



The Collaboration Agenda underpinning our New Defence Industry Policy

February 2017

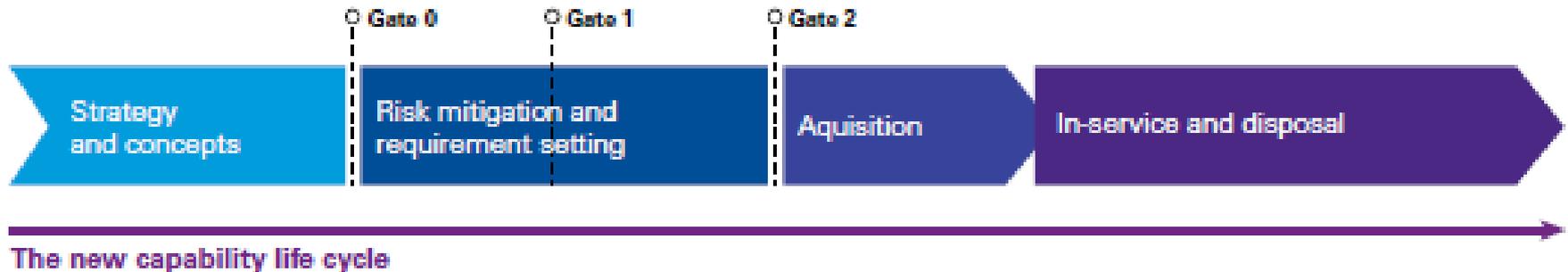
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How essential is collaboration in the Defence Capability Life Cycle (CLC)?

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



Is Australia doing enough to stimulate collaboration and innovation for Defence?

Australia has a number of funding initiatives which promote collaborative innovation - including:

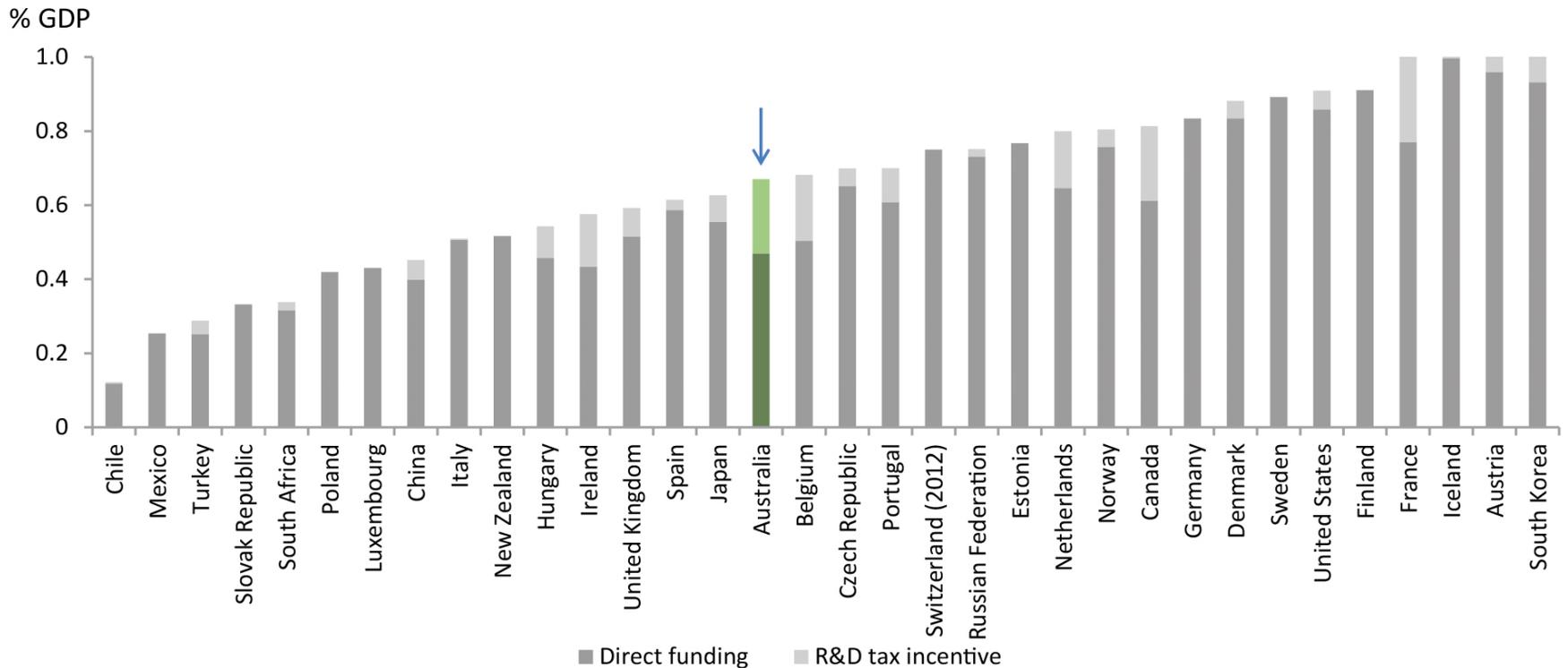
- Traditional Cooperative Research Centres (CRC), Rapid Prototyping, Development and Evaluation (RPDE) and Capability Technology Demonstrator (CTD) programs and the Defence Materiel Technology Centre (DMTC)
- The new Next Generation Technology Fund (NGTF), the Defence Innovation Hub (DIH) and Portal

But research shows Australia lagging behind when it comes to delivering these outcomes.

What's required? Will the Sector change with a new Defence Industry Policy?

So how does Australia compare?

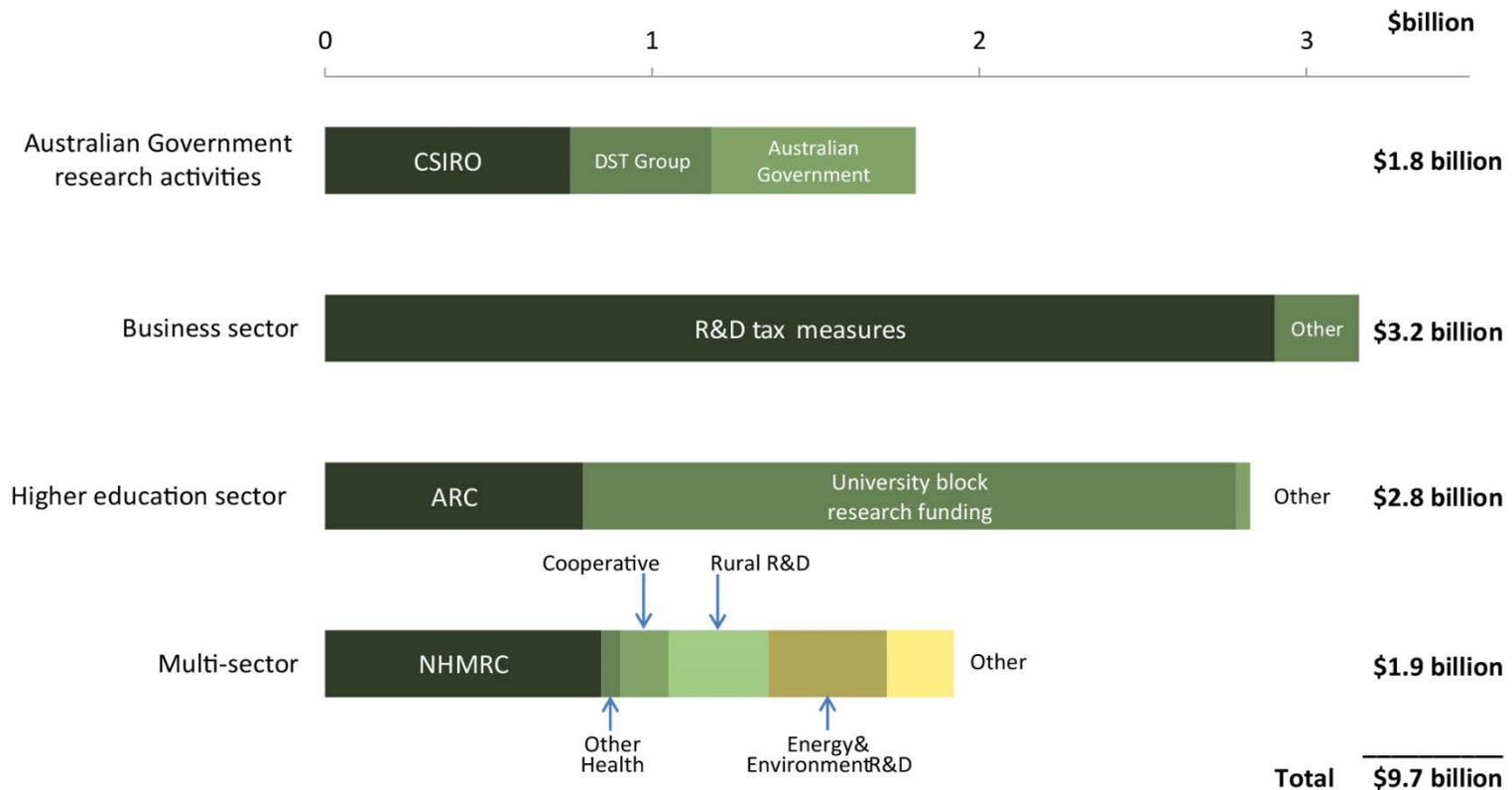
Government investment in R&D, by country, 2011



Attribution: National Innovation & Science Agenda Report 2015

Australian Government investment in R&D

In 2013/14, business investment in R&D totalled just under \$19 billion. Government invested another \$10 billion across a variety of mechanisms.



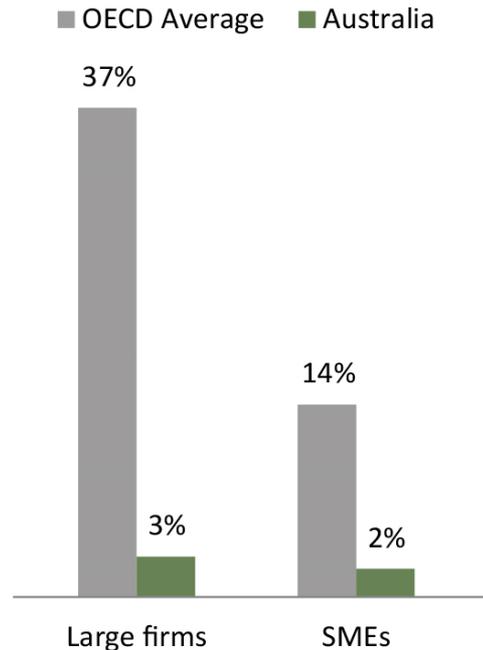
Attribution: National Innovation & Science Agenda Report 2015



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But collaboration between our research institutes and industry isn't strong

We have the lowest collaboration rate between firms and researchers



The rate of collaboration between industry and researchers in Australia is between 2-3%.

This is the **lowest collaboration rate** of the Organisation for European Economic Co-operation's (OECD) 35 member countries.

At a rate of 43%, Australian businesses do not have as much internal research expertise as key comparator countries. For example, Germany (56%), South Korea (79%) and Israel (84%).

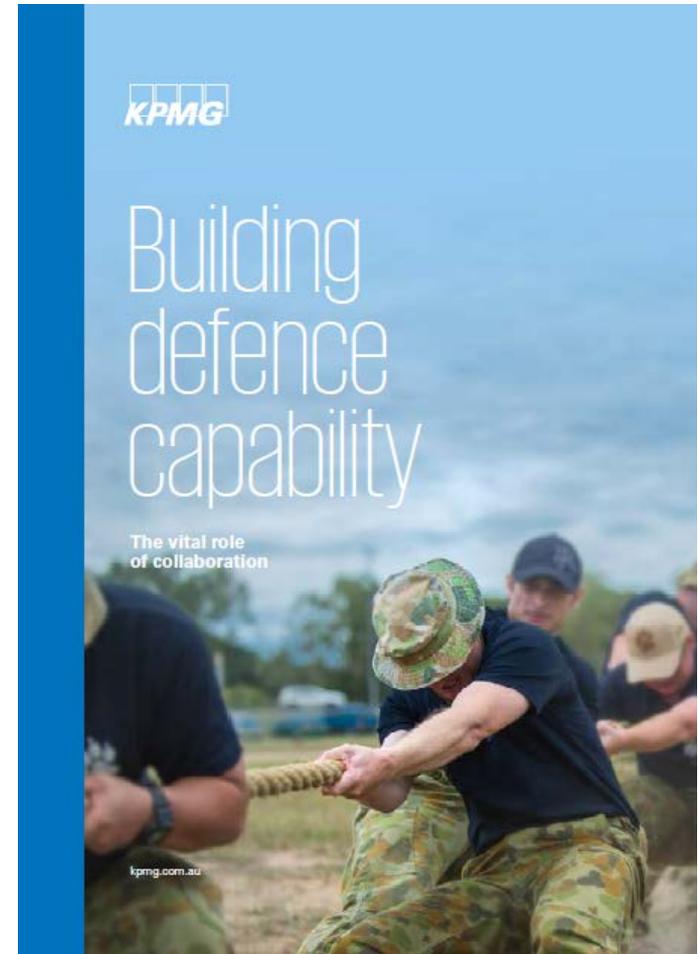
Attribution: National Innovation & Science Agenda Report 2015

Collaboration in the Defence Sector

Against that national backdrop, the Australian Department of Defence has embarked upon an ambitious re-capitalisation of the Defence Force.

\$195 billion across the next 10 years, \$89 billion earmarked for the naval shipbuilding agenda, effectively re-building that industry through collaboration with European, Asian and US ship and submarine businesses.

How ready is the Australian Defence Sector?



Available online: <https://assets.kpmg.com/content/dam/kpmg/au/pdf/2017/building-defence-capability-collaboration.pdf>



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Innovation & collaboration, hand-in-hand

8 characteristics of effective collaboration



Awareness

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



Working together

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



Knowledge

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



Value creation

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



Internal assessment

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



Staying together

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



Partner selection

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



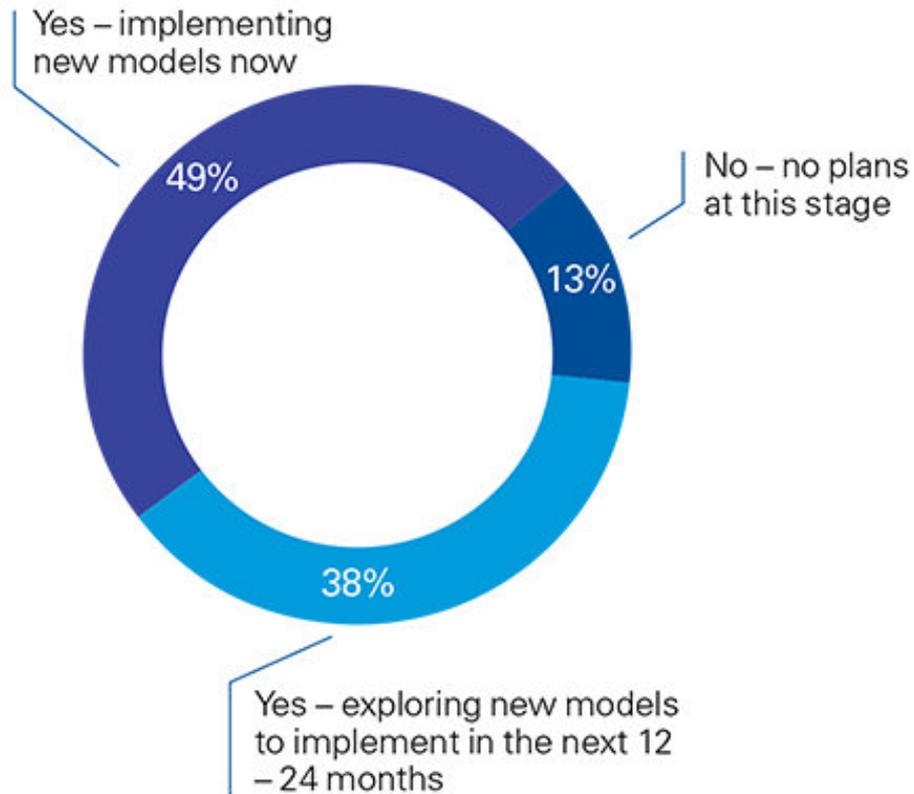
Exit strategy

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

Source: British Standard 11000 – collaborative business relationships.

Is collaboration a focus within Defence?

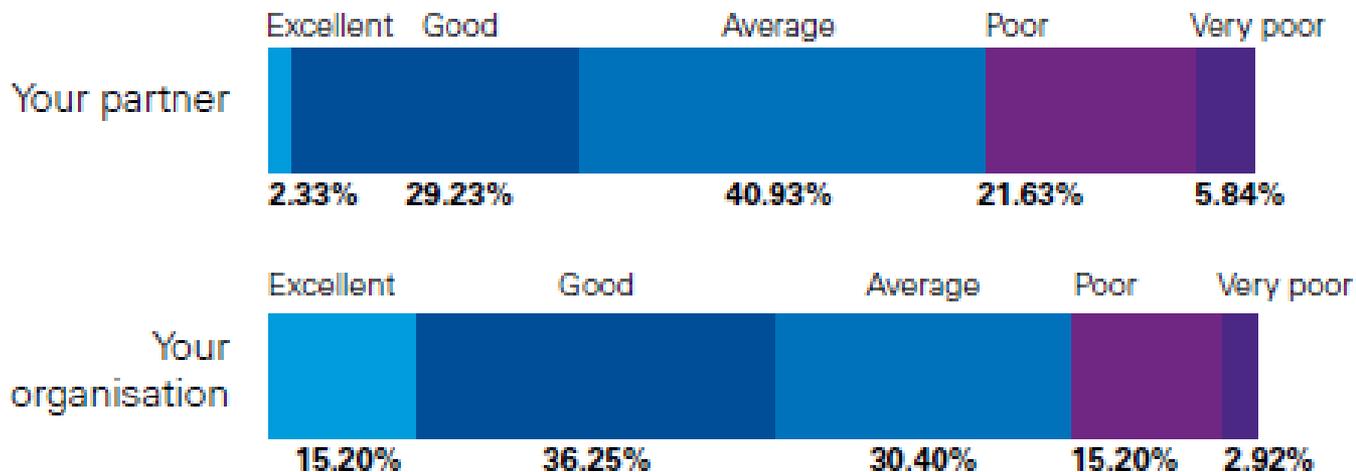
Does your organisation have plans to adopt more collaborative models with customers and suppliers?



Source: KPMG defence collaboration survey, 2016.

Is collaboration a focus within Defence?

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



What's stopping us?

KPMG's Defence Collaboration Survey shows gaps in collaborative maturity

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



#1 Cultural



#2 Leadership



#3 Risk management



#4 Funding/budget

Source: KPMG defence collaboration survey, 2016.

How does Australia compare to Israel?

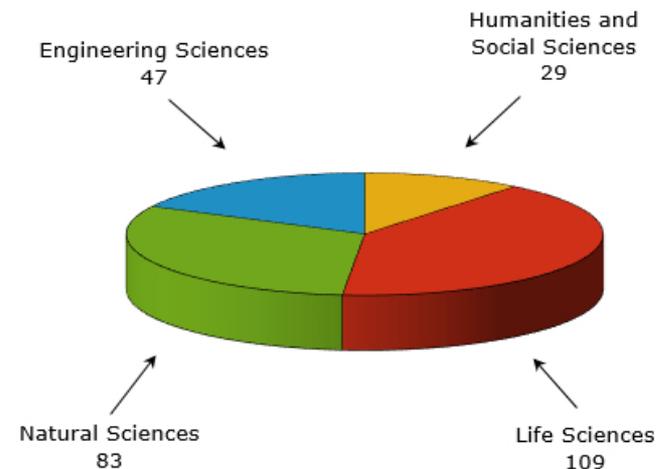


- Israel is quickly becoming an innovation giant. With just over 7.7 million people, Israel has an estimated, 4,800 start-ups, many of them high tech. These companies are sources of ground breaking innovation that is catapulting Israel to global tech prominence, according to Forbes.com
- The Israel Innovation Authority, an independent public entity which operates to benefit Israeli innovation and the economy as a whole, is responsible for the country's innovation policy.
- Major policy priorities for Israel include:
 - Encouraging innovation in firms, and supporting entrepreneurship & SME's
 - Reforming and improving public research system (including university research)
 - Addressing challenges of STI globalization and increasing international cooperation
 - Innovation to contribute to sustainable/green growth
- Current Initiative: Leveraging Military, Defence and Commercial R&D for Dual Use Technologies
 - Targeting SMEs, Universities, research institutes and centres
 - Provides grants of 50-90% dependent on the type and nature of the activity

How does Australia compare to Germany?



- Germany is a leading player in global innovation and science
- The Federal Government's High Tech Strategy sets the mid-term strategic orientations for Germany's R&D and innovation activity
- Major national STI policy priorities include:
 - Innovation to contribute to addressing social challenges
 - Improving the framework conditions for innovation (including competitiveness)
 - Targeting priority areas/sectors
- The DFG is the largest research funding organisation in Germany, and currently supports 268 CRCs with ~€660 million, equivalent to ~22% of the DFG total budget
- Most CRCs (193) are based at single universities, whereas a portion (75) are a shared initiative between up to three universities



So... where are we now?

How can we build a stronger Defence capability?

The First Principles Review: **Creating One Defence** was (in its title) clear about the nature of the problem.

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

- a **Smart Buyer model** that would allow industry to provide its expertise in managing projects in the acquisition and sustainment phases
- a shift to viewing the outputs of Defence **industry as a Fundamental Inputs to Capability** integrated into the acquisition life cycle
- **stronger partnerships with key academic and research institutions**, to leverage the knowledge of scientists and creating pathways into and out of academia and industry
- a recognition that **industry is part of Defence's enabling workforce** with an estimated 27,000 people employed by industry delivering inputs to capability, including major military equipment, and several thousand staff employed by contractors to maintain and secure Defence bases

How does the Defence Sector improve?

Remediate our Tribal Culture

More Regular Practice

Dedicated/professional
collaboration facilitators

Rewards and
Acknowledgement

A path forward

- The importance of **collaboration** cannot be understated during this time of change. In fact, we believe that it is the **foundation for success**.
- Our experience shows that it is **the culture of the organisation that makes or breaks collaboration**. People at all levels need both 'hard' and 'soft' skills as relationships evolve over time during the capability and acquisition life cycle and in response to new information.
- **Leadership will be essential**. All staff will need to look for ways to model openness and trust and demonstrate a willingness to embrace difference and diversity. Timely and honest communication, a learning mindset, agile and adaptive behaviours will be essential.
- The challenges are great, organisationally, culturally and in the wider policy and strategic context. Only **collaboration can give Defence and its partners the resilience and agility** to anticipate and respond effectively in this environment.



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