *Governance versus management*

- 2.25 Governance is a function separate from management. It is a fundamental principle of governance that the people who set policy and directions are separate from those who implement them. Without this separation there are clear conflicts of interest. Boards of directors appoint a chief executive to fulfil the management function to deliver the outputs. They give the chief executive the authority to act within the limits they impose.

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<sup>29</sup> Jans, N. with Harte, J. (2003). *Once Were Warriors? Leadership, culture and organisational changes in the Australian Defence Organisation*. Australian Defence College, page 27.

<sup>30</sup> Jacques (1989) cited in Jans and Harte (2003).

<sup>31</sup> The ‘posting cycle’ is complex with many drivers. Vacancies can generally be filled only from existing internal resources. Thus, for example, the unplanned retirement/departure of one individual whose position must be filled results in a sequence of moves as each posting to fill the gap creates another gap that must be filled.

- 2.26 Management is the act of implementing the strategic direction, using (consuming) the allocated resources to deliver the outputs the chief executive considers are necessary to achieve the outcomes set by the board, acting in a responsible financial manner within the limits set by the board, and mitigating risk. It is about administration and delivery through planning, monitoring, and reporting.
- 2.27 The chief executive, or other senior managers or management committees, may also set direction, plan, and monitor activities within the organisation. These functions are similar to governance and are often referred to as such. However, the individuals or bodies carrying out these oversight functions may not act outside the limits of the authority given to them, and are therefore acting in a management role.

*Governance for the NZDF*

- 2.28 In New Zealand, the Minister and Cabinet provide governance for the NZDF. Together they determine the strategic direction for the NZDF, which is expressed in documents such as the Defence White Paper. They also determine the total resources to be allocated to the NZDF.
- 2.29 Section 7 of the Defence Act gives the Minister the power of control of the NZDF, which he or she exercises through the CDF. Under section 25(2) of the Act, the Minister gives the CDF written terms of reference setting out the terms and conditions of appointment as CDF, the duties and obligations of that appointment, and the manner in which the Government expects those duties and obligations to be carried out.
- 2.30 CDF is responsible to the Minister, under section 25(1) of the Defence Act, for carrying out the functions of the NZDF, its general conduct, and the efficient, effective and economical management of its activities and resources. These are the same functions and responsibilities that the State Sector Act 1988 imposes on chief executives of public service departments. Additionally, by virtue of section 8 of the Act, CDF commands the NZDF through the Service chiefs.

## Section 3

# Commentary and analysis

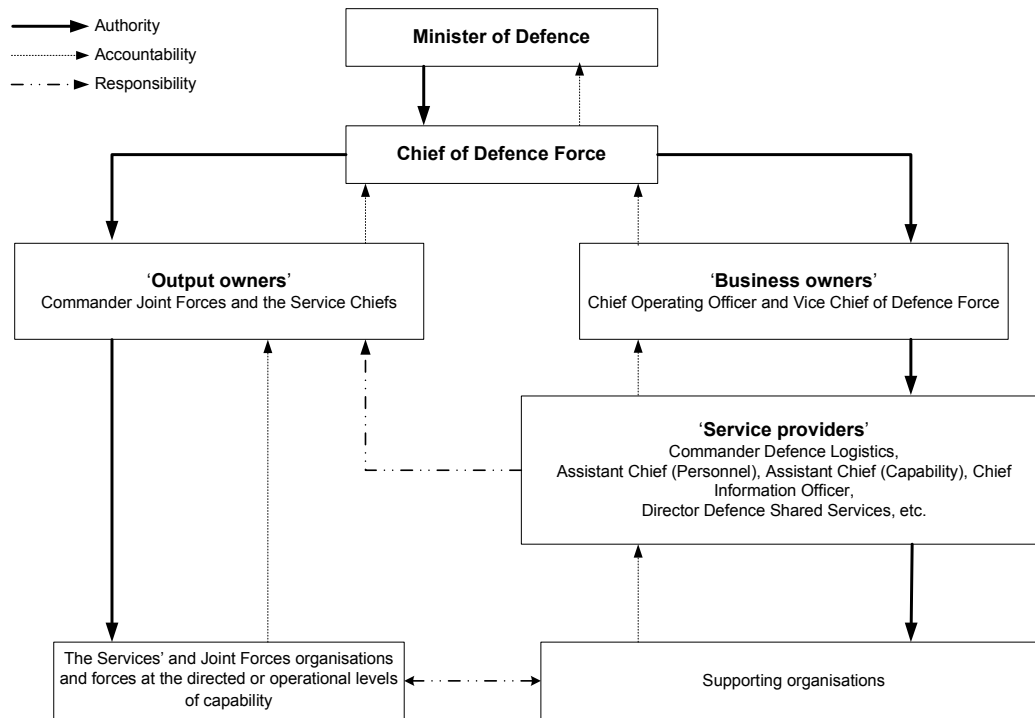
### Authority and accountability flows

- 3.1 The types of accountabilities, responsibilities and authority that are the norm in civilian business organisations are increasingly guiding HQ NZDF business practice. The headquarters organisation now includes complex reporting lines that might be considered dysfunctional in a military-style command and control organisation.
- 3.2 Accountabilities and responsibilities are set out in the 2011-2012 NZDF Annual Plan, which is a collection of 'performance agreements' for and between the output owners and business owners who are signatories to the Plan. The Plan makes little mention of authority.
- 3.3 Our view of authority, responsibility, and accountability in the NZDF is as follows.
- a Authority flows down the organisation.
    - (i) Commander Joint Forces New Zealand and the Service Chiefs, the output owners, receive their authority from CDF via their Command Directives. They delegate authority downwards through their respective organisations (the Services and Joint Forces). In addition, as mentioned in Section 1, these officers derive their military authority from their rank and positions.
    - (ii) The Chief Operating Officer and VCDF, the business owners, also receive their authority from CDF via their sections of the Annual Plan. The business owners delegate authority downwards to their organisations, that is, the 'service providers' (including the Defence Personnel Executive, Capability Branch, Defence Logistics Command, and the other supporting organisations).
  - b Accountability flows up the organisation. Wherever authority has been given, accountability (and responsibility) flows in the opposite direction. Therefore:
    - (i) the output owners are responsible and accountable to CDF;

- (ii) the business owners are responsible and accountable to CDF; and
  - (iii) the service providers (for example, Defence Personnel Executive, Capability Branch, Defence Logistics Command) are responsible and accountable to the respective business owner (VCDF or Chief Operating Officer).
- c The service providers are responsible (but not accountable) to the output owners.

3.4 Figure 3.1 illustrates our view of authority, responsibility, and accountability in the NZDF. (Wherever there is accountability there is also responsibility.)

Fig 3.1: Authority, Accountability, and responsibility in the NZDF



3.5 This diagram differs from the way in which the NZDF has depicted its business model (as shown in Figure 1.2). The NZDF shows business owners as accountable to output owners. We agree they are responsible to them, but in our view they are not accountable to them—they are accountable to whomsoever gives them the authority to carry out their duties.

## Expectations

3.6 We derived some expectations in respect of the accountabilities and responsibilities that tie the NZDF Annual Plan together. The NZDF sees the Plan as ‘constituting CDF’s orders for the execution of the NZDF Strategic Plan and related performance expectations, and [the Annual Plan] therefore gives CDF and the [Defence Force Leadership Board] influence over outcomes and guarantees of delivery’.<sup>32</sup> The document is therefore key to achieving the NZDF’s purpose in implementing its new business model.

3.7 Our expectations are set out in Table 2.

Table 2: Expectations

EXPECTATION	DESCRIPTION
1 Authorities, accountabilities and responsibilities are clear.	The authorities, accountabilities and responsibilities in the Annual Plan should be clearly set out either in the Plan or in supporting documents. This is particularly important given the complex nature of the various working relationships that are now necessary to bring the Plan together.
2 Accountabilities and responsibilities are backed by authority and resources.	Accountability and responsibility must be backed by the necessary authority to effect change. Accountable commanders/managers should be able to influence the utilisation of resources to enable them to meet their accountabilities and to enable subordinates to carry out responsibilities. Commanders/managers must also act within the limits of their accountability and authority.
3 Managers/commanders are informed.	Managers and commanders at all levels must be well informed about progress towards objectives.
4 Managers are held accountable.	Managers at the top of the organisation are accountable for the performance of all of their subordinates and are ultimately responsible for explaining if objectives are not achieved.

3.8 In determining our expectations we took into account the principles of organisational design as set out by Treasury, State Services Commission, and the Department of Prime Minister and Cabinet.<sup>33</sup> These principles state that organisational design should:

- a support strategy implementation
- b facilitate the flow of work and timely decision-making
- c permit effective managerial control
- d create clear boundaries between roles.

<sup>32</sup> CDF Directive 16/2011, *Production of the NZDF Annual Plan for FY2011/12*, 4 May 2011, paragraph 5.

<sup>33</sup> *The Capability Toolkit*, State Services Commission and the Treasury in conjunction with the Department of the Prime Minister and Cabinet, December 2008.

- 3.9 We consider an effective accountability system underpins these principles—an organisation must have such a system in place before being able to apply the principles to its organisational design. Given the relative newness of the NZDF arrangements under review, we considered that examining the accountability system was the most appropriate approach.
- 3.10 We set out our findings against our expectations in the following paragraphs. In making our analysis we have remained conscious that HQ NZDF has two parallel functions:
- a head office of a government agency with functions not dissimilar to any other departmental head office; and
  - b the strategic command headquarters for the NZDF.

### Expectation 1: Authorities, responsibilities, and accountabilities are clear

#### *Authority of the Defence Force Leadership Board*

- 3.11 The Defence Force Leadership Board Terms of Reference<sup>34</sup> state that ‘as a collective body the DFLB is accountable to a number of important stakeholders ... [including] the Minister of Defence’. In paragraph 2.10, we expressed our view that for the most part accountability cannot be shared; a committee such as the Defence Force Leadership Board can not be accountable unless it is an authorised decision-making body in its own right. This could occur if CDF delegated his authority to the Board. But for any function that CDF delegates to it, the Defence Force Leadership Board is accountable to him for undertaking it. CDF, who takes his authority from the Defence Act 1990, is responsible to the Minister under that Act.
- 3.12 In our view, under a well-functioning accountability system, individuals not committees are accountable for decision-making, even if advised and supported by committees. In the case of the Defence Force Leadership Board, we think it should be collectively responsible for advising and assisting CDF in the strategic management of the NZDF at the highest level; however, CDF should remain solely accountable. Where action is required as a consequence of Board deliberations, CDF should promulgate his decision via directions or instructions, or authorise a committee member to do so.

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<sup>34</sup> Paragraph 18.

*The Annual Plan*

- 3.13 We looked at how the Annual Plan deals with accountability and responsibility. We found it does not explicitly differentiate between these two terms or use them consistently. We observed that.
- a There is no definition of accountability or responsibility, or why it is important to distinguish between them in the matrix environment. Only the Defence Logistics Command explicitly differentiates between accountability and responsibility and to whom there is accountability.
  - b In the Annual Plan the output owners and business owners (and the Chief Financial Officer) have signed a 'statement of accountability' to CDF (the statement also acknowledges their 'agreements' with other output and business owners). The service providers sign a corresponding 'statement of responsibility' to their respective business owners; we think this should be a statement of accountability.
  - c In some cases, language is unclear: for example, in the Annual Plan, the Chief Operating Officer is accountable for *managing* the service providers (page 88), which we think can imply something different from being accountable for their results. For example, it is not explicit that the Chief Operating Officer is accountable for logistics savings targets.
- 3.14 The NZDF is undergoing significant structural and cultural change. Common understanding of concepts expressed in clear and consistently-used language is especially important in such circumstances. Being precise about where responsibilities and accountabilities lie is important and can contribute to clarity and proper function.
- 3.15 The use of the term performance 'agreements' clouds the command relationships for military personnel and, for those in uniform, confuses accountability and the consequences of poor performance. We agree that levels of service should be negotiated and agreed between different parts of the NZDF; but, for uniformed personnel, it should remain clear that failure to achieve standards of performance in relation to these agreed levels of service may be dealt with through military command and disciplinary processes, not by reference to 'business contracts'.
- 3.16 Even though 'agreements' is a term appropriate for civil staff in the NZDF, we refer to 'specifications' rather than 'agreements' in this report. This might appear to be a subtle difference of language with little practical significance (and for civil staff there is none); nevertheless we think it important that where commercial business concepts are

transported into the NZDF, they are seen to be applied in a way that accommodates the authority flows for military personnel. We think the NZDF should define the responsibilities of service providers, and specify the level of service to be provided. These specifications should include a framework of performance measures.

- 3.17 We found inconsistencies between some documents. For example:
- a Under CDF Directive 02/2010–*Establishment of Defence Logistics Command*, the Commander Logistics reports to CDF, but in practice he reports to the Chief Operating Officer.
  - b Under Logistics Command Standing Orders,<sup>35</sup> ‘Specified personnel within the [Defence Logistic Command] will be accountable to Service Chiefs for delivering equipment that is technically fit for operation and is to ensure compliance with the rules and regulations of the Service Technical Worthiness Management System’. However, in the Annual Plan the Commander Logistics is accountable to the Chief Operating Officer and responsible to the Service Chiefs. Personnel within the Defence Logistics Command can only be accountable to Commander Logistics, but may be responsible to those to whom they deliver services and support.

#### *Responsibilities for specific tasks*

- 3.18 We found examples of where responsibilities for some specific tasks—including a safety-related task—were unclear, leading to them being neglected for a period. Unclear responsibilities and accountabilities have the potential to lead to serious consequences. Service level specifications are one way of setting out responsibilities in more detail.
- 3.19 The annual planning process assists the task of explicitly setting out the responsibilities and accountabilities inherent in the new organisational arrangements. Combining all annual plans into a single document gives greater coherence to the new working relationships under the matrix. We think the process of examining and stating explicitly the requirements between the various parts of the organisation has promoted the concept of output owners as ‘intelligent users’ of the supporting services. The negotiation process provides business owners with the opportunity to determine more precisely what services they need and at what level they need them.

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<sup>35</sup> *Defence Logistics Command Standing Orders*, 28 January 2011, paragraph 1.12b.



- 3.20 For CDF, the negotiation process also makes more explicit the trade-off between output delivery and resource use. Should the output owners and service providers be unable to reconcile these trade-offs, CDF makes the final decision. Previously, such decisions rested with the Service Chiefs.

*Service level specifications*

- 3.21 Views differed on whether service level specifications would be an appropriate further development on the agreements already contained in the Annual Plan. Some saw service level specifications as positive; others were not in favour, believing people either ignored them, or did only what was written down.
- 3.22 We think service level specifications would be helpful in clearly defining the obligations of one part of the NZDF to another. We observe that the process of negotiating these specifications is different from the negotiation of service level agreements in the commercial world, for two reasons. First, the NZDF business owners cannot change service providers, or impose penalties on them if they fail to deliver services to specification. Second, the output owners have no direct control over the resources allocated to service providers. CDF determines the level of resourcing. The output owners may only influence these decisions via the Defence Force Leadership Board.
- 3.23 Therefore, the process of negotiating service level specifications involves three parties—CDF, output owners, and business owners/service providers. This implies a more iterative and time-consuming negotiation process. To be fully effective, such specifications need to be supported by meaningful performance measures of the quantity and quality of services provided. Such measures would allow CDF to hold business owners and service providers to account for the level of service they provide.
- 3.24 Defence Shared Services, which has been providing shared services for some years, uses a high-level Master Services Agreement with its ‘customers’, defining how the relationship will work. It then sets out performance standards for particular services. Defence Shared Services views these arrangements as helpful, because they involve a process of refining and explicitly stating requirements. The NZDF should adopt the Defence Shared Services model for other high-level ‘customer-provider’ arrangements.

## Expectation 2: accountabilities and Responsibilities are backed by authority and resources

### *Service Chiefs*

- 3.25 We considered whether authority backed responsibilities; that is, whether those responsible for outputs have the authority to allow them to deliver those outputs. This was particularly relevant for the Service Chiefs who under the new arrangements no longer own the support functions on which they rely to deliver force elements.
- 3.26 We found differing opinions about whether or not ownership over functions and resources is required to enable people to achieve outputs or whether influence is sufficient. In general we found that at the higher levels of the organisation, ownership was of less concern. This is perhaps because managers at the most senior level have sufficient influence to make things happen. In particular, the Service Chiefs are able to influence the allocation of resources through the forum of the Defence Force Leadership Board.
- 3.27 We note findings from the Rizzo Review:
- It is essential that the Chief of Navy, as Capability Manager [that is, with responsibility for delivering maritime outputs], has clear accountability for Navy through-life capability and has the corresponding resources. The Materiel Sustainment Agreement between Navy and [the Defence Materiel Organisation] is critical in this regard...to be an informed user, Navy should substantially increase the resources committed to the capability management role.
- 3.28 A similar situation applies in the NZDF. The Service Chiefs are ultimately accountable for the delivery of force elements, but they must also have the authority, management resources, and information necessary to develop into informed and intelligent ‘customers’ of the support organisations.
- 3.29 Under the new business model, the Service Chiefs have only indirect control of the service providers—through their influence at the Defence Force Leadership Board, and the agreements/specifications set out in the Annual Plan. Provided these mechanisms are working effectively, the Service Chiefs do not need to own resources. Although the Service Chiefs have no authority to hold the business owners to account, CDF is able to do so; however, he currently has limited information for monitoring the support the service providers are giving the Service Chiefs. The detail of agreed levels of service and associated performance measures are still developing.

*HQ NZDF*

- 3.30 We identified frustration among some HQ NZDF managers that they are held accountable for certain results but, at best, can only influence other parts of the organisation to take actions that would effect change. In other words, managers are accountable for results over which they have only partial control ('ineffective command'). Some managers were unsure about who should be held accountable for some results, especially where a committee or board made decisions that affected their ability to achieve those results.
- 3.31 We found concern in the Services about the lack of resource to staff or comment on policy or other work produced by the central functions. In many cases, the personnel with the required expertise have been transferred to the new areas and are no longer available to the Service chiefs. There is also some concern about the dilution of environment-specific expertise within centralised organisations. There is a risk that, over time, as personnel work more in centralised rather than environment-specific areas, they will become generalists. This could affect the ability of the Services to provide environment-specific advice to the centre.
- 3.32 We heard of instances where, when asked by a central Branch to comment on a policy matter, a Service had to refer the matter back to the originating Branch as the Service subject matter expert resided in that Branch.

*Outside HQ NZDF*

- 3.33 Managers and commanders outside HQ NZDF also expressed frustration with their lack of control over resources. For example, one unit commander has been made a capability owner but considers his responsibility is not backed by the necessary authority to effect change. The same unit commander is also concerned that in the camp/base environment, he has ineffective command in his particular area of service delivery, because HQ NZDF branches own and control the resources he needs.
- 3.34 Another commander stated that since losing finance and human resources staff to the centralised organisations, he has less access to information that had previously allowed him to identify efficiencies. He believes the staff in the centralised organisations have corporate priorities, not operational ones.

### Expectation 3: Managers/commanders are informed

- 3.35 Each of the Services has a leadership board. These boards include officers of colonel (equivalent) rank and above, wherever they work in the wider NZDF organisation, who act as points of contact for their Services. The leadership boards are an important means by which the Service Chiefs retain oversight of matters concerning their Service. The business areas also have leadership boards, which provide a similar function.
- 3.36 The Capability Branch has appointed officers as Service Leads. These officers work with the Services to ensure capability is co-ordinated with the Services through the capability life cycle. Defence Personnel Executive also has three officers of colonel (equivalent) rank whose secondary role is to represent their Service's interests in the Executive.
- 3.37 Formal reporting mechanisms against the Annual Plan and performance measures are still developing.

### Expectation 4: managers are held accountable

- 3.38 As stated earlier, we do not concur with the statement in the Defence Force Leadership Board Terms of Reference that the Board is collectively accountable to the Minister (among others). The Board is accountable to CDF, who is accountable to the Minister. The Terms of Reference also imply the Board acts as a collective decision-making body. We think the lack of clarity in the Terms of Reference and perceptions of the purpose of the Board has led to confused accountability of senior managers. In our view it is preferable that management committees act as bodies to monitor and advise accountable individuals rather than collective decision-making bodies.
- 3.39 The Strategic Reform Programme Committee provides an illustration. The full members of the committee are:
- a VCDF (Chair).
  - b Chief Operating Officer.
  - c Chief Financial Officer.
  - d Chief of Staff.

- 3.40 The Terms of Reference<sup>36</sup> state VCDF is accountable to the Defence Force Leadership Board for the performance of the committee and all decisions taken (paragraph 6). The Terms of Reference also list several tasks for which the committee is responsible (paragraph 9). Some of these tasks go beyond an advisory or monitoring function. For example the committee is charged with ‘ensuring agreed savings targets are met, intervening where required to achieve this’; and ‘monitoring and management of funding allocation for initiatives in conjunction with Capability Branch as required’.
- 3.41 We think the Terms of Reference could clarify and strengthen individual accountability. For example, paragraph 6 could be expressed thus:
- The VCDF is responsible for reporting to the Defence Force Leadership Board on the advice received from the Strategic Reform Programme Committee and the decisions he has taken as a result. [He is accountable to CDF for these decisions.]
- 3.42 The tasks in paragraph 9 could better reflect an advisory and monitoring role (which we believe is the preferred role of executive management committees) and the accountability of individuals. The examples in para 3.40 would better read: ‘monitoring agreed savings targets, and advising VCDF when he should intervene to ensure targets are met’; and ‘monitoring resources to support delivery of strategic initiatives and advising on their management’ (the management of resourcing is the responsibility of an individual).

## Other findings

### *The matrix organisation*

- 3.43 We found various views on whether or not the arrangements in HQ NZDF constitute a truly matrix organisation. Some were of the opinion HQ NZDF is a matrix, or at least becoming one; or that military personnel, except at the most junior ranks, have always worked in a matrix style (especially since HQ JFNZ was established). Others did not think HQ NZDF was working as a matrix; or considered that people always have hierarchical reporting structures even if they work in collaborative ways—and therefore, true matrix organisations don’t exist in practice.
- 3.44 In our opinion, HQ NZDF remains a hierarchical organisation because that is the nature of the military and of the legal flow of command authority. Military organisations have at their core a command and control structure, which means the relationships between people within

<sup>36</sup> *Strategic Reform Programme Committee Terms of Reference*, May 2011.

the organisation are different from those in a civilian entity. In the NZDF, civil staff also have accountabilities that flow vertically. However, that doesn't preclude working arrangements taking a range of different forms. The NZDF has established arrangements that involve 'vertical' and 'horizontal' responsibilities in the style of a matrix organisation, and is working to formalise those arrangements. The Annual Plan sets out the levels of support different parts of the organisation are to provide each other.

- 3.45 We found illustrations in HQ NZDF of the inherent strengths and weaknesses of matrix organisations. For example, we were told information-sharing has increased, enhancing knowledge and expertise, and providing opportunities to identify efficiencies. We were also told working under the new arrangements requires greater consultation and negotiation. This was seen as an advantage where it meant the needs of the organisation were clarified and prioritised, and a disadvantage where it prolonged decision-making.

#### *Implementation*

- 3.46 We conclude that a primary (though not sole) driver for structural change has been efficiency rather than effectiveness. There are three main reasons for this conclusion:
- a We understand that financial pressures and requirements to demonstrate savings led the NZDF to begin reducing headcount and implementing the civilianisation process before completing a full annual planning round. This meant resource levels were being decided before output owners and service providers had negotiated and set priorities for their requirements.
  - b As previously noted, cost reduction was a strong influence in the investment cases for centralised logistics and human resource functions.
  - c Time pressures for producing the Annual Plan for 2011/12 meant the output owners' and business owners' sections were produced concurrently rather than in the more sequential process as intended (that is, cascading down from CDF to the output owners to the business owners – see paragraph 1.49).
- 3.47 We encourage the NZDF to keep sight of the effectiveness of its business processes as it continues to look for efficiencies.

*Priority-setting*

- 3.48 Previously, the Service Chiefs were responsible for setting priorities for their Service. This is a more complex process under the new arrangements and an acknowledged weakness. Providing guidance for decision-making is especially important where business owners and output owners have potentially conflicting expectations of what is to be delivered.
- 3.49 We understand the next planning round is to be sequenced in a way that aligns objectives throughout the organisation. This is likely to make priorities clearer and reduce uncertainty at lower levels of the organisation.

*Day-to-day work flows and decision-making*

- 3.50 The NZDF has undergone significant organisational change. Understandably, this has disrupted conduct of day-to-day business as people work out who is responsible for particular tasks. This disruption should diminish over time. However, at the time of our fieldwork, it was causing frustration and inefficiency inside and outside HQ NZDF. The problem was less apparent in areas organised along environmental lines, such as Defence Logistics Command. Finding ‘the right person’ in the Defence Personnel Executive was less clear, although the Executive has sought to improve this situation through education and communication.
- 3.51 Lack of clear responsibilities had led to some tasks being neglected, at least until an owner for the problem was found. For example, we understand it took some while to find, or clarify owners, for:
- a the emergency response plan for the bulk fuel installation at Whenuapai;
  - b writing requirements for in-service support for the Boeing 757 fleet; or
  - c writing user requirements for the interim pilot training capability.
- 3.52 Instigating a lessons learned process to record roles and responsibilities, update manuals, or ensure Standard Operating Procedures are written for roles in new business areas would assist clarification of responsibilities. We commented on this in a recent report.<sup>37</sup>

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Evaluation Report 10/2011 – *Management of lessons learned by the NZDF*, 31 May 2011.

- 3.53 To work well, a matrix organisation requires communication and consultation. As noted earlier, the need for greater consultation was seen as both positive and negative. It increases knowledge and expertise, and makes people aware of what others do; but it also slows decision-making. The slower decision-making can lead to frustration, particularly within HQ NZDF.
- 3.54 The improvements sought through consolidation of common services depend on new systems being introduced to streamline processes and increase efficiency. We understand, however, that the CIS programme to deliver the systems needed to improve workflow efficiency is still being developed.

*Monitoring and performance reporting*

- 3.55 Some sections of the Annual Plan are more detailed than others about the levels of support to be provided. For example, Defence Personnel Executive includes quantified performance measures for ‘strategic change’. These measures include, for example, acceptable ranges for attrition rates (8%-12%), a target for the HR ratio (1:70 by the end of FY 2013/14), and savings targets by initiative. However other parts of the Annual Plan contain no quantified targets.
- 3.56 We note the Value for Money report in respect to performance metrics:<sup>38</sup>
- Existing performance metrics are inadequate and are not used frequently enough to drive better performance. The performance metrics considered by the NZDF’s Executive Leadership Team on a monthly basis have a military or operational bias. They need to be augmented by financial and support function indicators that measure how the NZDF is progressing from a financial perspective and in delivering [Value for Money] gains.
- 3.57 The NZDF expects the Executive Strategy Manager system to include a full set of performance measures against the Annual Plan by the fourth quarter of FY 2011/12. We were told that the centralisation of functions such as finance and personnel provided the opportunity to develop consistent and more easily accessible information.
- 3.58 Developing consistency and establishing appropriate indicators is likely to take time. There is still more work to be done on developing performance measures. Nevertheless, we would expect the next planning round to have progressed the service requirements between service providers and output owners to a more detailed level with quantified and measurable specifications.

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<sup>38</sup> Pacific Road Corporate Finance (2010). *Value for Money: Review of New Zealand Defence Force*, page 8.



*External review of performance information*

- 3.59 In November 2011, management consultants Tenzing completed a review of the NZDF's performance information and Project Management Office.<sup>39</sup> The NZDF commissioned the review to understand the extent to which information about business-as-usual performance and projects supports decision-making. Findings included the following:<sup>40</sup>
- a It is difficult for the NZDF leadership team to get actionable reporting on pan-NZDF performance, because:
    - (i) there is no formalised performance measurement framework that establishes the key measures/definitions, and links top-level measures to business unit/individuals' KPIs;
    - (ii) accountabilities for reporting performance measures are in some cases unclear; and
    - (iii) a single view of the cost, expected benefits and performance of NZDF projects does not exist.
  - b Requirements for NZDF leadership reporting are unclear.
  - c Despite emerging standards for quarterly reports, current reporting does not consistently identify actions, accountabilities and decisions required to resolve performance issues.
  - d The Defence Force Leadership Board needs to set target performance levels for each of the functions within the NZDF.
  - e The NZDF business model is unclear, including the scope, roles and responsibilities of the centralised services, and accountabilities for their performance and the reporting thereof.
  - f Responsibilities for projects and decision-making on priorities are unclear.
  - g Processes and practices need to become significantly more effective, particularly in some areas including organisational governance.

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<sup>39</sup> *Performance Information and PMO Review*, Tenzing, November 2011.

<sup>40</sup> *Ibid.*, pages 4-5.

*Personnel reporting*

- 3.60 In some areas, reporting requirements have changed. For example, measures of organisational health and human resources information are now no longer required to be reported regularly as stand-alone items. They are viewed as influences on output delivery. If risks to outputs arise, organisational health and personnel issues might be identified as causes and reported in that context.
- 3.61 We acknowledge that the NZDF wishes its reporting to be on the basis of risk and exception, but in the current environment of change, personnel issues are to the fore. We think indicators in this area should continue to be reported to senior managers.

*Civilianisation and reducing headcount*

- 3.62 The issues of greatest concern expressed during our review were civilianisation and reducing headcount. These issues are outside the scope of this evaluation because they are not directly associated with the organisational arrangements. Civilianisation and headcount reductions are responses to financial pressures, and would have happened regardless of structure. However, the concurrent timing of centralisation and civilianisation meant the implementation of the new arrangements was more problematic than it might have been.
- 3.63 Concerns expressed about headcount reduction and civilianisation during our fieldwork fell into three main areas.
- a The effect on morale.
  - b The long-term consequences of having technical and other staff who lack experience in uniform and understanding of operational demands.
  - c The numbers of people leaving the Services has meant that it is sometimes difficult to find people available to do the work.
- 3.64 The first two quarterly reports against the Annual Plan<sup>41</sup> highlight problems related to personnel changes. For example, in the December 2011 report, VCDF states: ‘the general theme throughout the majority of the Directorates/Branches is one of personnel shortages. A number of Directorates/Branches have personnel shortages in excess of 10% (deemed to be red)’.<sup>42</sup>

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<sup>41</sup> *Quarter 1 Report Against Annual Plan 2011/12*, Office of the Chief of Defence Force, VCDF Draft Minute, October 2011; *NZDF Quarterly Report October-December 2011*, COS Minute 05/2012, February 2012.

<sup>42</sup> *Ibid*, Paragraph 27a.

*Tempo of change*

- 3.65 A related concern was the speed of change in the NZDF. With respect to the new organisational arrangements, we found a willingness to make them work (and recognition that this was the right way forward), but also a strong desire for time to let it work.

**Conclusions**

- 3.66 It is too early for the NZDF's new organisational arrangements to demonstrate improvement in the efficiency and effectiveness of output delivery. A full cycle through the process under the new arrangements was incomplete at the time of our fieldwork, so what effect the new 'top-down' approach will have in respect of planning and decision-making is not yet evident. Also, although much structural change has taken place, it continues in some areas.
- 3.67 It is likely that, over time, the reported frustrations about finding the right person to talk to, or the prolonged decision-making resulting from the need for increased consultation will diminish; and that the benefits of improved information-sharing will become more apparent.
- 3.68 The accountability system is an important means for translating decisions into action. We think the accountability system in the new arrangements could be improved and strengthened by:
- a issuing decisions arising from Defence Force Leadership Board deliberations as CDF directives or instructions;
  - b emphasising the role of management committees as advisory bodies to accountable individuals;
  - c developing the agreements in the Annual Plan into service level specifications, ensuring sufficient time to allow the specifications to be fully negotiated and agreed within the constraints of available resources; and using defined and consistently applied language with respect to accountability, responsibility and authority; and
  - d continuing to develop performance measures to assist monitoring, decision-making, and the holding to account of business owners and output owners.
- 3.69 We acknowledge the almost unanimous willingness of those we interviewed to make the new arrangements work and the positivity about these arrangements being the 'way forward'.

## Recommendations

- 3.70 It is recommended that the NZDF:
- a amends the Defence Force Leadership Board’s Terms of Reference to:
    - (i) reflect its status as the senior management board, not a governance board;
    - (ii) provide that CDF will issue directives or instructions in his own name or authorise a Board member to do so, and
    - (iii) refer to ‘collective responsibility’ rather than ‘collective accountability’;
  - b establishes the Defence Force Leadership Board as an advisory body to CDF and amends its Terms of Reference to reflect that role;
  - c develops the performance agreements in the Annual Plan into service level specifications with associated performance measures;
  - d restores separate reporting of personnel measures in its reporting to the Defence Force Leadership Board;
  - e introduces a lessons learned process for roles and responsibilities; and
  - f defines responsibility and accountability in the Annual Plan, and applies these terms consistently throughout NZDF documentation.