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Terry Moran

Building a Culture of Innovation in the Public Sector

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Building a Culture of Innovation in the Public Sector

Terry Moran

Secretary, Department of Premier & Cabinet, Victoria

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- An American academic commenced his book on innovation in the federal civil service of the United States with an observation that, at first glance, is rather alarming:

“Compared with a solitary entrepreneur or a small private company ... the federal government is not built for flexibility.”ⁱ

- Some of you may think that this presentation will become a commentary by a State public servant on the lack of flexibility of our own federal Government, and the resulting constraint on the Commonwealth’s innovative capacity. But, far from it, I believe the quote has relevance for both the Commonwealth and State Governments in Australia. Despite the smaller size of Australian Governments when compared to the United States, and our relatively greater flexibility, it would be hard to argue that they consistently produce the kind of flexibility and innovation that is increasingly expected of them.
- It is a given that our organisations must constantly innovate. However, it is my view that we often fail to understand the true nature of innovation in the public sector. It is also my view that we often fail in our individual and collective commitment to building a culture of innovation.
- So, are governments “built for flexibility”, or built for innovation? In some obvious ways, no. Their scale and complexity – indeed, the traditional Weberian ideal of bureaucracy – put some constraints in the way of innovation. Yet if we understand the true nature of innovation, we discover that the public sector has the potential to be a hotbed of innovative activity.
- In particular, the skills, experience, commitment and dedication of our front-line staff – our teachers, nurses, forest managers and so on – should be drawn on systematically to deliver innovations in the way services are delivered.
- In my argument today I will lay out five points that are central, in my view, to a proper understanding of innovation in the public sector. These points will then be illustrated through a brief discussion of school education policy. Finally, I will nominate some topics that warrant further discussion if we are to achieve the goal of an innovation culture within the public sector. But first, the five points:

- Firstly, *innovation is core to the role of the public sector*. In fact, I believe it will be the main driver of the next wave of public sector reforms – reforms that focus on improving service delivery for citizens. Innovation should not be something that is confined to the private sector and exemplified by corporate entrepreneurship. Nor, as we know, should high quality service delivery be the preserve of the private sector.
- Secondly, *public sector innovation is about the relentless pursuit of better outcomes by all of us*. We think too often of innovation as those “sparky” ideas that, on occasion, totally reshape a debate overnight. But this is only one type of innovation. The other – often neglected, in my view – is the relentless pursuit of better outcomes in day-to-day service delivery.
- My third point is that *innovation strengthens our democracy*. An innovative public service strengthens the connections between individuals, communities and governments. In particular, in the Australian context, innovation is the key that can unlock some of the untapped potential of our Federal system of government.
- A related point is that *innovation can better align the activities of government with the needs of citizens*. We have all been involved for some years now in discussions about the need for better co-ordination – “citizen-centred service delivery”, as I like to think of it, or “joined up” government. Yet delivering on this new agenda is not easy, and requires the constant pursuit of innovation and flexibility in both policy and service delivery.
- Finally, *innovation can help resolve policy failures*. The dark secrets of governments – areas of policy where we know our current approach is failing – should have the bright light of innovation turned on them more often. We are, at times, too soft and too complacent about the fact that policy failures exist – and are afraid to discuss innovative solutions because of this. The most obvious example of this is the ongoing public policy failure relating to the well being of indigenous Australians.

Context

- Before discussing these five points further, it is worth considering the context in which this discussion of innovation occurs:
 - Firstly, the expectations of individuals and communities about the quality, responsiveness and flexibility of government actions continue to rise. Understandably, these flow through into increasing expectations from Ministers. These increasing expectations directly challenge the traditional conception that the public sector delivers a standard service through rules-based processes. It is impossible to deliver a responsive, competitive service when every aspect of that service is prescribed from the centre.
 - Secondly, the considerable reforms to public sector management over the past decades continue to have significant impact, with their focus on contestable service delivery, identification of performance metrics, outputs and outcomes, and so on. There continues to be uncertainty, in some circles, about the contemporary role of government – though it is worth pointing out that this uncertainty does not extend to the general public.ⁱⁱ

A third reason is that the external environment is increasingly dynamic – globalisation is reducing the time taken for ideas to travel and reducing the shelf life of existing ideas.

- Fourthly, government activity is becoming increasingly complex. We are now managers in an environment where there are literally thousands of programs and service offerings impacting on communities in Australia – and, for the most vulnerable Australians, scores of programs impacting on individual families.
- Finally, of course, ongoing fiscal pressures will continue to be a feature of life in the public sector.

1. Innovation is core to the role of the public sector

- Why is this discussion about innovation so important? Put simply, I believe that a greater focus on front-line innovation will be the driving force behind the next big wave of reform. It will be the driver of improvements that we are all seeking in our health system, our schools, and the other activities of governments. It will see literally thousands of ideas for change in our activities raised, discussed, debated, trialled and measured. Most of these ideas will fall by the wayside, discarded – but many will produce more efficient and effective public services.
- Too often in the past, change has been driven by ideological enthusiasms, reinforced by strong interest groups and the brute force of central prescription within large bureaucracies. Though much of this change has been useful, a stronger innovation culture, combined with better testing of options and rigorous consultation, will lead to better results.
- This critical role for innovation flows directly from our collective experimentation over the past decade or so with the New Public Management agenda. This agenda has clearly delivered significant value in many respects to governments and their communities. In some ways, this agenda has indeed promoted innovation – in particular through the increasing contestability of service delivery.
- However, there are several factors that suggest that further reform will be in pursuit of innovation:
 - For one thing, easy top-down efficiency opportunities have often been found already. Additional efficiency is more likely to come from bottom-up innovation owned and driven by front-line staff.
 - In addition, the purchaser-provider split, in its attempt to document and contract precisely what services are delivered, undervalues innovation. It is very difficult to describe and delineate “contractual” roles and responsibilities in driving innovation.
 - Finally, the focus on differentiated outputs, combined with the purchaser-provider split, has arguably led to a greater ‘silo’ mentality within the public sector. For example, nurses, child protection officers, teachers and the police force all interact with families at risk of child abuse, yet there are few incentives for collaboration and few structures that allow and encourage ‘joined-up’ thinking.

- In my view, these factors compel us to reassert the central role of innovation in public sector life – to capture the language currently owned by the private sector, put to rest the lingering Weberian idea that we should be delivering standardised, “one size fits all” services, and to invest in the skills and structures that will drive innovation in our organisations.

2. Public sector innovation is about the relentless pursuit of better outcomes by all of us

- But what kind of innovation will we seek to generate – what kind of innovation is so central in the next wave of public sector reform? It will not be surprising by now to hear that my view is that “bottom-up”, front-line driven innovations are where we should be focusing.
- We are all more familiar and, arguably, more comfortable with the “light globe” type of innovation – the kind popularised by Christensen as ‘disruptive technologies’.ⁱⁱⁱ Indeed, most of us here in this room would say that we strive for this kind of innovation. It is undoubtedly important – many of our great advances in technology, in the sciences and in other walks of life come from this “sparky” view of the innovation process.
- However, this kind of innovation has dangers – it produces ideas that are high risk, and often come at high cost. If we’re honest, it is rare that such an idea – no matter the quality – makes its way through bureaucracy, central agencies, ministerial offices, stakeholder consultations and the parliamentary process unscathed. Indeed, this is the reason why, in my view, it is hard to identify examples of this kind of innovation in a public sector context.
- Despite this difficulty in identifying “sparky” innovation, the second kind of innovation – the day in, day out relentless pursuit of better ways of working – is often undervalued in a public sector context. Often the ideas that come out of these processes involve both lower risk, and lower cost. In many cases, by the time the idea is crystallised it has already been trialled and implemented in one setting – a classroom or a ward for example. These two types rely on different people, emerge in a different environment, and require different measures^{iv} – yet both are critical to our roles in the public sector.
- This second kind of innovation is actually very familiar to people working in front line roles – as teachers or nurses for example. Our front-line workforce is highly committed, and highly trained – for example, nearly 60% of public servants have a University qualification, compared to less than 30% of the private sector workforce.^v It is also possible to argue that reform driven by teachers, nurses and others will have greater levels of public support, given that the general public holds these professions in very high regard.^{vi}
- But how effective are schools at harnessing the innovative capacity of their teachers? Or hospitals, nurses?
- Of course, innovation can rapidly become the metaphorical emperor lacking any clothes! Innovation described in this way is really nothing more than continuous improvement, operational effectiveness, or, dare I say it – doing the job well.

- Front-line innovation flourishes when roles are clear and when service delivery is “owned” at a relatively local level – a school, for example, or a country hospital. This is the real meaning behind the jargonistic language of subsidiarity. If front-line staff feel disempowered, innovation is unlikely to flourish – or at least, the only kind of innovation will concern ways to bend the head office rules!
- To build a culture of innovation, we need to trust the education, skills and commitment of our workforce. In saying this I do not have a starry-eyed, romantic view of our front-line staff. As all of us find, change is sometimes difficult and the status quo is difficult to overturn. After years of being told what to do by head office, many front line staff will naturally take quite a conservative approach. Front-line staff also have the difficult challenge of being responsive to local community needs while remaining objective and dispassionate, and avoiding “capture”.
- Clarity of roles has proved difficult to achieve in our federal system. When roles and responsibilities between levels of government are unclear, then innovation is unlikely to flourish. In particular, the disturbing trend for the Commonwealth to micro-manage aspects of schools and hospitals acts as a dampener on innovation at all levels.
- My view is that as public servants we under-invest in this second kind of innovation. We probably also under-invest in the epoch-changing kind of innovation as well, but in my view this is less of a priority. The result of our under-investment in front line innovation is that public services are less effective than they need to be, that teachers, nurses and other frontline staff have less job satisfaction than they could have, and that our citizens do not have the benefit of the full abilities of the public sector in delivering better services.

3. Innovation strengthens our democracy

- Innovation in front-line service delivery also offers significant potential to strengthen the nature and quality of our democratic interactions. I have already discussed the responsiveness of front-line staff to the needs of their clients – it is part of who they are as professionals. Innovation that responds in this way to the changing needs and aspirations of the Australian community strengthens the linkages between each citizen, each community, and the governments that exist to serve their needs.
- In Australia, as in other federal systems, we have a design feature that should actually enhance this link between innovation and democracy – the very nature of the federal system itself. The idea of federalism as a ‘laboratory for democracy’ places innovation at the heart of a healthy federal structure.
- Yet even the most optimistic of commentators on the current state of the Australian federation would be hard pressed to identify this theoretical advantage in action. Despite an overwhelming public preference for greater collaboration between governments in the key service delivery areas,^{vii} Commonwealth-State relations continue to be dogged by unproductive relationships. These unproductive relationships destroy innovative capacity in our governments.
- I should point out that this conception – the democratic promise of federalism – cuts both ways for State Governments. All too often we hear subsidiarity advanced by State Governments eager, quite rightly, to protect their interests. But States have as big a problem with subsidiarity as the Commonwealth, because, properly understood, it requires States to devolve significantly to local communities.

It requires “head offices” to be viewed from a minimalist perspective, and requires clear signals to local communities that they have both the ability and the responsibility to develop innovative responses to their needs.

4. Innovation can better align the activities of government with the needs of citizens

- Innovation at the front line, which responds to the needs and aspirations of the local community – can go a long way to aligning the activities of government with the needs of its citizens.
- One important part of developing this localised innovation is the involvement of community members in governance structures – land management committees, school councils, hospital boards and so on. Civic participation, together with local engagement, can produce impressive policy outcomes. Importantly, innovators within our public services need local champions – community members who will stand up and advocate for the particular innovation in the face of hostility from other parts of government or external stakeholders.

5. Innovation can help resolve policy failures

- My final point concerns areas of policy where we know our current approach is failing. Some examples of this that come to mind include:
 - The inability of the Australian education system to tackle disadvantage as well as other countries;
 - Our collective inability to design and implement a health system which allocates resources in the most effective and efficient way; and
 - Most obviously, perhaps, the continuing social, cultural and economic disarray in Australia’s indigenous communities.
- All too often these issues get put into the “too hard basket” – not exactly forgotten, but rarely tackled.
- Tackling these issues successfully requires a number of things to be in place: new ideas, a commitment to trialling different solutions, the best minds applied to the problem, and a collaborative approach between levels of government, and, at times, between government and the corporate or not for profit sectors.
- Often the biggest challenge in tackling policy failures is risk – and its co-conspirator failure. Politics, rather than the nature of the public sector, is often the cause of this risk aversion. Professor Anthony Giddens got it right in my view when he said that “active risk-taking is a core element of a dynamic economy and an innovative society”.^{viii} I don’t think it is stretching things too far to say that active risk-taking should also be a core element of dynamic government.
- There is an incredibly innovative program in indigenous Cape York, for example, called “Boys from the Bush” which tackles the clear policy failures around substance abuse. The program produced a publicity photo with a young Aboriginal man clowning about in the top branches of a very tall gum tree – not exactly standard

practice within the risk-conscious public sector. Yet the approach exemplified by that photo is, in essence, why the program is so very effective.

- This issue of risk is another reason why local governance is critical – if a local community owns and champions an innovation, then its failure is shared by the community, rather than owned by the government. In this way local governance can act as a shock absorber for occasional failure.
- The private sector has some well-developed strategies for dealing with risk in its own areas of ‘policy failure’. For example, some years back many of the largest global banks set up separate business units to develop a response to the challenge of e-commerce. These separate units were explicitly set up with a different culture, different rules of engagement, and a different approach to risk. Though there are examples of this kind of organisational response to policy failures in the public sector – for example, the Social Exclusion Unit in the UK – I would argue that there is much more to be done.
- If there is only one reason why it is important to build a culture of innovation within the public sector, it is so that we can collectively tackle these and other policy failures. We must build a tolerance for risk, and reward innovation, in these particular areas of weakness.

Innovation in practice

- Let me illustrate the points I have just made with reference to the Australian school education system. The Australian system rates very well overall on international comparisons. Nevertheless, there remain significant issues – for example, Australia’s poor performance on international comparisons of equity in education.
- An innovation culture is central to tackling these issues.^{ix} Creating the right policy regulatory and service delivery environment for innovation in *all* schools is a major responsibility of governments. Thinking in this way brings to the fore issues of devolution of school management, building a performance and development culture, and trialling new, flexible, approaches to the provision of education, to name just a few.^x
- We know that some schools produce better outcomes for their students. For example, in Victoria, there are a group of about 50 secondary schools across all sectors, or 10% of the total, where the average ENTER score is 5 points or more higher than you would expect, controlling properly for both individual and school characteristics. Another group of schools perform poorly using this kind of analysis.^{xi}
- Educationalists would argue for years about whether the differences were about the structure of the school, the nature of the leadership, the quality of teaching or the quality of the physical environment. The answer is probably all of the above and more – but innovation in these different aspects of the school is what really makes the difference: a principal who creates an environment in which teachers can innovate, a teacher who tries new methods to deal with difficult kids, or an architect who produces an innovative design that creates a positive learning environment.
- In my view this discussion illustrates well the first point that I have attempted to make in this speech – that in education, and in many other areas, generating innovation, testing it and then disseminating the best of it is a core part of

government's role. The other points that I've made can also be illustrated in the education context:

- Clearly innovation by teachers at the front line is going to be a major source of innovations in education. It would be a rare innovation in teaching quality that was determined in head office.
- A responsive, innovative local school strengthens a community immeasurably – and strengthens the democratic ethos of a place in a way that is hard to match.
- Local, responsive schooling also identifies a community's needs and aspirations and builds them into the school program. It also builds community engagement into the service delivery model – involving parents in the process of improving literacy, for example.
- And finally – most importantly, perhaps – innovation will be critical in tackling a significant policy failure in our education system: the continuing poor performance of our schools in addressing socio-economic disadvantage.

Conclusion

- In conclusion, I would like to suggest several areas in which we need further debate and discussion. By their nature, they are all areas where head offices and central agencies can have real impact in building a culture of innovation within the public sector:
 - *Clearly articulating roles and responsibilities in ways that devolve authority and emphasise and encourage innovation.* For example, the tortuous negotiation of the Australian Health Care Agreement and similar documents should include explicit consideration of the extent to which the agreement fostered innovation
 - *Developing performance measures that identify and reward innovation.* There are some very obvious performance metrics that strike fear into governments – strikes and budget deficits, for example. Yet how effective are we at rewarding front line public servants who produce an innovative solution to a community's needs? Have people such as me, who sit in central agencies, put in place the right framework to recognise and share innovations arising at the local level?
 - *Further developing public sector financial management practices.* In particular, there is much more to be done to ensure that management processes at the heart of government put sufficient emphasis on outcomes, rather than outputs. These processes should then mandate a rigorous testing and re-testing of output measures to ensure their relevance and their impact on the targeted outcomes.
 - *Encouraging client focus, and community engagement, in all of our services.* If we empower front line staff to be responsive to their staff, then innovative ideas will follow.
 - *Avoiding continuing growth in the number of programs and policies.* The multiplicity of programs that impact on every day life in Australian communities acts as a dampener on the innovation process. Fewer programs, with greater flexibility at the local level, will encourage innovation.

- *Building a tolerance for risk and failure.* It is often said that the innovative capacity of an economy can be measured by the average number of business failures per person. Wouldn't it be a different environment in the public sector if failure was lauded in this way – if policy entrepreneurs were encouraged to learn, in the same way as their private sector counterparts, from their failures and draw on their experience in future efforts?
 - *Increasing the innovative capacity of our people.* Our professional development activities, our recruiting and our performance management systems all need to recognise the central role of innovation in the public sector and encourage the pursuit of innovation by all of our people.
- I am confident that we can tackle these areas, and I am confident that the public sector can build the culture of innovation that I have discussed today. Together we can and must unlock the innovative potential that exists in the services that we provide at the front line. The result will be more responsive government, and a more flexible and dynamic public sector.

ⁱ Donaghue, J., *Making Washington Work: Tales of Innovation in the Federal Government*, Brookings/Council for Excellence in Government, Washington DC, 1999, p 2.

ⁱⁱ For example, 84% of Australians agree with the proposition that “Government has an important role” (Quantum Market Research 2002, Australia Scan Data and Trend Reference Book)

ⁱⁱⁱ Christensen, C, *The Innovator's Dilemma: When new technologies cause great firms to fail*, HBS press, 1997.

^{iv} An excellent discussion of these points can be found in Sandford Borins' book: Borins, S., *Innovating with Integrity: How local heroes are transforming American government*, Georgetown, 1998. In particular see chapters 2 and 3.

^v ABS cat 6278.0, Education and Training Companion data, 2001, table 12.

^{vi} For example, Roy Morgan Poll no 3701 (8/1/2004), asked people to rate various professions on their “Ethics and honesty”. 94% of the public rated nurses as having high or very high levels of ethics and honesty, closely followed by doctors, pharmacists and teachers. These four professions were the top four in the survey.

^{vii} Unpublished DPC market research shows that 83% of survey respondents agree that “People are disadvantaged by the squabbles between the State and Federal Governments”, and that 76% agree that there should be greater collaboration between the Commonwealth and State Governments.

^{viii} Professor A. Giddens, 1999 Reith Lectures on the “Runaway world”, Lecture no 2 on “Risk”, http://news.bbc.co.uk/1/hi/english/static/events/reith_99/week2/week2.htm (accessed 10 July, 2004)

^{ix} It is important, though, to note that there are significant challenges in ensuring that innovations on individual classrooms and schools are propagated through the rest of the system. For a full discussion, see Richard Elmore, “Getting to Scale with Successful Educational Practices”, in Fuhrman and O'Day, *Rewards and Reform: Creating Educational Incentives that Work*, Jossey Bass, 1996

^x The Victorian Government's recent “Blueprint for Government Schools” is an example of innovative policy tackling these issues. Hon L Kosky, *Blueprint for Government Schools*, Department of Education and Training, Melbourne, 2003.

^{xi} Lamb, Rumberger, Jesson and Teese, *School performance in Australia: results from analyses of school effectiveness*, unpublished consultancy for the Victorian Department of Premier and Cabinet, 2004.