

## The Reluctant Chief – Ric Smith, Department of Defence

The Defence department's annual report does not specify who is paid what, but in an appendix it sets out, in \$10,000 pay brackets, the total remuneration for all those getting \$100,000 or more. The top paid executive receives between \$590,000 and \$599,999. Another is in the pay bracket \$560,000 to \$569,999 and the third highest is in the bracket \$470,000 to \$479,999. These figures are not straight salary, but include the value of other benefits such as the provision of housing to defence personnel.

This led Ric Smith to quip that the published figure included the "accrued value of the view from my toilet." Smith is paid his salary for running an organisation where life and death decisions may have to be made, where 90,000 people are employed and \$54 billion of assets are managed and where 20 million shareholders are serviced by endless scrutiny of his agency's actions. When asked why he takes on such a demanding job, he says it is worthwhile. He does not complain about his pay and even says he is "well paid". But how well?

The *Australian Financial Review* published a list of the pay packages of private sector CEOs last month. None would have anywhere near the relentless workload and pressures that Smith encounters in his job and there are questions about whether any of their salaries are justified. But taking the figures at face value they show the average pay for heads of the top 300 listed companies at a staggering \$1.9 million. In cash terms these chief executives took home an average \$1.5 million in salaries, benefits and bonuses. This excludes the accounting value attached to options and other equity incentives.

US-based News Ltd chief Rupert Murdoch pocketed \$23.6 million. Macquarie Bank chief Allan Morris received a salary of \$659,323 and a 'short-term incentive' of \$17,436,757. Poor Toll chief, Paul Little, only thirtieth, taking home \$4.4 million.

The head of the Defence Materials Organisation, Dr Steve Gumley, who was recruited from the private sector after rising through Australian companies to become Vice President Information Services with the Boeing Company, has no doubt that Smith is not properly remunerated for the responsibility he carries.

"No! not even close," he says. "I look at the working hours and the pressures of the senior executives in Defence and I compare it with the senior executives in defence companies and the reward/risk work-profile are very, very different. You could add a zero to the secretary's salary and probably be fairly accurate to what the private sector would pay for a similar role," he says. "I can compare and contrast and I would view the workload and responsibility of the Secretary

of the Department of Defence as at least the equal of the chief executive of any of the top companies in Australia. It's hours, it's availability, it's responsibility for people of our country, it's the life and death issues of deployment ..."

On the Defence Materials Organisation side of the department the figures make the private sector's activities in Australia pale into insignificance. Gumley says they spend about \$3.7 to \$3.8 billion a year on the major projects. But because many projects last five, ten or fifteen years the added commitments are up around \$30 billion at any one time. A private company such as Telstra might from time to time have a bigger project in a particular year but, as Gumley points out, Defence does it year after year after year.

"We've got an acquisition program which is made up of 220 major projects. There's 100 minor projects. And we also have to maintain approximately 100 fleets. We use the word fleet to mean a fleet of F18 jet fighters, or a fleet of FFG destroyers. We run about 100 different fleets and we're spending about \$3.3 or \$3.4 billion a year maintaining those fleets. I've been chief executive of private sector companies a few times. The work here is significantly longer and harder than anything I've experienced in the private sector" Gumley says, and then quickly adds, "I'm not complaining."

Smith observes that over the 37 years he has been in the Commonwealth Public Service he has seen work "sucked upwards". "The more attentive ministers are to the detail of the portfolio, the more the Secretary will be drawn in," he said. "[P]eople talk about the politicisation in the public service. I don't think that's the issue. I think the issue, to be frank, is that ministers themselves are much more involved in their portfolios than they were ... when I joined the public service." He says the level of scrutiny is "enormous". "There is no question that work is drawn upwards by this process," he says. "You could say that it's poor delegation, or poor time management. Or you could say it's the more effective working of the parliamentary system."

The range of issues he has to master and the significance of them is hard to comprehend. He notes, for example, that Defence is the biggest producer of greenhouse gases in the Commonwealth. Someone will have a plan to diminish this and want to talk to him about it. "It's tempting to say, 'I don't do that'. But I'm kind of interested and you want to know about it."

Or it could be a health and safety issue. Or an issue to do with the military justice system. Or an issue to do with the accounts which still suffer from the Auditor General's qualification. Gumley points out that he's got four domain managers in DMO each managing a billion dollar business. "I regard them as the equivalent of chief executives of major supply companies," he says. "The Band 1 and Band 2 SES officers here work long hours with a lot of responsibility and any bashing of public servants is totally unwarranted."

Smith has been appointed to the top job in Defence for another two years but there is no guarantee he will see out the term. Responding to the extension of his three year contract he said he was honoured to be reappointed but with the Prime Minister, Mr Howard's support, he had requested the option of retirement within this period. Smith, who turns 62 in March 2005, has been in the public service for 37 years. "This time next year I'll be approaching 63 and I now have a grandchild and I just don't want to work forever so I'll keep it under review," he said.

Smith acknowledges that his job imposes a strain on his work/life balance but takes the view that his is a worthwhile job that deserves a lot of time and attention. "There are 90,000 people to whom it matters and there are lives involved in it, and massive amounts of money," he says. "It just deserves and needs a lot of attention. Secondly, I'm well paid. And thirdly my family is grown up. So long as my wife and I understand this, then we can cope. I wouldn't want to be doing this job and having young kids I'd have to take to sport, or music or whatever."

As a diplomat in the Department of Foreign Affairs and Trade in 1996 Smith considered his retirement options and thought he would do a couple of assignments as an ambassador – Government willing – and then retire at maybe 60 or 61. Everything was going to plan. He was appointed ambassador to China from 1996 to 2000 and then ambassador to Indonesia for 2001-02. "Then I was asked if I would do this job and I had to re-think what the remaining 20 years of my life might look like."

Have you made the right decision? "In many ways yes," he says. "But the demands have been great ... there might have been moments, I'll confess, when I've regretted it ... there have been some pretty hectic times in the Senate Estimates as you know. There were some pretty demanding times in regard to our financial statements. And in this organisation, there's always something going on somewhere that will surprise you."

Smith says Defence is the last of the great old departments that did almost everything itself. At the same time it is one of Australia's largest corporations. There are 90,000 people including reservists, plus 10,000 contractors doing things that staff and service personnel used to do like mowing lawns around the bases. Defence occupies 450 sites around Australia and is one of Australia's biggest land owners. It concludes about 5000 contracts of \$100,000 or more a year. It holds \$54 billion worth of assets and has \$7 billion worth of liabilities. Smith says these are enormous figures in Australian terms, "so it's not like being the secretary of most departments".

Under the *Financial Management Act* Smith is the chief executive officer of Defence. "Sort of makes me chief clerk," he says, but then adds that he is also the principal civilian adviser to the Minister for Defence. Smith is responsible

for the administration of the department, the Defence Science and Technology Organisation and the three intelligence agencies. He is jointly responsible, with the Chief of the Defence Force, Air Chief Marshal Angus Houston, for the administration of the Australian Defence Force.

Every day he talks to Houston who occupies an adjoining office. "There are chunks of work that are clearly his – military operations – and there are chunks of work that are clearly mine – financial management issues," he says. "And then there's a whole breadth of work in the middle that belongs to both of us. But we support each other in the exclusive areas, so in military operations, I attend all the Strategic Command Group meetings. And in the financial administration both Peter Cosgrove [the former Chief of the Defence Force] and Angus Houston have been tremendously supportive."

Smith was awarded the Public Service Medal for outstanding service as Australian Ambassador leading Australia's response in Indonesia following the Bali bombing on 12 October 2002. On the Saturday night of the bombing he was in Djakarta attending his farewell party. Within minutes of hearing of the blasts any thought of departure was put on hold. For three weeks he oversaw operations in Bali which at one stage involved a couple of hundred Australian officials.

Not all his diplomatic work has been as worthy or up-lifting. He admits that he missed a minister at the airport once – always a risky business for a diplomat. He had driven himself to the airport to save on calling a driver out at midnight and then had a problem parking. The lesson he says he learnt from this was "don't cut the little corners." As for other mistakes, he says that sometimes he has delegated work when he should have done it himself. "You're at the end of the day, and you're just too tired, and you've asked someone to do it and it goes wrong."

He says he has only ever had one really nasty manager. "He was just an unpleasant man who saw himself testing people all the time," he says. "He'd tell you later, 'well I put that on you just to see how you'd cope'. I just don't like that kind of game playing. It might have been more common years ago but I don't think it happens much now."

To do his job Smith starts at about 7 am and "I finish when I finish." He nominates three major challenges for the department at the moment. Firstly, sustaining operations and giving the most effective and efficient services support possible to Australia's deployed forces and ensuring that they are well prepared. The second is ensuring that Defence is playing the right role in national security management. "The time was when you thought security, you thought Defence Force," he says. "Not now. Many other agencies are involved as well as Defence." There is a new set of policies that require the correct positioning of the intelligence agencies, science and technology and the Defence Force. "I'm happy

with where we are, the Chief is, the minister is, but it's a constantly changing environment."

The third great challenge is improving the efficiency of the organisation. "Defence organisations – this one in particular – have historically been marvellously effective, but not so efficient." Getting efficient is difficult for a number of reasons. One is that Defence has always been judged by, and valued for, its effectiveness, rather than efficiency. It did not matter if the job cost more as long as it was done. "We're a very unusual organisation in today's world," he says. "We're a just-in-case organisation in a just-in-time world." Modern management did not readily cater for that.

"Because we're so effective, frankly, it's been easier to win money." As a result, the pressure on Defence to get it right has been less. Defence carries a massive inventory and a large staff. Smith says modern management theory would say much of this is redundant. But this is the nature of a defence organisation and the sort of problems the Australian Defence department faces are common to pretty well all defence organisations. "It's interesting how much sympathy we have for each other," he says.

Smith rejects the suggestion that Defence administration should be cut. "That's not what the service people would say," he says. "Secondly, there has already been a massive reduction in civilian staff." At the end of the 1980s there were 40,000. Now there are a bit under 18,000. Part of this reduction is due to the selling off of the Defence industries and outsourcing. Smith says deployments of military personnel puts more strain on the administration. When the forces are not deployed overseas on operations – as was the case for most of the time between 1972 and 1999 – the services personnel for all three services undertake many administrative and policy jobs and work in intelligence jobs.

"We've had 60,000 or more ADF people deployed over the last six years and that's where they've come out. One of my groups is 150 or so people short because those jobs traditionally were filled by military personnel who are now deployed." Smith avoids calling for increased staff and says he is not personally persuaded that all staff are where they are most needed. But he says getting people out of the less critical areas into the more critical areas is a long process. "There are some areas where they are certainly under a great deal of stress. Operational tempo has been high for six years and it tells not only in the services but across the civilian support areas as well. But I think there's still a bit more we can do to make sure that people are where they need to be and that they're doing work that is necessary, rather than work that they've always done. That's the pressure I put on the chiefs and the group heads in regards to civilian staff. Don't just recruit someone new, or don't think you need someone new just because there's a new task. Go back constantly to what they're doing."

Smith says many Defence contracts come in on time and on budget and much of the criticism they wear relates to legacy projects. Project management from the beginning of the 1990s, where some of these projects originate, was quite different from what it is now. Secondly, he says what are often said to be cost overruns are due to comparisons being made with the figure quoted when the project was first mentioned. These were not necessarily overruns. The true comparison should be made with the price when the contract was signed. There were relatively few of these.

On the question of whether the product delivered what was promised, he says few come in with “diminished capability”. “The areas that are most vulnerable ... are anything with what I call the ‘i’ word in it,” he says. “Anything to do with systems integration – we always seem to overestimate what can be done.” He points out that Defence doesn’t actually build ships or submarines or integrate things. It pays other people to do so “and sometimes we’re too naïve in accepting what they tell us is possible.”

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