



Grant Thornton

An instinct for growth™

February 2012

Innovation in Government: Getting our **mojo** back



Overview

INNOVATION

n. The process of improving, adapting or developing a product, system or service to deliver better results and create value for people.

“The word “innovation” sets daunting expectations that one must invent the next must-have gadget, discover a cure for cancer or send a person to Mars. The bar seems impossibly high. The reality, however, is that innovation happens every day, driven by both large and small ideas and it happens in business, at home and within our government.”¹

New Zealanders have a strong reputation for creating cutting edge, world-class ideas. We have taken many firsts to the world, from climbing Mt Everest and splitting the atom, to bungee jumping and the electric fence. Companies like Icebreaker, Fonterra and Air New Zealand are globally recognised for their ingenuity and imagination. Resourcefulness and No. 8 wire thinking are entrenched into our nation’s psyche.

While innovation in our private sector grows, creative thinking in our public sector has fallen by the wayside. While the state sector reforms of the 1980s helped vault New Zealand to the top of the global leadership stakes for

innovation in government, successive administrations have lost their ‘mojo’. This chronic lack of innovation in our public sector has led to declining efficiency, poorer services and a loss of value for taxpayers. Compared to other developed economies, our public sector is slower and less effective. Put simply, we are not being smart about the way we approach our public services.

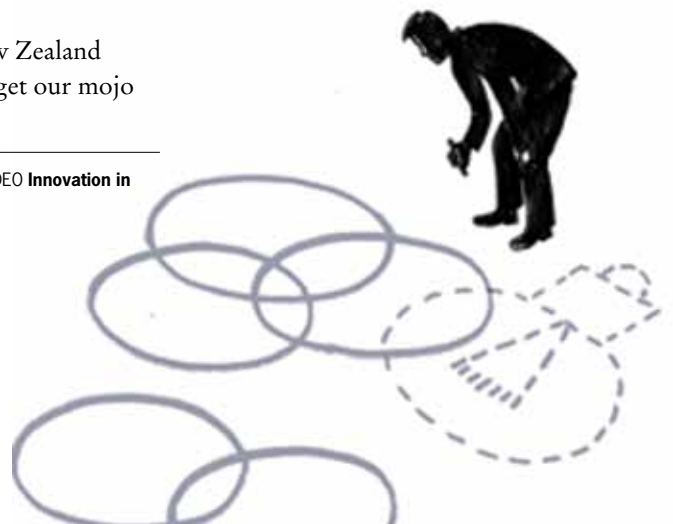
In the wake of the global financial crisis, increasing fiscal pressure and an aging population, our public sector needs to meet the growing expectations of its beneficiaries in an increasingly resource-constrained environment.

This paper argues that we must recapture the drive for innovation that will allow us to deliver more public services to Kiwis, sooner, cheaper, and more effectively.

How can we achieve this? Leadership from the top recognising the significant role innovation plays within government; public sector management that creates and supports innovation processes; and a culture that tolerates failure, encourages creativity, and embraces new ideas.

The issue for the New Zealand public sector is – can we get our mojo back?

¹ Partnership for Public Service and IDEO **Innovation in Government**, February 2011



An innovation stocktake of the New Zealand public sector

The ambitious reforms of the New Zealand public sector in the 1980s and 1990s were bold and ground breaking ideas that revitalised the New Zealand economy and reshaped the way the public sector worked. They were unprecedented and extraordinary reforms, leading the way in the modernisation of government that later swept through other developed countries. We were pioneers of our time.

These reforms transformed the public sector, changing the structure, organisational capacity, and performance of government.

They untangled the mix of commercial and public good objectives and introduced new management models and accountability. These important reforms included:

- State Owned Enterprises Act 1986, as well as the considerable speed of corporatisation, deregulation and privatisation of government assets
- Introduction of new public sector management models:
 - Management of the state: The State Sector Act 1988
 - Fiscal responsibility and accountability: The Public Finance Act 1989
- The education sector reforms, beginning in 1988
- The health sector reforms of the 1990s
- Introduction of Strategic Result Areas and Key Result Areas in the early 1990s

- Fiscal Responsibility Act 1994
- Crown Entities Act 2004

Two other significant pieces of legislation also influence how the public sector has operated:

- Treaty of Waitangi Act 1975
- Official Information Act 1982

The level of innovation dropped off in the 1990s as the political cost of driving change became too high for successive governments. However, there have been recent encouraging green shoots of new initiatives from the National-led Government (2008 onwards) that hint at a revival of innovation in government. These include:

- Whanau Ora
- Shared services
- Centralised procurement and the Procurement Reform Group
- The Better Public Services Advisory Group
- The partial sell-down of some SOEs
- The renewed emphasis on outcomes rather than just outputs.

The Government recognises the need for change and innovation to develop the economy. In its agenda to drive economic growth, two of its six priorities are to provide better and smarter public services, and improve performance across science, innovation and trade.²

On a broader front, the Government regards private sector investment in innovation as having a critical role in

lifting productivity and growing the economy. Across the political spectrum, political leaders of all hues have long understood the strong relationship between business innovation and economic growth.

²2011 Budget Minister's Executive Summary "Building our Future", p5, 19 May 2011



How well then does Government rhetoric match up to its own record of supporting innovation?

In short, not very well. When measuring investment into research and innovation New Zealand continues to place at worryingly low levels. Both government and business spending into research and development (R&D) compares poorly with other OECD countries.³ As of 2007, New Zealand spent only 1.18% of gross domestic product on R&D, at least half of that of our key trading partners.⁴ By OECD standards, New Zealand businesses invest relatively little in R&D. However the Government's own R&D investment is also low with a 2007 OECD audit of New Zealand's innovation policy ranking us 23rd of 32 economies in the share of government R&D funding allocated to the private sector.⁵

In a recent survey only one-third of businesses believed that the Government had a clear plan to raise New Zealand's economic performance.⁶ Business leaders are unconvinced of the direct link between the Government's spending priorities and economic growth. There is no clear vision for generating innovation within government. Policies such as the re-engineering R&D tax credits into R&D vouchers sends mixed signals to businesses and discourages private investment.

This is set against a background where core public sector expenditure

has risen from 29% of GDP in 2001 to about 35% in the year ended March 2011.⁷

While the Government has the commendable goal to rein in and reduce unproductive public sector spending, it also has to manage increased levels of political risk by balancing competing objectives:

- Constraining core public spending and reducing Government debt
- Raising living standards and incomes
- Growing the economy and creating jobs
- Building investment in national infrastructure

In tough economic times and with growing pressure for government intervention – how can the Government fight on all fronts and win?

³ NESTA **Driving Economic Growth**, January 2011; and NZ Govt **Igniting potential** May 2010

⁴ OECD, **International Comparisons, in Main Science and Technology Indicators, Volume 2010 Issue 2**, p25, March 2011

⁵ OECD, **Reviews Of Innovation Policy: New Zealand**, p166, 2007

⁶ Business New Zealand and Deloitte **Business New Zealand Election Survey**, October 2011

⁷ 2011 Budget **Minister's Executive Summary "Building our Future"**, p3, 19 May 2011



More for less: The challenge to get more from a smaller public sector

The current Government believes part of the answer is a steady restructuring of the public sector. This includes a cap on government spending, amalgamating departments and entities to improve service efficiency, the consolidation of policy and delivery agencies, and introducing incentives for significant reductions in social welfare payments.

The Government's unequivocal aim is to "reduce costs across the public sector while ensuring that the Government continues to provide the critical services that are important to New Zealanders. These savings will provide a catalyst for making significant change to agencies' business models."⁸

In a speech outlining his priorities for 2012, Prime Minister John Key identified improving the public sector as a key priority. He stated that it was his Government's intention to deliver better public services to New Zealanders, within the tight budget the Government is operating under.⁹

If the Government is successful in its more-for-less approach, the benefits will be enormous and far-reaching. It will achieve more than just direct cost savings for taxpayers. The real gains will be in the simplification of administrative processes, systems and management that make up the public sector today. This maze of disjointed systems and processes – a result of rapid expansion and fragmentation over the last decade – has resulted in less accountability and more costs with very little extra value for the public.

Getting more for less has the potential to change the face of the public sector, as we know it.

However, a note of warning from The Economist that stated in a recent review that, across OECD economies, 20 years of reform in the public sector has not stemmed the growth of government spending.¹⁰

The Economist argues that the reduction of the state was premature. The response to the threat of terrorism and natural disasters like Hurricane Katrina in homeland United States was to increase government capability. After a period of privatisation in the 1990s, state capitalism was returning as banks and companies became government-controlled.

The global financial crisis has boosted popular demand for governments to provide support for people and industry during difficult times, while also spending more to mitigate the impact of the recession on domestic economies.

The focus of the New Zealand Government appears to be solely on structural change, such as mergers and de-mergers, centralising administrations and IT systems. But, on their own, these are rarely enough to deliver sustainable cost reductions or generate lasting change. We only need to look at the private sector for evidence where 80% of private sector mergers disappoint or do not achieve intended objectives, with some even destroying shareholder value.

Tinkering with mergers of government departments is not enough. To achieve lasting efficiencies and long-term gains, the public sector as a whole needs to recapture the drive for innovative thinking.

⁸ 2011 Budget **Minister's Executive Summary "Building our Future"**, p9, 19 May 2011

⁹ Rt Hon John Key, **Speech to Waitakere Business Club**, <http://beehive.govt.nz/speech/pm-speech-waitakere-business-club>, 26 January 2012

¹⁰ John Micklethwait, The Economist, **Taming Leviathan: A special report on the future of the state**, <http://www.economist.com/node/18359896>, 17 March 2011



Why is there so little innovation in the New Zealand public sector?

Most senior politicians are condemned to operate within an exceptionally narrow set of parameters, meaning that they do little more than administer a system they inherited from others.”¹¹

As noted above, New Zealand experienced a brief period of genuine public sector innovation late last century. Since then a number of strong disincentives for public sector innovation have prevented further progress:

- Many of the public sector leaders and managers who led the previous round of changes have left, either migrating overseas, entering the private sector, or retiring from the workforce. They have not left a strong enduring innovatory culture within the sector.
- There is strong public perception that the changes have failed. This is in spite of objective evidence to the contrary and the fact that successive governments have not reversed the reforms. This is further exacerbated by public sector leaders not aligning the need for fundamental public sector change with the government plans for economic growth.
- A short-term election cycle generates short-term political planning timeframes. Many large-scale, innovatory changes take a number of years to demonstrate the benefits, which can work against shorter-term political interests.
- New Zealand’s public sector organisation still exhibits a silo

mentality with various collaboration strategies not yet bearing fruit – such as whole of Government, centralised IT and human resource services, shared services.

- There is a culture of a low tolerance for public failure. MMP and the Official Information Act legislation make the public sector more transparent but this, perversely, works against experimentation and risk-taking, as there are high reputational and political penalties at all levels within the public sector.

¹¹ Peter Osborne, Daily Telegraph, <http://blogs.telegraph.co.uk/news/peterosborne/100108299/labour-party-conference-like-it-or-not-ed-miliband-has-redefined-the-future-of-politics>, 29 September 2011



A recent IDEO report sheds some light based on experiences in the United States:¹²

Politics and miscommunication disrupt efforts to promote collaboration and innovation

Gaps in communication and understanding are widespread due to the size and complexity of government. These gaps prevent employees from collaborating to solve shared challenges and prohibit new ideas from spreading. The short-term nature of political leadership, in particular, leaves many lurching from one priority to another, unable to sustain new initiatives from idea to implementation. The incentives for public servants are biased towards the status quo, ie, meeting low-risk expectations. No rewards for innovation.

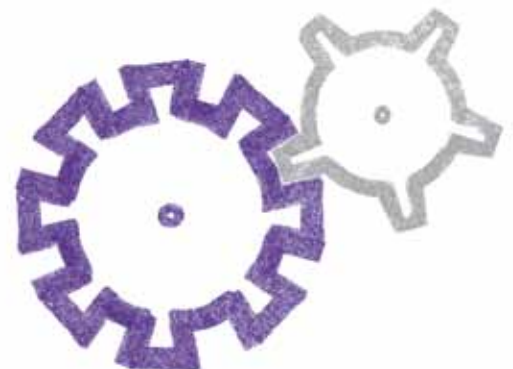
Government employees have no defined process for introducing and exploring new ideas

The few employees who are willing to take risks are left to their own devices. Unlike in the private and Not for Profit sectors, the path for innovation has not yet been pioneered and there are no roadmaps to lead the way. The avenues for proposing new ways of doing business are unclear to most employees. There are also very few programmes to help navigate the bureaucracy, avoid pitfalls and implement ideas.

Without effective measures of success, government can't justify an R&D budget. In the private sector, a profit and loss statement can serve as a straightforward measure of a company's accomplishments and a justification for its research and development spending. Government agencies have a more difficult task – measuring the impact of government programmes on a safer country, a cleaner environment or a stronger economy. Without information about the impact of current programmes and the potential of new programmes, it is difficult for agencies to justify investments in exploring new ways of delivering on their missions. There are no innovation processes in place.

Government rewards the status quo. Generally, government leaders are ill-prepared to manage innovative employees, and many government systems are designed to promote the status quo. Rewards most often go to those who meet or exceed “safe” expectations—not those who establish entirely new levels of expectations based on their ingenuity. As a result, government employees often find it better to stick to the standard operating procedures than to stick their necks out and try something new, or introduce, explore or test new ideas.

¹² Partnership for Public Service/IDEO **Innovation in Government**, February 2011



Is innovation on the New Zealand public sector agenda?

How can the Government deliver on its goal to reduce public spending while developing a better, smarter public sector?

Useful insight is gained from experiences in the United Kingdom where the Conservative-Liberal Government is embarking on its ambitious Big Society programme. The programme, which aims to reduce public sector costs while putting people and localities at the heart of decision-making and services, fundamentally challenges perceptions about the role and structure of government.

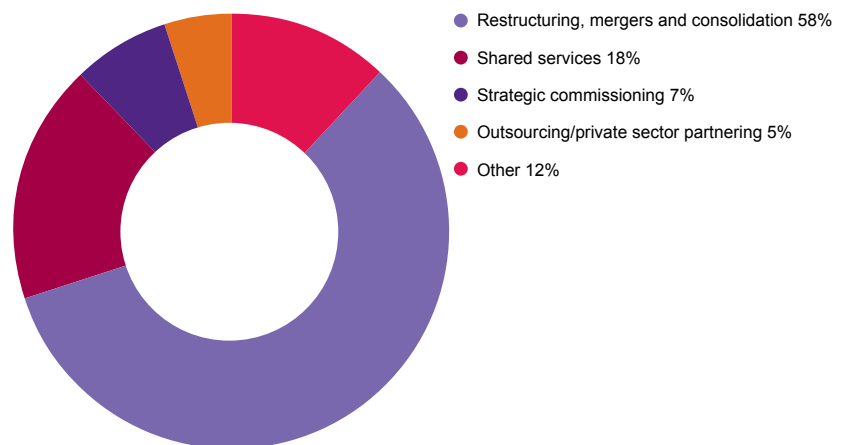
This mimics the ground breaking changes implemented in New Zealand during the 1980s and 1990s before successive governments lost their reforming zeal and MMP muted the ability of government to make fast strategic change.

In a survey of over 600 UK directors and senior public sector managers a number of key conclusions were drawn.¹³

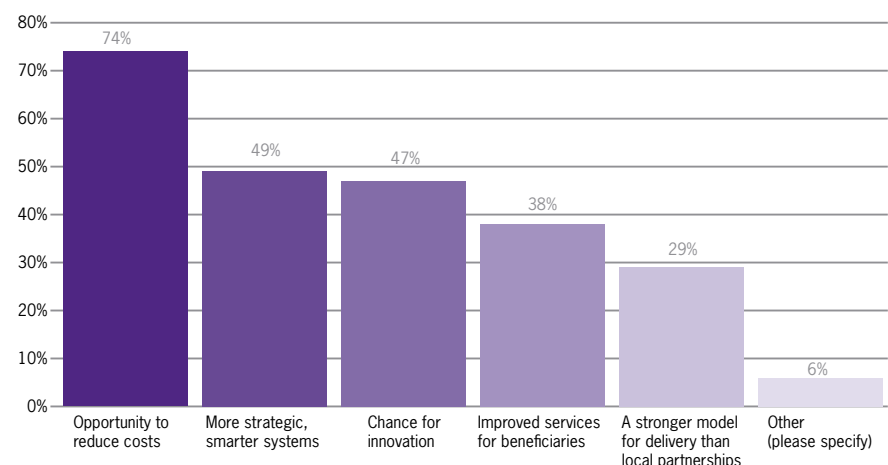
The key driver for the programme is savings and efficiency, with nearly 60% of the survey respondents noting that these would come from restructuring, mergers and consolidation.

Significantly, however, nearly half of those surveyed saw the opportunities by the Big Society programme as a chance to implement smarter systems and innovation.

1: As your organisation seeks savings and efficiencies, where will the focus be in the next 12 months?



2: What are the opportunities for organisations undertaking a merger or consolidation?



¹³ Grant Thornton UK/The Guardian **Implementing mergers and consolidation across the public sector: The hard work's only just beginning**, 2010

Only 38% of those surveyed saw the changes leading to improved services. The primary key success factors were, unsurprisingly, to do with effectively managing the change process. Five areas were identified as critical to get right:

- 1 **Plan:** Ensure that the appropriate people, skills and plans are in place and available to support implementation. Seek specialist advice (legal, financial) when appropriate to avoid any unintended consequences and costly mistakes.
- 2 **Cost:** Consider the full cost of implementation. Agree to a budget and ensure its in place before implementation begins.
- 3 **People:** Focus on the integration of organisational culture and ways of working. Keep staff and other stakeholders informed throughout the process.
- 4 **Leadership:** Take the tough decisions early. Establish a leadership team to take ownership of the process and provide clear incentives for management to deliver change.
- 5 **Benefits:** Be clear about the benefits, risks and timescales of change.

While the political ambition to cut costs and implement reform is a strong driver for change, personal incentives amongst senior staff are less clear and stakeholder relationships are more complex than in the private sector. Therefore, building innovation objectives is a crucial step to reinforce the sustainability of the cost reduction

goals and to deliver genuinely better services to New Zealanders.

Therefore, a key question is: to what extent has the New Zealand Government explicitly required a “balanced scorecard” of change outcomes from the public sector programme, and how do they intend to ensure these are delivered?

The scorecard for public sector reform work is relatively narrow. The main emphasis is on strengthening the Government’s fiscal position: returning the Government’s books to surplus by reducing debt and restraining spending, improved state sector efficiency, maintaining investment in national infrastructure, and better management of the Crown’s balance sheet.¹⁴ Although Government does use a top-down process to connect outcomes to entity service delivery, generally there is little linkage with individual staff performance or incentivising leadership or middle management.

¹⁴2011 Budget **Minister’s Executive Summary**
“Building our Future” 19 May 2011



Promoting innovation in the public sector

Innovation is not simply a one-time project or new online tool. It is a learned process that requires a shift in thinking, a disciplined approach and strong leadership.¹⁵

The nature of change is inherently risky. The further a government or business goes beyond “best practice” (copying ideas from elsewhere) or “reform” (often low value reorganisation), the greater the political, reputational and economic risks.

However, a good innovation process will identify and weigh the uncertainty and, if appropriate, test and pilot them to minimise risk before placing resources in a large-scale investment. The public sector can deliver innovation in three ways:

- 1 Improving an established practice or idea. For example, simplifying a core business process, redesigning a customer service system, or making information and programmes more accessible to citizens through online services.
- 2 Adapting a tried-and-true idea to a new context. Government, as a system with tremendous breadth and scale, has the unique opportunity to borrow great ideas or facilitate the adoption of proven ideas government-wide.
- 3 Developing something entirely new. This may be a new service, process, policy, or tool. This may involve collaboration within and across government, or with private sector partners.

An innovation process is the cornerstone to taking fresh ideas and developing and testing them within a robust framework. The IDEO Innovation process (figure 3, p11) shows how a defined innovation model can be built into governmental processes to ensure that good ideas are not lost and governments deliver real, sustainable innovation.¹⁶

Innovation leadership – the missing link?

No organisation will embrace an innovation culture if the explicit and implicit values and reward structures are not reinforced from the top. Strong, empowering leadership within the public sector is needed.

With the sector currently undergoing an unprecedented level of change in its senior leadership, there is a rare opportunity for it to start re-building the capacity and ambition to deliver meaningful and sustainable innovation.

However, an examination of key public sector roles currently available reveals that innovation is not a major requirement of the job. Innovation, creativity or the need to embrace new ideas is rarely mentioned in job descriptions or recruitment marketing for top tier positions. Unless the Government actively seeks leadership with these qualities, then it is unlikely that the New Zealand public sector will regain its place in the sun as a leader in public administration and service delivery.

Generating innovation initiatives: going beyond structural change

There are many examples where governments from around the world have gone well beyond structural reforms to create change. Many involve the use of web technology to provide highly collaborative systems to generate ideas and programmes. Some examples:¹⁷

The Netherlands's Kafka Brigades “Kafka brigades” in the Netherlands work to develop solutions to instances where red tape is causing citizens or businesses aggravation with government. The approach was developed by a think tank called Kennisland working with a private firm, and public agencies have adopted it when they are keen to find ways to improve a bureaucratic process

Dedicated innovation strategists in the United Kingdom

The British government set up the Prime Minister's Strategy Unit in 1998 to look at strategic policy issues facing the country and devise innovative solutions. The unit has undertaken dozens of reports ranging from encryption standards to fishing. There is a dedicated resource allocated in each case to look creatively at the issues— for a period of four to 12 months. The teams are specifically charged with accessing leading thinking from other countries and the academic community when coming up with their ideas.

Denmark's revolutionary innovation MindLab in Denmark is a particularly forward-thinking innovation unit. It is run jointly by three government departments: the Ministry of Economic and Business Affairs, the Ministry of Taxation, and the Ministry of Employment. It has around 15 employees, some of whom are drawn from outside the public sector, and acts as a catalyst for innovative thinking across its parent government departments.

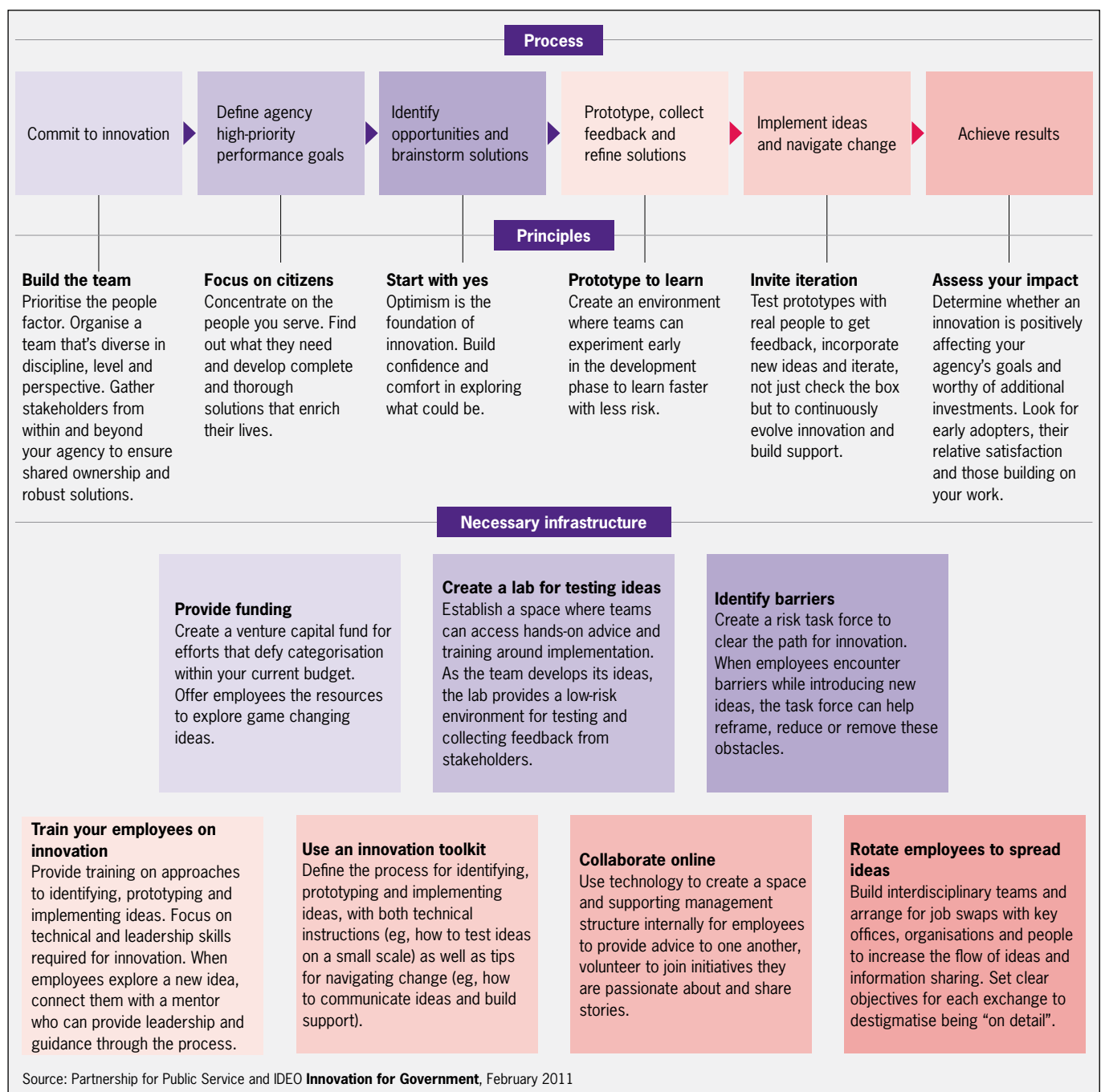
Social entrepreneurs in residence in Britain Two municipalities in the United Kingdom are experimenting with the concept of "social entrepreneurs in residence." The initiative is designed to address two issues simultaneously: the need for public services to better mobilise innovation sources inside and outside their organisations, and the frustration experienced by social entrepreneurs who could not win public sector support for their ideas, even when they were successfully proving results.

¹⁵ Partnership for Public Service/IDEO **Innovation in Government**, February 2011

¹⁶ Ibid

¹⁷ All examples drawn from The Centre for American Progress. www.americanprogress.org

3: As your organisation seeks savings and efficiencies, where will the focus be in the next 12 months?



Getting our mojo back: Grant Thornton's view

New Zealanders are proud of our pioneering spirit. Our inventive thinking and natural resourcefulness has helped us lead the world in many spheres. We were once forerunners in public sector policy development and in the modernisation of public administration.

However as the world moves on, we risk falling behind the standards of our key trading partners and failing to meet the reasonable expectations and genuine need of our citizens.

Grant Thornton believes the key reasons for losing our innovation mojo are:

- A loss of innovation leadership culture from the public sector
- Negative political and public sector cultural incentives to take on the risk inherent in innovatory change
- A lack of an innovation model for the public sector coupled with a low level of organisational accountability for innovation and change

We see New Zealand's failure to innovate in the public sector as a key threat to economic growth and the reputation of our public service. The global financial downturn provides a unique opportunity to reinvest in innovation. Promoting innovation within government will restore public confidence, create efficiencies and increase services. It will create a modern, world-class public sector.

New Zealand can, and must, reclaim the leadership and reputation we once enjoyed. We can get our innovation mojo back but it requires urgency and commitment. It will involve:

- Clear leadership and commitment from politicians of all political hues on the importance of innovation in government
- Talented, experienced public sector managers who recognise creativity and are incentivised to take managed risks
- The implementation of explicit innovation processes within government with both the people and resources to drive real change
- Strong communication with the New Zealand public about the case for change and the economic and social benefits.

There is a policy and leadership gap in the political marketplace: who will step up and fill it?

Need more information?

Grant Thornton is one of the largest global providers of advisory services to the public sector. It is one of our global centres of excellence. For further information on Grant Thornton's Innovation and Advisory work in the Public Sector, please contact:

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