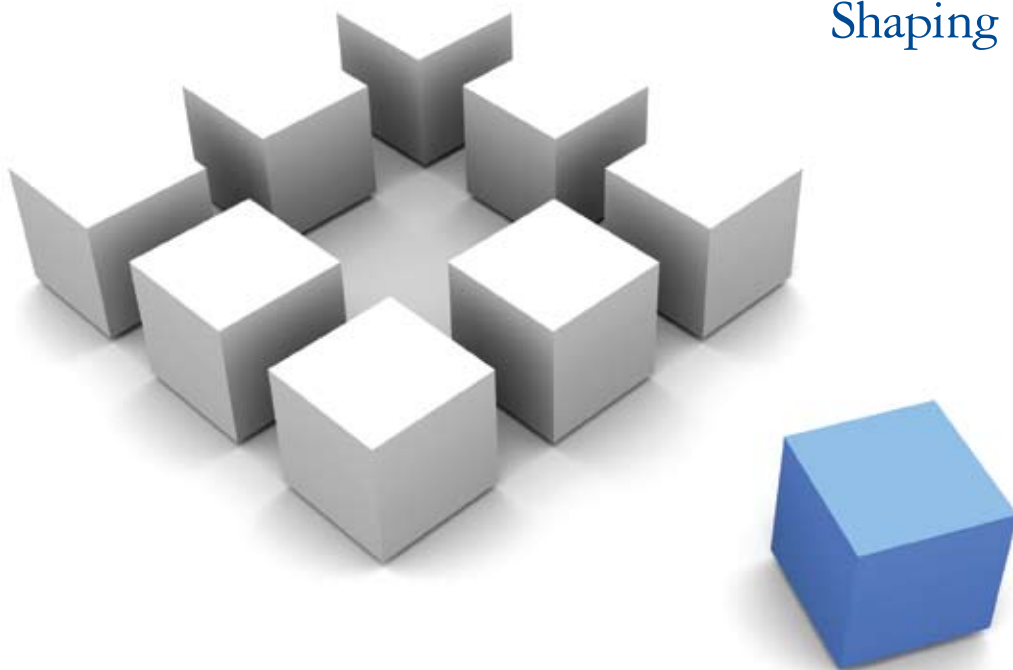


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Introduction

These are challenging times for our governments. At all levels and in all sectors, they are being pressured by both rising costs and increasing demand. In the health care sector, for example, expanding costs are forcing governments and citizens to realize that traditional approaches to providing public services are no longer sustainable. The Canadian health system, despite widespread global admiration, is under strain. Most provinces now project that health care costs will soon account for 50% or more of total expenditures. Without radical change, some provinces predict that 100% of provincial expenditures will go to health care spending within a generation.

Other areas of the public sector, such as education, face similar challenges. The Toronto District School Board has a 40% high school dropout rate in some areas. The entire public sector faces a growing range of issues, including an aging population, crumbling infrastructure, more demanding consumers, rising political instability, and tumultuous global financial markets. These factors help us understand why our governments often struggle to meet expectations.

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 – more than \$50 billion, which is more than any other sector. Add in health care and the share grows to almost 30%. While it is true that government managers are always challenged to work within limited budgets, it is also true that significant investments are being made to fix problems¹.

Within that context, it is clear that progress is being made. But it's 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 documented². 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 the Canadian taxpayer at between \$99.4 and \$124.6 billion from 1992 to 2006. The study further concluded that these failures raised resistance to accepting new proposals³.

Business literature is full of case studies and lessons for promoting innovation and change in commercial enterprise⁴. 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 will limit any government's ability to keep pace, resulting in growing gaps between demand for services and the government's ability to respond.

The purpose of this article is to provide an integrated, agency-wide approach to promoting innovation in government; 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.

New management trends should impact government

In virtually all respects, this is the ideal time to focus on innovation in government. Many government leaders are somewhat disappointed in their ability to stimulate innovation in their agencies. New models of government are emerging around the world, but for reasons ranging from cultural inertia to misunderstood value propositions, many jurisdictions have found it difficult to adopt these models. The most distressing proof is the failure rate of government transformation projects. But given the scale and significance of government, failure is not an option. It is critical for the public sector to keep pace with changes in management practices that are already sweeping other sectors of the economy.

While the scientific management principles of hierarchy, specialization and control served governments well during much of the past century, management best practices are evolving rapidly. As other sectors increasingly accept that the discipline of management is changing, the public sector is sure to join the movement. Protecting the status quo, after all, is a sure way to be left behind.



These changes in the structure, process, technology and discipline of management are driven by the need to survive. Trade protection, regulatory barriers, patent protection and other support structures have given way to expanding free trade zones, global capital markets, and open source business models. Many of the structures that have protected inefficient companies are collapsing, which has resulted in some business decline and failure. The average tenure of a CEO has fallen to only six years⁵. The pressure to survive and thrive is the driving force behind the radical changes that are driving innovative enterprises of all sizes. Management gurus like Gary Hamel, author of *The Future of Management*, observe that sometime over the next decade, companies will be challenged to change in ways for which they have no precedent⁶.

Despite the compelling 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 like new product development or research and development. Innovation is not routinely adopted by more front-line 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 working⁷. As outlined on the right, however, new management trends clearly point to a growing need to spread the culture of innovation more deeply through the organization.

Industrial age versus new management

Industrial age management	New management
<ul style="list-style-type: none">• Specialization• Long-range planning• Hierarchy• Mass production• Best practice• Division of labour	<ul style="list-style-type: none">• Diversity• Strategic flexibility• Teams• Personalization• Creative design• Integrative thinking

Despite the fact that public service delivery typically follows an understandably stable and reliable organizational culture, the sector is not immune from broader trends in management and innovation. In fact, governments will need to move away from such industrial age principles of hierarchy and control and embrace creative thinking and innovation if they are to keep pace with the challenges of today and the future.

The move to innovative government

Progressive governments are moving away from operational roles to stewardship roles; from ownership to partnership; and from hierarchy to network collaboration. Empowered and informed citizens, increasingly accustomed to greater transparency and interaction, are forcing governments to rethink how they operate, how they deliver services and how they collaborate with their stakeholders. In doing so, government leaders see innovation as the means by which they will enhance the bureaucracy's ability to deliver to this elevated level of expectation.

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

“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

Expanding scope

Few public sector organizations produce a steady stream of innovations. Although innovation⁸ in government is getting more attention, most “agencies think of innovation in terms of one-off change – the ‘big bang’ approach – instead of new approaches that make up a wider series of innovation.” Analysis of the Innovations in American Government Awards shows only a handful of organizations appear on the winners list more than once⁹. As such, “limited-scale innovation is alive and well in government, but large-scale innovation is not¹⁰.”

In our view, innovation should not be confined to a special program or project. Rather, it should be viewed as a commitment to thinking and acting in a way that promotes continuous improvement through the identification, dissemination and adoption of creative ideas. Innovation should address policy and administration issues and include applying existing knowledge in new ways or creating and applying new knowledge. The key is to achieve an integrated, agency-wide, approach to innovation that uses fundamental changes to governance, management and design principles to forge a new, dynamic culture.

The public sector change paradox

Much has been written about how to promote innovation in large, complex companies¹¹. 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.

Innovation in government – the change paradox	
How governments think and act	How change actually works
<ul style="list-style-type: none"> • Holistic and comprehensive planning • Requirements definition focused on current state • Rigid adherence to defined requirements • Inability to change course • Post mortems of project failures • Diffusion of accountability and responsibility 	<ul style="list-style-type: none"> • 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

Case example

The Canadian Gun Registry

A lesson in avoiding traditional government mistakes

The Canadian Gun Registry has generated significant controversy since 2002. In 2006, the Office of the Auditor General of Canada painted a grim picture of mismanagement by the Canada Firearms Centre (CAFC) responsible for the registry. The Auditor General’s findings noted that the Department of Justice understated the costs of the electronic registry by \$21.8 million (as of March 31, 2004) and under-reported the CAFC’s actual spending for 2002-2003 by \$39 million. Cost overruns from delays were attributed to poor planning by senior managers who decided to build a new version of the registry before the first version was stable and before legislative and regulatory changes were completed¹².

Total development costs for the first version were estimated at \$94.5 million, but in reality were almost \$190 million. This indicated a weak understanding of the requirements and the complexities of implementing such a registry. Yet no corrective action has been taken. Costs for the second version were estimated at \$32 million, but are now likely to be closer to \$87 million. Even after such high levels of spending, the CAFC is unable to show measurable, evidence-based outcomes such as reduced deaths, injuries and threats from firearms.

While governments invest billions on a global scale to transform and modernize, their own internal efficiencies are often hampered by a generally risk-averse culture that tends to undermine the achievement of the very solutions they are seeking. Successful change, on the other hand, is based on a commitment to new ways of acting and a focus on near-term outcomes. It requires organizations to aspire to a better way and to break from past practices. While being accepting of risk, innovative organizations are also keenly attuned to taking corrective action when errors occur. Most important, these organizations recognize and promote innovators and change leaders¹³.

Governments on the other hand, have not yet adopted this way of thinking on a broad scale. They generally prefer to avoid failure, and in doing so tend to rely on comprehensive and holistic planning exercises followed by locked-in execution of these plans. This is a time-consuming, resource-intensive process that can render governments slow to pick up on signals of problems and correct errors before it is too late. If problems are encountered along the way, complex committee structures and multiple sign-offs can obscure accountability and hinder the ability to pursue alternative paths. These processes also make it difficult to recognize and reward change leaders, which can in turn reduce the overall number of experienced change leaders (i.e. executives who have led one or more significant innovation or transformation project from beginning to end).

An integrated model for innovative government

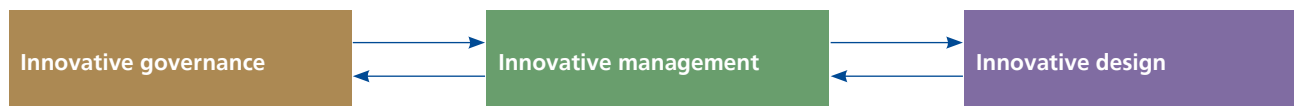
Current approaches to innovation within government agencies are for the most part tentative and experimental. The problem is that so-called “skunk works” and pilot projects, while useful, are not sufficiently scaled to deliver the kind of fundamental change that most government organizations require.

Although governance bodies are outwardly supportive of 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 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.

Many organizations have promoted innovation as a worthy cause, but have not truly reflected upon and endorsed the magnitude of changes to business design (organization, roles, mandate, processes, etc.) that should be pursued in response to mounting pressures. The end result is a range of micro-level change proposals whose impact is mitigated by the inertia of legacy organizations.

Most organizations tend to focus on identifying best practices that could be applicable to their situation. The challenge is that these organizations invariably – and often correctly – conclude that any given best practice is not readily transferable to their own agencies. Largely because of this, we promote an integrated, agency-wide model for innovative government. This integrated model requires innovation on three fronts – governance, management and design.

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 dissemination¹⁴.

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.

Governments must evolve on all three dimensions of innovation if they are to successfully move forward with fundamental change to the way they manage limited resources, align expectations and bring stakeholders such as public service leaders and citizens on board.

Case examples

Robert Reich¹⁵

How support from the top can encourage innovation

“A number of innovations undertaken by the U.S. Department of Labor were recognized as finalists and winners of the Innovations in American Government Awards. These include the initiative to eradicate sweatshops by putting pressure on retailers, the Pension Benefit Guaranty Corporation’s early warning program and a program in the Occupational Safety and Health Administration to proactively identify workplace health hazards among large employers. In terms of the generic characteristics of innovations, these demonstrate process reengineering and alternative service delivery. While middle managers and frontline staff initiated these innovations, Secretary of Labor Robert Reich played an important supportive role in a number of ways:

- **First**, he established the department’s priorities, which included initiatives to improve wages and working conditions for America’s lowest paid and most vulnerable workers.
- **Second**, he made a habit of consulting career civil servants, for example, in quarterly departmental town hall meetings.
- **Third**, he took every possible opportunity to recognize staff initiatives. Forms of recognition included establishing departmental innovation awards, bringing his career public servants to meetings with political appointees and inviting careerists whose ideas had been incorporated into legislation to White House signing ceremonies to meet the President.”

Malawi Government

Ending famine, simply by ignoring the experts¹⁶

“Malawi hovered for years at the brink of famine. After a disastrous corn harvest in 2005, almost five million of its 13 million people needed emergency food aid. But this year, a nation that has perennially extended a begging bowl to the world is instead feeding its hungry neighbors. Farmers explain Malawi’s extraordinary turnaround – one with broad implications for hunger-fighting methods across Africa – with one word: fertilizer. Over the past 20 years, the World Bank and some rich nations Malawi depends on for aid have periodically pressed this small, landlocked country to adhere to free market policies and cut back or eliminate fertilizer subsidies, even as the United States and Europe extensively subsidized their own farmers. But after the 2005 harvest, the worst in a decade, Bingu wa Mutharika, Malawi’s newly elected president, decided to follow what the West practiced, not what it preached.

The harvest also helped the poor by lowering food prices and increasing wages for farm workers. Researchers at Imperial College London and Michigan State University concluded in their preliminary report that a well-run subsidy program in a sensibly managed economy ‘has the potential to drive growth forward out of the poverty trap in which many Malawians and the Malawian economy are currently caught.’ Malawi’s determination to heavily subsidize fertilizer and the payoff in increased production are beginning to change the attitudes of donors, say economists who have studied Malawi’s experience.”

Innovative governance

Change doesn't stop at the agency-head level. The governance and oversight bodies of those agencies must also innovate if the organizations they lead are expected to change. Governors need to examine how they ask for and encourage new ideas, what incentives they provide for innovation, how much innovation they are prepared to support and how they will adjust their behaviors to be more innovative in the roles they perform. Closing the expectation gap between governors, managers and staff will be critical to long-term success.

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 so¹⁷." Yet, when pushed, the majority of innovation proposals come from middle managers and front-line workers.

Governors should be seeking to understand the strategic options facing the agency, not just incremental proposals for change. It is equally important to invest in "what is" as well as "what could be¹⁸." The Greater London Authority (GLA), for example, is a strategic body heading up a group of functional bodies running key services for London. The culture of the GLA is "of changing things," coming partly from the leadership of the Mayor who was keen to make changes and manage risks. His particular style is important because staff clearly felt that with a weaker Mayor, the organizational environment might be less innovative¹⁹.

Governors will also need to 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 that innovation is measured. In the private sector, organizations are beginning to recognize 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 below).

Leadership does not begin and end with pushing for change. Agency governors have a critical role in providing the kind of oversight that encourages innovation, makes informed decisions about risk and recognizes the leaders of change.

Successful innovation requires new performance measures	
Performance measures for steady state	Performance measures for innovation
<ul style="list-style-type: none"> • Quarterly earnings • ROI – hurdle rates; risk adjusted rate of return • Market share • Customer satisfaction • Headcount 	<ul style="list-style-type: none"> • 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

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 that are pursued because it places unrealistic performance expectations on ideas that are in the formative stages.

The trend toward increased transparency and accountability in government reporting offers an interesting opportunity for the governance of innovation, because governments are now being compelled to report on when program objectives are and are not being met. The U.S. federal government policy on reporting on all federal programs, including those that ‘are not performing’ could become an important development in innovative governance. After all, a key principle of innovation is to detect and correct errors, something which public disclosure can only help to promote.

Finally, the ability of governors to encourage and support agencies in finding ways to recognize change leaders is critical to adopting a culture of innovation and change. An effective starting point would see governments move away from ranking management

positions based on the size of operations. There is precedent for this in the business world: businesses are starting to see that the size of a manager’s operating budget should not be the determinant of recognition because this makes it hard to attract the best leaders to the leading-edge projects. It also sends a signal that steady state operations are valued more than transformation.

There are many ways that today’s government agencies can do more to recognize and reward the leaders of innovation²⁰. Some suggested components of innovative governance are summarized below.

Key ingredients for innovative governance

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

Innovation should be viewed as a commitment to thinking and acting in a way that promotes continuous improvement through the identification, dissemination and adoption of creative ideas. Innovation should address policy and administration issues and include applying existing knowledge in new ways or creating and applying new knowledge.



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.

By failing to move to more agile management processes, governments risk stifling innovation before it has a chance to take root. Traditional, hierarchical management does not support the rapid evolution of innovation. Management must evolve at the same rate as – or ahead of – the next-generation governance framework that fosters innovation in the first place.

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.

Improving the management of innovation	
Innovation and change cycle	Lessons learned
Idea generation	<ul style="list-style-type: none">• 80% of successful government innovations come from middle managers and front line workers• Look for strategic innovation – non-incremental
Idea selection	<ul style="list-style-type: none">• Adopt an “outside-in” perspective – what customs want• Establish innovation success measures• Focus on “core role” and leverage “network government”
Idea conversion	<ul style="list-style-type: none">• Detect and correct errors quickly• Expect course corrections• Remember “make versus buy” principles
Idea diffusion	<ul style="list-style-type: none">• Report on good and bad progress• Obtain customer feedback• Focus on value and accountability

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.

Idea generation

It is not enough to simply come up with an idea because in a vacuum, a good idea has little meaning. Government agencies must improve the context within which ideas are first created. Because public agencies face a wide range of challenges, they must implement systems that extend beyond simply coming up with good ideas. The resulting systems have to address the unique challenges faced in the public sector.

Addressing internal inertia is a critical first step. Although middle managers and front line staff generate 80% of successful government innovations²¹, 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.

This presents a significant opportunity for future governments to actively encourage the insourcing of public sector ideas. While the initial step involves defining specific sets of problems and optimal solutions, proper process-based frameworks must be built to allow government agencies to internally and externally source ideas and then integrate them into ongoing process improvement initiatives.

Proctor & Gamble (P&G) is a leader in idea generation. The 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.

Idea selection

Idea generation is just the beginning, of course. Choosing the ideas that survive beyond the first stage is equally critical to overall success. Often conflicting stakeholder demands and budget constraints can also limit which ideas – and how many of them – are ultimately pursued.

This presents an ideal situation for transformation-focused government agencies. They can formalize the selection process by implementing metrics to assist ranking and prioritization of ideas. By measuring each idea against quantifiable performance criteria, they raise the potential for choosing optimally. The process also stands up to external scrutiny – a key consideration for public sector agencies.

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 are always using their delivery track record to justify future funding. But aggressively converting good ideas into real products and services increases the risk of failure, which in the public sector can often result in high profile embarrassment.

To avoid this and maximize the potential for successful outcomes, public sector agencies must actively solicit feedback to ensure problems are identified and corrected before they threaten to derail the initiative. Performance management processes must be updated to reward innovators and discourage the kind of conservative thinking that holds back advancement. Individuals at all levels of the organization who have a stake in the outcome will be more likely to repeat the desired behaviours.

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 will raise the potential for future success.

Idea diffusion

It isn't enough to simply turn a bright idea into a product or service. It must be scaled to the degree that it can have an appreciable benefit to the agency's stakeholders. It must receive support from those very same stakeholders if it is to remain viable. This is more critical in the public sector because there are typically many more stakeholders – citizens, political parties, unions, partnering agencies – than there are in the private sector.

Diffusion typically takes place through both formal and informal relationship networks. More formally, innovation committees or communities of practice meet regularly to discuss how innovations can be institutionalized and strengthened. Informally, water cooler and lunchtime discussions between staff members can accomplish virtually the same thing. 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.

The City of Miami, for example, successfully implemented a homeless outreach program. It has set up a national committee to share its experiences with other agencies interested in pursuing a similar path. By marketing program successes in this manner, agencies can increase the potential for similar agencies at all levels of government – and in other jurisdictions – to implement similar ideas and realize similar gains²².

Innovative design

If an organization strives to adopt innovative governance and management processes it is well on the way to changing the way that people think and act and improving the results that are achieved. But these two key components of an integrated model are not enough. The agency must also be prepared to move beyond industrial age structures and to embrace new management concepts that will shape its business 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, and in some cases, even challenging whether the mandate needs to change. The articulation of design principles will establish the boundaries of creativity that an organization is comfortable with and guide the form of innovations. In the private sector and the academic business community, people are keenly interested in the subject of design. 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.

We believe that the government sector is on the verge of being pressed into exploring fundamental changes to design. Some jurisdictions are well on their way. For example, British Columbia has completed at least 10 major Alternative Service Delivery (ASD) transactions since 2003. Innovative governments will be constantly searching for fundamental changes to the roles they play and the business models they adopt. A number of major design ideas are beginning to emerge. Innovative governments will be exploring and testing these ideas in the months and years to come. These are summarized briefly below.

The next phase of network government – reinventing the core

The move to network governance is well underway. Governments are increasingly partnering with other governments, non-governmental organizations and the private sector. Although this trend rewards those who are involved, it also shines new light on the core of government. 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 collaboration²³. As agencies seek opportunities to fundamentally change how they contribute more effectively to improved outcomes, the need to leverage the potential of these advanced Internet-based capabilities will become more compelling.

Project teams – replacing static structures

Inertia and the rigidity of labour relations have hindered government's ability to move toward flatter organizations and more flexible use of teams²⁴. If innovative government is to take hold, agencies need to change the way they leverage and deploy their skilled resources. 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

The resource allocation processes of government are driven by the need for accountability for the public purse. This requirement will not and should not change. At the same time, 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 begin to 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 management²⁵. At Ontario’s Ministry of Health and

Long-Term Care, efforts are underway to develop a portfolio-based approach to investment management. Under this approach, managers adapt techniques from investment banking, life sciences and other industries. This helps them better understand how resources should be allocated to bundles of activities with different intended outcomes, such as innovation, operations, capacity expansion and productivity. With an annual budget of \$37 billion and growing, it is not surprising that the ministry feels the need for innovation in the design of resource allocation processes.

Closing thoughts

Government agencies, like their private sector counterparts, should 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 be the new standard of excellence. Innovative governance, management and design are the three dimensions of this agency-wide approach. **By making progress on all three dimensions our governments will indeed be able to innovate to address the growing challenges of the 21st century.**

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- ²⁴ Don Mazankowski and Paul M. Tellier, *Prime Minister's Advisory Committee on the Public Service – Second Report to the Prime Minister* (Canada Public Service Agency, February 2008)
- ²⁵ William Eggers, *Mastering Finance in Government: Transforming the Government Enterprise Through Better Financial Management* (Deloitte Research, 2008)

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