

# Commonwealth Innovations



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# Innovative Government

## Shaping long-term success

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These are challenging times for our governments. At all levels and in all sectors, they are being pressured to do more with less while meeting rising demands. In health care, for example, expanding costs have led governments and citizens to realize that traditional approaches to providing public services are no longer sustainable. Because business-as-usual is no longer sufficient, governments need to both promote and adopt innovation as never before. The purpose of this article is to provide a framework for building an integrated, agency-wide approach to planning and implementing innovation; to move governments away from viewing innovation as “skunk works” or special projects and toward a more fundamental commitment to developing a culture of innovation. Far from conceding that government is too unique, different or constrained to be innovative and creative, we argue that the alternative is becoming increasingly unworkable in light of deepening external pressures. Our inevitable conclusion is that the time for demanding and supporting innovative government has arrived. Tentative change is already underway.

Government leaders are well aware of the pressures they face and are actively trying to fundamentally transform program delivery. In fact, the public sector accounts for one-fifth of the global spend for consulting services – over \$50 billion, which is more than any other sector. This share grows to almost 30% after factoring in health care. While it is true that government managers are always challenged to work within limited budgets, significant investments are already being made to fix problems. Unfortunately, even these initial signs of progress are not enough.

As recent studies show, most innovation in government is confined to one-off projects or limited scope programs. The constraints to creativity and innovation in government have been well documented. Chief among them: the failure rate of government programs, which tends to waste limited resources and hamper the government’s ability to address mounting pressures. One study of failed federal government programs put the cost to Canadian taxpayers at between \$99.4 and \$124.6 billion from 1992 to 2006. The study further concluded that project failures raise resistance to accepting new proposals.

Business literature is full of case studies and lessons for promoting innovation and change in commercial enterprise. Increasingly, governments are turning to the private sector for inspiration. Although private sector experiences must be adapted to fit the realities of the public sector, they represent an ideal starting point for governments to initiate the learning process.

Governments must continually invest in understanding and adapting to emerging management trends. Maintaining the status quo is not an option, as it limits any government’s

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ability to keep pace and creates growing gaps between demand for services and the government’s ability to respond.

Despite the compelling business case for a deeper commitment to innovation, relatively few companies have institutionalized it. For the most part, in business as in government, innovation remains the exclusive domain of specific, isolated units, such as new product development or research and development. Innovation is not routinely adopted by more frontline areas of the business, such as customer service or operations and as such remains more of a buzzword than an across-the-board way of working. As outlined below, new management trends clearly point to a growing need to spread the culture of innovation more deeply through the organization.

Governments can no longer afford to shield themselves from creativity and risk taking. Incremental change will not deliver the kind of fundamental transformation in role and performance that most government agencies seek.

### Industrial Age vs. New Management

#### *Industrial Age Management*

- Specialization
- Long-range planning
- Hierarchy
- Mass production
- Best practice
- Division of labour

#### *New Age Management*

- Diversity
- Strategic flexibility
- Teams
- Personalization
- Creative design
- Integrative thinking

## The public sector change paradox

Many reports outline ways to promote innovation in large, complex companies. The challenge for governments is that their approaches to large-scale transformation are usually the very antithesis of how change actually works. We call this the public sector change paradox. The essence of the paradox is summarized below.

### How governments think and act

- Holistic and comprehensive planning
- Requirements gathering focused on what exists
- Rigid adherence to defined requirements
- Inability to change course
- Post mortems of project failures
- Diffusion of accountability and responsibility

### How change actually works

- Focus on near term outcomes 'what is the real objective'
- Define and commit to the principles of the new design
- Detect and correct errors as they occur
- Incentives for leading and supporting change

## An integrated model for innovative government

Current approaches to innovation within government agencies are for the most part tentative and experimental. The problem is that so-called "skunk works" and pilot projects, while useful in terms of validating the concept, are not sufficiently scaled to deliver the kind of fundamental change most government organizations require.

Although governance bodies outwardly support the search for new ideas and pilot projects, they do not often challenge themselves to act differently in their oversight role. They do not drive transformational change and instead tend to impose performance

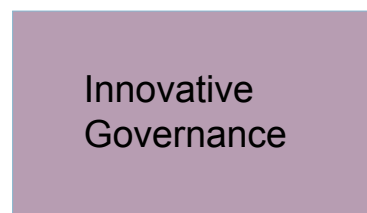
expectations on innovation proposals that are more typically suited to steady-state operations. Furthermore, the management processes that promote, fund and evaluate innovations are often not subject to the same change expectations as the innovations they control. Finally, many organizations that seek innovation have not truly reflected upon the magnitude of changes to business design (organizational, process, technology, etc.) they should pursue. Innovation continues to be mistakenly viewed as a non-core initiative.

An integrated agency-wide model for innovation is required to achieve lasting change. This integrated model requires innovation on three fronts: governance, management and design.

"Innovation experts have told us that no public service has yet succeeded in establishing a genuine culture of innovation across the organization. That is precisely what we are trying to achieve in the BC Public Service. Our goal is to be an organization where being innovative is not just something we do, but something we are."

*Jessica McDonald, Deputy Minister to the Premier and Cabinet Secretary, Province of British Columbia*

## An integrated model for innovative government



**Innovative governance** is about setting the tone for change. It requires those who oversee agencies (elected officials, appointed boards and senior executives) to not only visibly encourage and support innovation but to innovate themselves by adopting new measures of success and by modifying how risk is managed.

**Innovative management** is about promoting the identification and adoption of new ideas. It involves explicitly managing the innovation process, related to idea generation, selection, adoption and dissemination.

**Innovative design** is about adopting new business models. It involves a willingness to challenge conventional wisdom about the role and structure of government and to embrace new management concepts and ideas.

## Innovative Governance

Innovative governance begins with setting a tone that encourages innovation on an agency-wide basis. A recent UK National Audit Office study found that “departments and agencies will often not themselves take action to make changes until they are directly pushed to do so.” Yet, when pushed, the majority of innovation proposals come from middle managers and front-line workers.

Governors must make more informed decisions about risk. Included in this assessment is the risk of maintaining the status quo which, when put in context, often outweighs the risk of proposed changes. Innovative governance also means changing the way innovation is measured. In the private sector, organizations are recognizing that creative processes aimed at developing breakthrough ideas cannot be measured in the same way as steady-state operations. At least in the early stages of idea generation, selection and adoption, traditional measures such as profit margin and market share must give way to measures such as early customer feedback and new product development. (see above)

The same is true for government. When assessing whether to

proceed with innovative proposals, governments often strive for so-called fully-baked solution designs and traditional, steady-state performance measurement commitments. This approach tends to limit the amount of new ideas pursued because it places unrealistic performance expectations on ideas in the formative stages.

There are many ways today's government agencies can do more to recognize and reward innovation leaders. Some suggested components of innovative governance include:

- Oversight that encourages innovation
- Understanding strategic options
- Informed decisions about risk
- Knowledgeable of innovation measurement
- Commitment to transparency and accountability
- Recognition of change leaders

## Innovative Management

Although new approaches to governance establish the baseline for government innovation, governance alone is insufficient. Innovations in management are just as critical in ensuring the transformation of ideas into action – and ultimately results that benefit stakeholders. Governments must ensure the innovative programs

are not subject to the same, rigid management processes that have always been in use. Left unchecked, this will stall innovation.

In an upcoming book entitled *Innovation State\**, William D. Eggers and Shalabh Singh of Deloitte Research present a framework for executing an innovation model. This section draws heavily on that work.

The Eggers and Singh model defines four key milestones for each idea: generation, selection, conversion and diffusion. By understanding each of these, governments can more effectively adapt their own management processes to ensure the right ideas survive long enough to generate returns.

### 1. Idea Generation

Addressing internal inertia is a critical first step. Although middle managers and front line staff generate 80% of successful government innovations, they are often unable to present their ideas to their supervisors or managers. This reduces the department's capacity to innovate and limits its ability to build partnerships and deliver integrated services to stakeholders.

Proctor and Gamble (P&G) is a broadly acknowledged leader in idea generation. Its 7,500 research and development scientists and technical specialists are connected through a so-called “network of networks” to well over a million specialists around the world. As a global marketing power, P&G uses the resulting resources to quickly identify ideas with market potential before moving them deeper into the development stream. As governments look for ways to leverage similar global capabilities, the P&G experience stands as an ideal example.

### 2. Idea selection

Idea generation is just the beginning, of course. Choosing the ideas that survive beyond the first stage is equally

## Successful innovation requires new performance measures

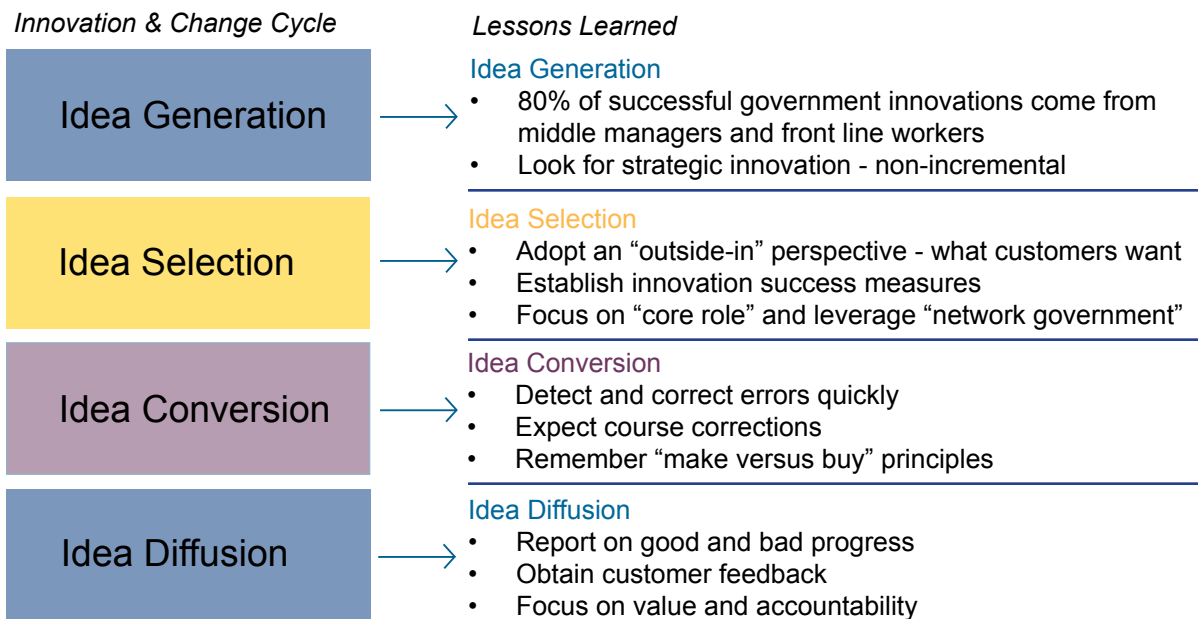
### Performance measures for steady state

- Quarterly earnings
- ROI – hurdle rates; risk adjusted rate of return
- Market share
- Customer satisfaction
- Headcount

### Performance measures for innovation

- Early market/customer feedback on new ideas
- Learning and experimentation (e.g., pace of product development, number of pilot projects)
- First-time orders, number of deployments
- Risk sharing with third parties

## Improving the management of innovation



critical to overall success. Often-conflicting stakeholder demands and budget constraints can limit which ideas – and how many of them – are ultimately pursued. This presents an ideal situation for transformation-focused government agencies to formalize the selection process by implementing metrics to help rank and prioritize the ideas. By measuring each idea against quantifiable performance criteria, government agencies raise the potential for choosing optimally. The process also stands up to external scrutiny – a key consideration for public sector agencies.

### 3. Idea conversion

Converting a great idea into a viable product or service demands resources – time, money and people. This conversion process is critical to agency credibility, as government agencies always use their delivery track record to justify future funding. But more aggressive pursuit of conversion increases the risk of failure, which in the public sector can often result in high profile embarrassment. It is at this stage that most government innovation initiatives tend to stall. A robust idea conversion capability allows governments to move beyond simply coming up with the idea. The old-style big bang approach highlights the weaknesses of previous

generation governments. Only by executing successfully and frequently can governments internalize the kinds of processes and behaviours that raise the potential for future success.

### 4. Idea diffusion

Diffusion typically takes place through both formal and informal relationship networks. More formally, innovation committees or communities of practice meet regularly to discuss how to institutionalize and strengthen innovations. Informal water cooler and lunchtime discussions between staff members can accomplish virtually the same thing, and should also be encouraged. However they come about, government agencies must use these modes of interaction to understand what worked and identify the best practices for future initiatives. They must also ask themselves if these learnings can be applied elsewhere.

## Innovative design

Innovative design involves adopting new business models by challenging conventional wisdom about the role and structure of government and by embracing new management concepts and ideas. It is about establishing how far an organization is prepared to go with innovation in terms of challenging how it best fulfills its mandate. In some

cases, it can even challenge whether the mandate needs to change. The articulation of design principles will establish the boundaries of creativity an organization is comfortable with and guide the form of innovations. Effective design involves understanding what customers want, the type of products and services that are provided in response and the business model that is followed.

Governments are on the verge of being pressed into exploring fundamental changes to design. A number of major design ideas are already beginning to emerge, and in the months and years to come innovative governments will be exploring and testing these ideas. These are summarized briefly below.

### The next phase of network government – reinventing the core:

When agencies adopt visions of stewardship and oversight, they begin to uncover the need to strengthen competencies and increase capacity in key areas such as strategy formulation, policy integration, investment management and evidence-based decision making. As agencies strive to innovate, they need to focus their attention on defining their future role and developing the core competencies necessary for success.

**Information management and Web 2.0 – the new collaboration:** The public sector is lagging the general population and business community in embracing Web 2.0 technologies. Yet the case for more collaborative forms of government, enabled by this ‘new age Internet,’ is overwhelming. The potential for governments to contribute to improved outcomes by embracing online collaboration and information sharing is now clear. The challenge will be for government leaders to overcome the cultural barriers that stand in the way of a more open, free-form style of collaboration.

**Project teams – replacing static structures:** Innovative design requires project teams comprised of relevant skills from across different government and non-government agencies that can be created and disbanded rapidly to exploit new opportunities and to improve outcomes.

**Resource allocation processes – focusing on value creation:** Business analytics, flexible reporting tools and other advancements in financial management outside of government, offer opportunities for the public sector to adopt more sophisticated approaches to financial management. In fact, the emerging trend is toward ‘strategic investment management’ as governments drive a tighter linkage between what is spent and what is achieved. A recent global survey by Deloitte Research found that government financial managers see the need for improved strategic and risk management capabilities as critical to improving overall financial management.

### Closing thoughts

Government agencies, like their private sector counterparts, must strive to become leaders in innovation and creativity. As internal and external cost and performance pressures continue to mount, governments must embrace a culture of continuous improvement and change. An integrated, agency-wide approach to innovation will soon

be the new standard of excellence. Innovative governance, management and design are the three dimensions of this agency-wide approach.

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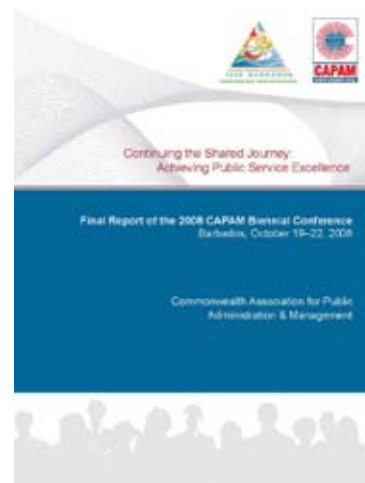
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