# Seismic Shifts designing and growing innovation Capability A range of OECD those of Australia the United King States, have estable for driving public recognising that fiscal and social century without new and different The wider appliant ovalion method.

The Better Public Services Advisory Group report (November 2011) noted that innovation in the New Zealand public management system is currently 'stifled by a lack of capability, an undue degree of risk aversion on the part of chief executives, boards and Ministers and little consideration of how to manage risk in this context' (Better Public Services Advisory Group, 2011, p.20). In launching the Better Public Services report and results, the prime minister called for 'a public sector that embraces innovation'.

across the state services would improve the customer focus and responsiveness of New Zealand public services and help to achieve the vision of the Better Public Services report.

Canterbury, after the earthquakes showed what is possible. The earthquakes, provided a 'perfect storm' for innovation. The status quo was not an option and public servants were given permission from Wellington to 'do whatever it takes'. They responded to the challenge with new and different approaches to service delivery and design which provide live

A range of OECD governments, including those of Australia, Canada, Denmark,

the United Kingdom and the United States, have established specific strategies for driving public sector innovation, recognising that they cannot meet the fiscal and social challenges of the 21st

century without intentionally seeking new and different ways of doing business.<sup>2</sup> The wider application of recognised innovation methodologies, as well as improved organisational capability to generate new ideas and convert them into

new approaches to the design and delivery of services, and more deliberate strategies

to diffuse and upscale those approaches

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demonstrations of better public services.

### Box 1. Research questions

### Characteristics of organisations that support and enable innovation

- Leadership that is passionate about outcomes and has clear goals but is flexible about how to reach those goals
  - How are those agency goals articulated to staff/to stakeholders?
  - Where and how does innovation (or the desire to seek new and better ways of doing things) fit into organisational strategies and how is that communicated across the organisation?
- 2. Encourages experimentation and bounded and informed risk-taking, while tolerating some failure as a learning experience
  - How do they show that they are prepared to consider and trial new ideas and new ways of doing things?
  - How do they communicate a tolerance for risk? What risk management strategies
    are in place? How is efficiency and effectiveness built into decision-making quick
    iterations/prototyping/"fail fast/fail cheap"? How is failure dealt with is it seen as a
    learning opportunity?
  - What incentives? How is innovation recognised and rewarded? To what extent are budgets and fund allocations linked to improvements in performance driven by innovation?
- 3. Is customer focused, solicits ideas from and engages with diverse internal and external sources
  - What channels are there for seeking ideas from inside and outside the organisation including scanning international exemplars, engagement with stakeholders/users?
  - How are successful innovations re-used/adopted/adapted and shared within and outside the organisation?
  - Is collaboration with other organisations part of the innovation equation?
- 4. Are capability, skills and experience in innovation disciplines/methods supported by resources (funding, time and space)
  - Do staff have access to and training in innovation disciplines, methods, tools and approaches?
  - Is there dedicated space and/or time for 'thinking' and developing new ideas/ways of doing things?
  - Is there a special part of the organisation dedicated to innovation (R&D, service design/design thinking)?

# The view from a different lens

It is important to see the above characteristics and related questions, and the evidence that they exist, through multiple lenses – including the organisation's:

- Leadership/senior management what commitment, support, permission is deemed important?
- Staff what is their perception of engagement, ability to share ideas and sense of freedom/ permission to try new things?
- Key stakeholders partners, customer/client/user perspective. How are they involved in generating/co-producing ideas, implementation and dissemination of innovations?

The State Services Commission (SSC) has an ongoing programme to document and disseminate the lessons from the Canterbury innovations. Case studies and a related report to Cabinet are available on the SSC website.<sup>3</sup>

Some of the Canterbury initiatives could be directly replicable elsewhere. But their greater value lies in demonstrating new ways of working that can inform and drive change elsewhere: a 'graft and grow' rather than a 'cookie cutter' strategy

for upscaling successful innovations. The Christchurch story also paints a picture about what enables innovation to flourish in a public sector context. Many of the innovative responses to the earthquakes were not simply a reaction to the crisis. Rather, they were enabled by pre-existing innovation capability in public sector agencies there, most notably in the Canterbury District Health Board (CDHB) and in Inland Revenue.

Inland Revenue's service design team based in Christchurch was instrumental in initiatives such as Recover Canterbury<sup>4</sup> (a public/private partnership for business recovery), and co-location initiatives leading to the forthcoming Shared Front of House (a multi-agency shared service facility or 'one stop shop'). The CDHB implemented the 'shared care record view'5 (eSCRV), a secure online system for sharing patient information between health professionals, invaluable in a disaster such as this when paper records were irretrievable and access to usual health providers was disrupted. The eSCRV was in the pipeline prior to the earthquakes but its development was accelerated in response to post-earthquake needs. In short, the earthquakes expedited innovations, but the organisational foundations were pre-existing.

The SSC has conducted a case study of Inland Revenue and the CDHB to describe their innovation capability. It tests both organisations against the characteristics cited in international literature as being common to innovative organisations. The case study is not an evaluation or comprehensive assessment of either organisation. The aim is to provide information to agencies wishing to develop their own capability to innovate. This article provides a summary of the case study findings. It starts with a description of the study method, including a template of research questions. The template itself might offer the foundations for an organisational self-assessment tool.6 We then compare the two organisations against some broad headings derived from that template, including:

 The importance of leadership, clear goals and strategy to embed a culture of innovation.

- Permission, a tolerance for experimentation, risk-management and rewards as key components of the innovation-enabling environment.
- Customer focus, engaging stakeholders and soliciting ideas from diverse internal and external sources as key inputs to innovation.
- Capability and skills in innovation disciplines/methods supported by resources (funding, time and space) as the organisational tools for innovation.

The characteristics of innovative organisations align closely with the characteristics defined in the Performance Improvement Framework (PIF) system-level findings as common to the best performing agencies. In terms of the efficiency and effectiveness of their core business, 'the best agencies demonstrate that they value learning, innovation and continuous improvement' (Te Kawa and Guerin, 2012).

Responding to the prime minister's call for a public sector which embraces innovation requires a three-pronged approach. We need mechanisms to upscale and disseminate successful innovations, enhanced innovation capability in organisations, and an underpinning public management infrastructure that includes systemic incentives and support to encourage innovation. This article concentrates on the middle prong of that approach.

# Innovation and innovation capability – definitions and method

We adopt the following definition of innovation: '[I]nnovation is the creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in the efficiency, effectiveness or quality of outcomes' (Mulgan and Albury, 2003, p.3). Innovation capability, therefore, is the capacity of an organisation to create the conditions, and apply the resources (people, financial, tools and methods), to enable and support innovation activity.

For this study we developed a template of research questions (see Box 1) based on the international literature about the characteristics of innovative

organisations.<sup>7</sup> We conducted semistructured interviews with a small group of leaders and staff of the two target organisations, to get views from people at a range of levels and functions. We then prepared individual case studies on the two organisations and a summary report comparing the two, which this article draws on.

Senior managers noted that if an organisation penalises failure when people try new things, then it will perpetuate a risk-averse culture and reduce innovation capability.

# Leadership, goals and strategy

Passionate leaders, a common vision and common language are key components of developing a culture which supports innovation. It is difficult to measure the relative 'passion' of leaders, but our interviewees saw this element as crucial, describing it as the need for leaders to be *courageous* and brave in defining and articulating their vision.<sup>8</sup>

In terms of clarity of purpose, vision and strategy, senior CDHB managers interviewed were all completely 'on message' with a shared understanding of the vision of the organisation and the wider Canterbury health system. They were clear that the visibility of senior management was vital to translating a vision and a direction of travel to all parts of the organisation, and further out to the wider health system. They saw this as an explicit responsibility. They emphasised the role of senior leadership as painting the picture so that staff and stakeholders could see where they fitted into it. The chief executive noted that [We are] really passionate and dogged about the vision. We also found that Inland Revenue

staff interviewed for this case study all referred to Inland Revenue's strategy 'IR for the future' and could articulate the key messages embodied in it.

In contrast, an overview of the 21 PIF reviews to date<sup>9</sup> found that only about a third of the public service agencies reviewed were strong or well placed on indicators relating to articulating purpose, vision and strategy, indicating that this is a weakness across the system. In general, agencies appear to be good at serving ministers and dealing with day-to-day challenges, but less skilled at defining a vision for the future and developing a strategy and capability to get there.

# Permission, experimentation, risk management and rewards

Organisations that enable innovation encourage experimentation, support it with risk-management strategies, allow some failure, which is seen as a learning experience rather than sunk costs, and reward innovation initiative. People interviewed for this study identified permission from senior managers to 'do things differently' as the top enabler of innovation, supporting the notion that top-down permission enables bottomup innovation. Yet research conducted by Ryan et al., (2008) suggested that we have very few champions or 'guardian angels' of innovation at senior leadership level across New Zealand's public service.

The CDHB was seen as encouraging of experimentation and tolerant of risk-taking. Senior managers noted that if an organisation penalises failure when people try new things, then it will perpetuate a risk-averse culture and reduce innovation capability. They argued that staff should understand what they are trying to achieve, know that their back is covered, and know if they fail it should be quick and early and used as a learning experience. The chief executive referred to this as tolerating *sensible risk*.<sup>10</sup>

The CDHB's 'Particip8' and 'Xcelr8' training and development programmes are designed to give participants the tools and permission to think and do things differently. Particip8 is largely about teaching change management, while Xcelr8 is about encouraging participants to seek new and better ways

of doing things - to own the innovation challenge. Xcelr8 includes a component where participants in small groups actually design an innovation for the Canterbury health system. Participants in that programme take away a 'permission card' from the chief executive which can be used to unblock future barriers to change. One senior manager noted that they were aiming to give everybody permission to do things differently, but within the boundaries of the vision: Is this right for the patient and is this right for the system? References were made to the need to create architects of change within the organisation and in partnership with stakeholders. One senior manager argued that the key to better services was shifting decision-making as close as possible to where the actual service gets delivered.

Inland Revenue interviewees were less confident that experimentation and failure would be tolerated. They often referred to the organisation as 'risk averse'. This might reflect the risk profile associated with the regulatory environment Inland Revenue operates in, including its strict legislative provisions related to privacy and secrecy. The commissioner expressed the challenge as follows: One of our biggest challenges is how we develop such an innovative culture without compromising the integrity of the tax system. For me, ensuring that we protect the integrity of the tax system is paramount and we currently have strict secrecy and privacy legislative provisions to support this.11 But accepting a degree of risk and managing it effectively is a key factor in successful innovation. Managing risk is not the same as avoiding

Despite this apparent risk aversion, PIF findings show Inland Revenue to be the only public service agency to score consistently well on indicators related to self-review and improvement. This dimension of performance demonstrates how an agency learns from its experiences to identify opportunities for continuous improvement and innovation.

Both the CDHB and Inland Revenue include innovation and continuous improvement as part of a package of change strategies. Views from these organisations offer insight into the interface between innovation and

continuous improvement: they are not interchangeable but complementary. One CDHB senior manager described a continuum involving a need to do business as usual really well, constant improvement, and work on transformation at the same time. Another noted that continuous improvement on its own was not enough: you couldn't continuously improve this organisation, we had to transform it – you can't leap a chasm one step at a time. A similar distinction was made by an Inland Revenue interviewee, using a series of

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questions to highlight the component parts of organisational transformation:

What level of investment is needed to keep the lights on?

What is needed to ensure continuous improvement?

What is needed for big change/innovation?

What is left over for seed funding or to keep improving innovation capability?

Strategies for change that include keeping up the momentum of incremental improvement in processes (through continuous improvement) and innovation for more significant shifts reflect what David Albury describes as a 'split screen narrative'. His research defined leaders of innovative organisations as those who are 'interested in innovation but not for its own sake, rather they are concerned about how to continue to improve their day-to-day operations and services and products while at the same time building innovative capability to address present and future challenges' (Albury, 2011, p.230).

Recognition and rewards for successful innovation provide crucial messages about the value of doing things differently and encourage further innovation. There are some symbolic rewards for innovation in both Inland Revenue and the CDHB. Inland Revenue has an annual commissioner's award for innovation, while in the CDHB awards are given for the best idea coming out of 'David's Den' (a play on the Dragon's Den concept) at the end of each Xcelr8 programme. The fact that each successful Xcelr8 idea is allocated to a senior manager to take forward is further testimony to the value attached to innovation.

# Customer focus, ideas generation and stakeholder engagement

A focus on users, engaging stakeholders and soliciting ideas from diverse internal and external sources are all key inputs into the innovation process. The Better Public Services Advisory Group report pointed to poor customer focus as one of the weaknesses of the New Zealand public management system and one that has led to a general inability to design or adapt services to the needs of citizens and business: 'state services in New Zealand do not listen well or respond to citizens and businesses, nor adapt design and delivery to their needs'.'2

We found that both Inland Revenue and the CDHB were strongly customer-focused and that the desire to improve the customer journey has been a key driver for change. The CDHB's map of the Canterbury health system<sup>13</sup> has the customer firmly in the centre of the picture, while a key indicator of success across the system is 'reducing the time people waste waiting'. People

interviewed from Inland Revenue stressed that *the customer is at the centre* of the organisation. Their capability in service design, discussed below, is about understanding and designing services around customer needs.

Both organisations utilise customer feedback mechanisms. Inland Revenue was the first government agency in New Zealand to develop online customer forums. Both are also open to, or actively solicit, ideas from inside and outside the organisation. CDHB managers stressed the importance of looking to other sectors for new ideas and models. Its use of alliancing was borrowed from the construction industry, while organisations as diverse as Air New Zealand and public libraries are invited to present their service models at Xcelr8 sessions.

The CDHB exhibits strong engagement with stakeholders (reflecting the need to engage other health sector partners to deliver outcomes) and has deliberate strategies to engage staff and stakeholders in the actual design of improvements to processes and services. Over 2,000 stakeholders were involved in developing its Vision 2020 (described below). As noted above, the Xcelr8 programme involves participants (drawn from across the Canterbury health system) designing an innovation.

The CDHB also co-produces services with other parts of the Canterbury health system. The eSCRV was the product of collaboration between it, Pegasus Health, a range of health providers and a software company, Orion. Its use of alliancing is similarly based on good faith contracting, whereby projects and services are coproduced with outside partners. As one senior manager explained: be clear about the end point, define the problem and context and enable people. The intended results for users from this integrated process mean that It should be seamless for the person ... they have no sense of having been passed from one organisational structure to another ... the services are just organised around them.

# Capability – skills, space, tools and investment

Innovation is not just about unleashing creativity. Successful innovation occurs

through the conscious application of recognised disciplines, methods and tools. Both the CDHB and Inland Revenue have invested in developing capability and skills in innovation disciplines, most notably design thinking and service design. Service design is an internationally recognised method for driving innovation in both the public and private sectors (Saco and Goncalves, 2008). Through 'harnessing user participation, feedback, insight generation and connecting these things to organisational or system design

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and development, service design's model of change is focused on creating a system able to continuously adapt, reconfigure and most importantly, learn from itself' (Parker and Heaphy, 2006, p.90).

Inland Revenue has a strong service design capability which is sought after by other public service organisations. Currently Inland Revenue acts the 'good corporate citizen' by deploying its capability to assist other agencies, in Christchurch and elsewhere (including for the delivery of Better Public Services result 10). There is anecdotal evidence of increasing demand and a shortage of people with service design expertise across the public service. This might become more acute as agencies respond to the Better Public Services message to be more innovative.

The CDHB also has a recognised service design capability, but its

innovation capability extends well beyond this team. Its training Particip8 and Xcelr8 programmes are designed to give participants across the organisation and wider Canterbury health system the tools to generate new ideas and drive their implementation. Moreover, innovation is evident in not only what they do, but how they do it. For example, Vision 2020 was produced through a highly innovative experiential process, dubbed Showcase.<sup>16</sup> This involved small groups of participants being taken through a warehouse where they experienced mockups of health services. Their reactions were captured and later used to define a vision for the Canterbury health system. It took a lot of courage on the part of the chief executive to agree to such a nontraditional process, but the result was highly successful and was perceived to have been responsible for the high level of buy-in and ownership of the overall vision. A second Showcase is being held in early 2013 to refresh that vision.

A key message from this case study is that it takes time and investment to develop and maintain organisational capability to enable innovation. This echoes the international literature on innovation capability, and is common to both the public and private sectors: 'Experience and research show that top management must show long-term dedication to set aside resources for innovation in order to establish a lasting organisational capability to innovate' (Davila, Epstein and Shelton, 2006). Both Inland Revenue and the CDHB have invested in innovation capability. This has been built over five-seven years and sustained over the tenure of several chief executives and, in the case of the CDHB, several boards.

One of the early architects of Inland Revenue's service design capability highlighted the potential return on that investment: 'The journey is worth it. Everyone is a citizen, everyone has a customer experience; better design will benefit all New Zealanders. Also, if we achieve excellence in public service design, the result will be an innovative and efficient public service' (McLean, Scully and Tergas, 2008, p.37).

# Table 1. Indicators High performing public institutions Organisations that enable innovation Are clear about their purpose; know how Have leadership that is clear and passionate they can add most value to New Zealand about what it is trying to achieve (outcomes now and in the future; and are clear about and goals) but is flexible about how to reach the strategy for delivering that value. those goals (tight/loose balance). Develop and use information and analysis to Encourage experimentation and bounded

support decision making to add value and manage risk. (The others avoid risk rather than manage it.)

and informed risk-taking,

Enlist the active support of all those outside the agency who are necessary to the agency delivering its key results.

Are customer focused, solicit ideas from and engage with diverse internal and external sources.

Demonstrate that they value learning, innovation and continuous improvement. Have capability, skills and experience in innovation disciplines/methods supported by resources (funding, time and space)

# A cross-agency innovation hub?

The CDHB service design team and the Christchurch-based Inland Revenue service design team intend to co-locate, which could provide a prototype for some future cross-agency innovation capability. The two teams already share information, methods and training and expect to colocate in early 2013.

Overseas jurisdictions with a strong innovation strategy have put in place an innovation hub, or some centre of expertise (virtual or real), to provide practical support to develop innovation capability.<sup>17</sup> The functions provided by such labs/centres of expertise include:

- providing advice, active support and practical toolkits;
- providing a repository of local and international, public and private exemplars of innovations and innovation capability;
- facilitating networks for sharing knowledge and experiences;
- providing capability development (training and development/ expertise);
- Providing mechanisms for upscaling or diffusing innovations.

The CDHB sees this Canterbury colocation as an opportunity to create a 'design lab' and is explicit about the potential for the hub to provide crossgovernment innovation capability. It promotes the potential public value to be gained from that. Inland Revenue is more cautious, perhaps reflecting the current regulatory constraints around privacy and the related tensions co-location raises. The hub will be something to watch.

# Innovation capability links to superior performance

The characteristics derived from the literature as being common to organisations that enable and support innovation align closely with the characteristics defined by the PIF system-level findings as indicators of good performance and of aspirational 'great public institutions'. Table 1 compares those two sets of characteristics. 18

The PIF currently concentrates on public service departments, and while a few Crown entities have been reviewed it has not yet reviewed any district health boards. Among the public service departments that have undergone a PIF review, Inland Revenue is a highflyer.19 An indicator of the CDHB's growing reputation as a high-performing organisation is that it is becoming a popular destination for professionals from overseas jurisdictions20 and other district health boards seeking to emulate its innovative approach to achieving an integrated health system. Both organisations demonstrate that they value and invest in learning, continuous improvement and innovation.

# Discussion and conclusions

Both Inland Revenue and the CDHB embarked on an innovation journey based on a similar 'burning platform', a desire to put the customer at the centre of the business while at the same time responding to increasing demands for services and decreasing funding baselines. Both agencies have also invested in innovation capability over some time, not in isolation but as part of a package of business transformation strategies.

This case study found that both Inland Revenue and the CDHB reflect most of the characteristics derived from the literature as being common to organisations that support and enable innovation. However, we argue that there is a qualitative difference between the organisations. The CDHB encourages experimentation and seems prepared to accept and manage related risk. The perceived risk aversion in Inland Revenue was seen as a barrier to the agency realising its full innovation potential. Inland Revenue's innovation capability is synonymous with its service design capability, whereas the CDHB takes a broader and more extensive approach to innovation. It has an explicit strategy to embed innovation across the organisation and wider system. It is innovative in what it does and how it does it. However, the relatively new Inland Revenue commissioner is committed to building Inland Revenue's overall innovation capability, which bodes well for the future: Although Service Design is one of our key capabilities in delivering innovative and customer centric services, we also want to ensure we have a culture of innovation embedded throughout all areas of the organisation.21 Moreover, our findings also suggest that even if an agency does not fully reflect every characteristic - for example, where risk aversion may mean it is not tapping its full innovation potential – having strong capability in service design or some other innovation discipline means that it can still enable innovation activity. That is an important message for other public sector organisations wishing to improve their own innovation capability.

Upscaling successful innovation and building innovation capability in organisations are both crucial parts of the quest to embed innovation across the state services. Underpinning that, we need a public management environment

that encourages innovation. Systemic barriers, related to the overall public management system and not specific to either organisation, were also mentioned by people interviewed for this study. These were manifested more in Inland Revenue than in the CDHB, which as a Crown entity is relatively more autonomous. They included the challenge of collaboration between agencies and with private sector and NGO partners, difficulties with jointly funding initiatives, barriers to information sharing, and business case processes that require a level of specificity that does not enable the iteration and adjustments involved when prototyping or trialling design options. 22

The challenge now is to build an 'innovation infrastructure' for the state services, including enhanced systemic incentives (demand, mandate and expectations to innovate) and support (guidance on capability and methodologies) to move from 'random

innovation' or 'innovation by necessity' – responding to crises such as the Canterbury earthquakes – to a new state of 'innovation by design'. We need a seismic shift.

- http://www.beehive.govt.nz/speech/better-public-servicesspeech-auckland-chamber-commerce.
- 2 The OECD has a programme to document these strategies: see http://www.oecd.org/governance/ oecdobservatoryofpublicsectorinnovation.htm.
- B http://www.ssc.govt.nz/christchurch-innovations
- 4 http://www.ssc.govt.nz/ci-recover-canterbury.
- 5 http://www.ssc.govt.nz/ci-shared-care.
- 6 Diagnostic tools have been developed elsewhere to test the innovation potential or performance of organisations. For example, the Australian public service includes a diagnostic tool in its Public Sector Innovation Toolkit: see http:// innovation.govspace.gov.au/tools/diagnostic-tool/2/.
- 7 These were based on: David Albury's research on more than 40 high-performing innovative organisations and 10 innovative sectors, http://www.anu.edu.au/discoveranu/content/podcasts/creating\_the\_conditions\_for\_radical\_public\_service\_innovation\_david\_albury/; the Australian public service 'Innovation compact for leaders', http://innovation.govspace.gov.au/; The Public Innovator's Playbook: nurturing bold ideas in government, Deloitte and the Harvard Kennedy School's Ash Institute for the Democratic Governance and Innovation, http://www.deloitte.com/innovatorsplaybook; and Innovation in the Public Sector: enabling better performance, driving new directions, Australian National Audit Office, www.anao.gov.au.
- 8 Quotations (italicised) in this article are generally not attributed to protect the confidence of the people interviewed.
- 9 http://www.ssc.govt.nz/pif.

- 10 Interview with David Meates, chief executive, CDHB, 9 October 2012.
- 11 Naomi Ferguson, chief executive and communication commissioner of Inland Revenue, 21 December 2012.
- 12 See www.ssc.govt.nz/bps-background-material.
- 13 The map is a pictorial depiction of the health system and used to describe Vision 2020, which became Transition 2012 following the earthquakes.
- 14 Transition 2012, CDHB, April 2012, p.4, www.cdhb.govt.nz/communications/documents/transition\_2012\_plan.pdf.
- 15 Result 10 is: 'New Zealanders can complete their transactions with the Government easily in a digital environment'. Further information about BPS results is available at www.ssc.govt.nz/bps-results-for-nzers.
- 16 Described in more detail in a forthcoming SSC report on the CDHB, Designing a growing innovation capability.
- 17 For example, Denmark's MindLab is internationally recognised. Australia has recently established a Centre of Excellence in Public Sector Design as part of its Public Service Innovation Action Plan.
- 18 For a discussion of the PIF system-level findings, see Te Kawa and Guerin (2012).
- 19 Ibid., Figure 4, p.34
- 20 These include several Australian states, Singapore, Canada and the UK National Health Service.
- 21 Naomi Ferguson, chief executive and communication commissioner of Inland Revenue. 21 December 2012.
- 22 Legislative changes proposed in the State Sector and Public Finance Reform Bill provide for greater flexibility in funding arrangements including through multi-category appropriations. More flexible business case processes can also support agencies to work collaboratively and enable an iterative approach to service design and delivery.

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