

Innovation in the Federal Government: The Risk Not Taken

Public Policy Forum,

Policy des politiques, Forum publiques

The ADM Working Group Report on Risk Management:

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Background

In July, 1998, the Office of the Auditor General (OAG) and the Public Policy Forum agreed to collaborate in conceptualizing and undertaking an inquiry on innovation and risk-taking in the federal government. This decision was made in response to comments heard on various occasions by representatives of both organizations that indicated a belief that one of the major factors that discouraged federal public servants from taking an innovative approach to their work was the fear of being criticized in the OAG's annual reports.

It was determined that an inquiry should be undertaken to better understand the factors which encourage or discourage public servants from being innovative and from taking necessary risks, which would also help to clarify the OAG's role and influence in this area. In order to add value to the exercise, an objective was also set to identify some actionable steps which could promote more innovation and sensible risk-taking.

The tasks assigned to the Forum for the program were three-fold:

1. to prepare a background document which would outline some of the major constraints on innovation and risk-taking in the federal government as reflected in recent literature;
2. to organize and hold a roundtable for some 40 participants to discuss these constraints, and to suggest actionable steps which might be taken by the federal government to encourage more innovation and sensible risk-taking as well as to identify the persons or organizations which might promote these actionable steps. To help enlarge the discussions and to bring more points of view to bear, invitations were made to participants from sectors other than the federal government, including provincial governments, labour and the private sector;
3. to prepare a report on the results of the program.

In addition to the background document prepared by the Public Policy Forum, both the OAG and Industry Canada provided documents outlining their respective points of view on the subject as pre-reading material for the participants at the roundtable.

The following pages will provide:

- a summary of the background document prepared by the Forum;
- a summary of the discussions and suggested action steps from the roundtable;
- concluding observations on the inquiry, as well as our suggestions on other possible future actions by the OAG and other government bodies.

Innovation and Risk in the Federal Government:

The Risk Not Taken – A Background Document (Public Policy Forum)

The revolution in public management that began in Britain in 1979 incited a paradigm shift from a structured, hierarchical and process-oriented bureaucracy to one that is entrepreneurial, flattened and outcome-oriented. When PS 2000 was launched in 1989, it included an objective to change the public service culture from a focus on rules and regulations towards towards an approach which promoted initiative, entrepreneurship, and innovation. Senior leaders, both political and bureaucratic, as well as public servants at all levels, have expressed disappointment at the results.

Based on a review of recent literature, six major factors were identified as contributing to a resistance to innovation and risk-taking among public servants.

1. *Accountability and criticism:* Politicians have demanded more and more over the last decade that public servants be held accountable for departmental actions. Other developments such as freedom of information legislation, increased parliamentary oversight agencies, greater control over executive and administrative powers by tribunals and courts, and the harsh criticism dealt to senior public servants in recent events, have fostered a perception that public servants who make mistakes will pay a heavy price.
2. *Infrastructure:* Various initiatives have been undertaken to change some aspects of the infrastructure to promote empowerment as a necessary condition to innovation, but the results seem to have been inadequate in light of the prevailing culture and other invalidating factors.
3. *Empowerment and rules:* When the concept of empowerment was first introduced into government culture, it was sometimes perceived as conferring the right to break the rules. Political, bureaucratic and media reactions to initiatives seen as irresponsible decisions to ignore rules have contributed to maintaining risk aversion in the public service. As well, the continuing development of generalized controls to ensure that resources are not mismanaged are often perceived by the public servants as proof that they are not trusted to make the right decisions.
4. *Capacity issues:* Another factor that mitigates against innovation is the reduction in capacity – both human and financial – that has resulted from the public management reform undertaken in the last decade. When managers are asked to undertake changes, often quickly and under enormous political pressure, there is neither the time nor the resources to be innovative.
5. *Innovation as a value:* The new public service values of innovation and risk-taking are often perceived as clashing with the traditional values of accountability and neutrality. As well, public servants often perceive disconnects between the values stated by leaders and their actions. Failure to clearly communicate and demonstrate how the new and traditional values can be integrated may have increased resistance to more innovative approaches in the public service.
6. *Innovation as a skill:* Innovation is also a skill to be developed through experience and through education and training. It is suggested that many senior managers in government have not acquired the technical education and operational experience which is required to promote the capacity to innovate and to take sensible risks among their staff.

Presentations at the Roundtable

Alex Himelfarb, Associate Secretary, Treasury Board of Canada Secretariat

Mr. Himelfarb began by pointing out to the participants that innovation is and has always been pervasive in government. He gave as examples some of the policy changes that had occurred post Second World War, such as the development of the social safety net in the 50s, the equality revolution and related program development in the 60s and 70s, and the shift to managerialism, and a focus on productivity and cost cutting in the 80s.

He also reminded the participants that, although they brought about important and beneficial changes, each of these phases also demanded different kinds of roles. Mr. Himelfarb stated his belief that the current phase of innovation was focusing on both policy and services, and discussed the creative potential of new technologies in both areas. He indicated that concerns about risk-taking were not so much a result of scrutiny by the AG and the public as that of the usual lack of clarity at the beginning of any new phase in government role and activity.

Mr. Himelfarb talked about the need for balance between empowerment and clear frameworks in which authorities are exercised. This means changes in the role of central agencies. He gave as an example the need to redefine Treasury Board Secretariat's role as the developer of frameworks, common directions and tools rather than as the provider of rules and coordination. TBS is committed to developing a strategic approach to innovation that focuses on proven results, but the frameworks are not yet in place or well established.

He concluded by stating that innovation always carries an element of risk for failure. He advised that the best means of ensuring that innovation occurs in spite of the potential for failure is to maximize clarity on values in public policy direction and priorities.

Kevin Lynch, Deputy Minister, Industry Canada

Mr. Lynch presented the point of view of a line department that has undertaken to develop a culture which supports innovative thinking among its managers and staff. He stated that innovation is dictated by many external factors, such as globalization, evolving technology, and the still increasing customer demands, and internal government changes including Program Review, La Relève, new reporting requirements for Parliament, and the Portfolio approach to managing.

For Mr. Lynch, the need for innovation raises two important questions – 1) how to find new ways of managing risks, and 2) how to ensure that the rules of the game for public servants in innovation are consistent.

Mr. Lynch described some of the concerns among his managers and staff surrounding attempts at innovation:

- the lack of systems to accommodate the degree of innovation asked for, including assessment/review systems which demand that all risk be eliminated;
- the difference in approaches to the assessment of results between the public and private sectors. For example, if a company produces ten different products, and most of them have positive results, success is declared. However, in government, it is expected that all products will be successful, and the failure of one is deemed overall failure;

- the additional "evaluation systems" such as Parliament, the media and citizens, which have very little tolerance for failure;
- the increase of horizontal activity across departments, levels of government and sectors which requires that innovation take into consideration issues of diverse or diffused accountability.

Mr. Lynch concluded that he believed that the public service is keen to innovate, but that a major cultural shift is needed to ensure that incentives and rewards were in line with the rhetoric.

Denis Desautels, Auditor General for Canada

Mr. Desautels began by reassuring the participants that his Office encourages responsible innovation in the public service and that its reports, as well as fulfilling the OAG's mandate of identifying shortcomings in government expenditures, also try to champion successful reform initiatives such as improved reporting to Parliament as part of the changes to the Expenditure Management System. He explained that the role played by the OAG is a balancing act in service to many constituents with different and sometimes contradictory expectations.

The AG recognized that his mandate was essentially negative, but that the OAG has the freedom to select audit issues and determine the reporting process. Audit issues are selected based on a systematic planning process that not only ensures reasonable audit coverage but contributes to best practices in government operations. Audits continue to evolve as government evolves. They try to avoid "horror stories" and focus instead on systemic problems and on results. Departments are given an opportunity to discuss reports and undertake corrective action before the reports are tabled.

Rapid changes in the public service environment demands greater flexibility and a stronger focus on results. The audits have correspondingly shifted to a greater emphasis on results, a "best-practices" approach, and collaborating on and championing improved accountability concepts and practices.

The AG recognized that taking risks provides opportunities to benefit. He insisted that the parliamentary control framework provides substantial scope for innovation and sensible risk-taking, on condition that risks are identified and managed, rather than ignored. He stated that if the framework of parliamentary control did not allow for needed innovations, it should be changed. In the meantime, more effort should be made to identify, communicate and manage risks so as to minimize uncertainty and maximize opportunities.

He concluded by encouraging parliamentarians, public servants, legislative auditors and the public to work together to break down traditional views and old habits, while recognizing that significant time, energy and commitment will be required to effect significant changes in attitudes and practices among the first three groups. Good communication of risks, a persistent push for change, many champions and celebrating successes will be also be needed.

Summary of General Discussions and Workshops

During the general discussion and workshops which followed the three presentations, the participants attempted to identify the major factors which tend to discourage public servants from developing or promoting innovations and from taking sensible risks, and action steps which might be taken by the federal government to improve the situation. In the following part, the discussions and recommendations have been regrouped under the major themes of the discussion.

Criticism and blame as a strong influence

An important part of the discussion focused on the perception by public servants that they have become the object of severe – even unwarranted – criticism by parliamentarians, auditing bodies, the media, the public, and even their own leaders, for failures or for mistakes made in carrying out their functions. In light of this, the participants hypothesized that the public service culture may have become more risk averse because of the strong negative impact on the self-esteem of public servants and on their confidence in their ability to make the right decisions – or at least the decisions that will be found acceptable to all those who judge their performance.

The participants discussed potential solutions directed at public service "critics", such as:

- the need to educate the public on the concept of risk-taking for government, and the costs of a risk-free government;
- the advisability of government or individual departments providing more information on performance with the view of setting a positive background against which occasional mistakes or failures would be judged;
- how to ensure that "honest" mistakes are differentiated from problems arising out of poor judgement or inappropriate behaviours;
- the need to change the attitude taken by politicians and public service leaders towards public servants who make honest mistakes or who fail to adequately carry out a new initiative.

Recommendations for actionable steps pertaining to this issue include the following:

1. *Government should take the initiative in educating the media and parliamentarians on issues that involve risk; this should be done in the normal course of events, not in the immediate aftermath of tragedy.*
2. *Government should consider changing legislation – such as the Food and Drug Act – that limits public discussion and consultation on risks associated with decisions.*
3. *Government should be proactive in gathering information on and propagating their track records on initiatives so that failures and mistakes will be seen in terms of results, not process, and will be set in the context of successes.*
4. *Government leaders (Deputy Ministers or their equivalents), auditors and others need to learn how to deal with mistakes and failures so as not to discourage other public servants from attempting new initiatives.*
5. *Government leaders (Deputy Ministers or their equivalents) should take responsibility for mistakes in their organization rather than pillorying individuals.*

The role of the Office of the Auditor General

Responding to Mr. Desautels' presentation on the mandate of his office and the evolution of the approach to his office's reports, the participants recognized the necessity for the auditing function carried out by the OAG, and agreed that the OAG's reports were not one of the major constraints on innovation in the federal government.

However, the participants did make recommendations on how the OAG could contribute to improving innovation and sensible risk-taking in the federal government.

1. *The OAG should strive for greater balance in their presentation of critiques, including an examination of the process and the weighing of options.*

2. *Through their reporting, the OAG should try to provide more guidance to departments/agencies in carrying out their tasks.*

The need for guidance

Another factor which was identified as a major impediment to innovation and sensible risk-taking in the federal government was the lack of guidance on how to determine when a decision is "right".

- One aspect is the perceived disconnect between the traditional public service values of accountability based on strict adherence to rules and the new values of entrepreneurship and innovation which imply much greater flexibility. It has not yet been made clear to public servants how these values can work together.
- Although attempts have been made to develop new visions and mandates that reinforce innovation as a core public service value, results have not been satisfactory. In particular, departmental mandates are often either unclear, contradictory or not well communicated; consequently, public servants are unable to use them as guidelines for making decisions in their areas of responsibility.
- Furthermore, traditionally, middle managers translated departmental mandates as guidelines for staff. Downsizing has removed this essential link in the chain of communication.

Recommendations which address these issues included the following:

1. *Core public service values should be clearly identified and reaffirmed by the responsible central agencies such as the Privy Council Office and Treasury Board Secretariat, and by departmental leaders to their staff.*
2. *To appropriately reformulate TBS directives which have been eliminated, corporate services in departments should be re-engineered so that they have the authority and scope to develop new guidelines for managers and staff.*
3. *The "middle manager" layer in the public service should be provided with the resources and tools necessary to communicate governmental and departmental mandates more clearly to staff.*
4. *Departmental documents such as business plans should be made relevant to all staff, and should provide consistent objectives and directions.*

Developing systemic support for innovation and risk-taking

The participants addressed some of the systemic issues which either impede or fail to support innovation.

- Performance evaluation systems in the federal public service have not been adjusted to reflect the new values of entrepreneurship and innovation; they continue in many cases to reward obedience to rules rather than sensible risk-taking.
- On a similar note, the recognition of innovation as a public service value and investments in its promotion should be made an integral part of recruitment, training and on-going education in government human resources systems.
- Many public service managers feel they have no control over their work – a lack of staff, of financial or material resources, and of time tends to discourage the development of innovative approaches to delivering mandates or solving problems.

- The participants felt that the "pure" research function was a necessary support to innovation, and that its reduction or elimination because of budget cuts was another factor which had a negative effect in this area.

Recommendations which address these issues included the following:

1. *Upward feedback performance evaluation should be instituted systematically in all areas of government, and the results distributed through the system.*
2. *Government should develop a system to prepare annual reports on the state of "intellectual capital" in the public sector as a means of sustaining innovative thinking.*
3. *As a support to innovative thinking, each department that has a significant role in policy development should have a section devoted to the research function.*
4. *Larger budgets should be dedicated to improving capacity. These budgets should be based on reasoned plans and be auditable for results.*
5. *Departments should develop the tools, training, and management support needed to support innovation as well as to deal with failure and with unacceptable behaviour.*
6. *Government should develop initiatives which would integrate innovation into the public service culture by stimulating competition in "best practices" in innovation throughout the public service.*

Note on "Champions"

Although the participants were asked to not only make recommendations on actionable steps in the workshops, but also to identify potential "champions" for these steps, none of the workshop groups addressed this task as time did not allow that part of the discussion to take place. However, it might be noted that in certain cases, "champions" are an implicit part of the recommendations (e.g. Deputy Ministers, Treasury Board Secretariat, etc.)

In other cases, as was pointed out in an afterword by a participant, there appears to be "a vital role for the Leadership Network, the Canadian Centre for Management Development, Treasury Board Secretariat and, of necessity, the Privy Council Office". Another participant suggested that champions could be identified in terms of their ability to inspire, their level of influence and authority, their credibility or their ability to devote the requisite time and energy to the cause, and that the weight given to these different factors would affect who or what organization might be chosen to lead the effort for improvements.

These remarks should be kept in mind as the discussions points and recommendations are exposed below.

Concluding Observations

The following section makes general observations on the discussions concerning innovation and risk-taking, and suggests further approaches to supporting positive attitudes towards innovation in addition to those identified at the roundtable.

1. Defining the problem of innovation and risk-taking

Given the level and number of the participants in the roundtable held in October 1998, the subject of innovation and risk-taking obviously strikes a chord among senior public servants. Yet the participants were not entirely in agreement about the scope of the problem concerning attitudes towards innovation and risk-taking in the federal government. In particular, some of the participants

were not convinced that a problem existed, citing the fact that government had, in fact, instituted many innovations in the course of its drive towards greater efficiency and effectiveness in the last decade. Other participants believed that caution on the part of public servants towards innovation and risk was aligned with a strong interest in the public good, and as such, was more to be commended than condemned. This raises some questions about the direction of this inquiry: is there truly a need to find ways to increase innovation and sensible risk-taking in the federal government?

The participants who disagreed about the lack of innovation may have been expressing their belief that too much demand is being placed on public servants to innovate, particularly in terms of the need to protect the public interest. If one were to place innovation on a continuum from no innovation at all to some extreme form of continuous change, one could imagine the private sector as tending somewhat towards the extreme end with government at the more conservative end. One could further postulate that some politicians and public servants expect government to strive to meet these private sector standards, and that it is their concerns which were actually being addressed in this inquiry.

In light of the lack of agreement among the participants about the need to promote more innovation in the federal government, it is suggested that further thought might be given by the OAG (and by other government bodies such as TBS) to defining what are the appropriate levels of and directions for innovation for government in the current context, and to determine how responsibility for making innovation happen should be assigned.

That being said, our literature review and discussions have made it clear that many public servants feel that more innovation is required, but that they are not being properly supported in their efforts in this direction. It might be important to note here that innovation has been particularly sought in the area of Alternative Service Delivery (ASD). Most of the time, when public servants suggest examples of innovations that have occurred in the last few years in government, they are referring to ASD initiatives – either the creation of new service delivery organizations, such as privatized bodies, partnerships, etc., or simply new ways of delivering services by government. Given the continuing concern for fiscal restraint and rising citizen expectations, it is clear that for public servants, in this area at least, innovation and risk-taking will continue to present important challenges for some time to come.

2. Systemic vs. cultural issues

Throughout this project, factors affecting innovation have been regrouped several ways for purposes of discussion. However, it would probably be most useful for the broad picture to portray these factors as either cultural (attitudes, perceptions, values) or systemic (government priorities, human resources systems, capacity issues) in nature. These two sets of factors are, of course, completely inter-related: values and perceptions affect how systems are designed and implemented, and the results of systems implementation influence the evolution of values and perceptions. Therefore, both sides of the equation will need to be addressed at the same time to effect any major changes in attitudes towards innovation and risk-taking.

Systemic issues

Several systemic issues were discussed by the participants, and some of the recommendations that appear to be more immediately accessible and deliverable include making changes to the human

resources systems in the areas of performance evaluation, recruiting and training practices to better align them with the values of entrepreneurship, innovation and risk-taking.

One systemic issue that received surprisingly little attention from the participants was the lack of guidance for public servants on what constitutes an acceptable risk. Although the particular focus of our inquiry was the subject of innovation, discussions continually revolved around the attitudes of public servants towards both innovation and risk-taking. These two concepts are not the same, of course, but they are difficult to dissociate as innovation implies change, and change always carries an element of risk – either of failure and loss, or of gain. In fact, our literature review and discussions at the roundtable both suggested that much of the resistance towards innovation is caused by the risk of negative results – whether it be censure for failure, difficulty in harmonizing with democratic values, or other factors. Less frequently discussed were the risks of not innovating, including lack of efficiency and effectiveness, and lost opportunities.

Although lack of guidance on risk-taking was mentioned in general discussion as one of the factors contributing to resistance to innovation, no recommendations were made to address this problem, even though this would seem to be a relatively simple initiative. It seems obvious that information on risk management that would clearly explain to public servants the positive as well as the negative aspects of risk-taking, and would help them make rational, informed decisions in situations involving risk, would be very beneficial in promoting positive attitudes towards innovation in the federal government. We are aware that TBS is currently developing guidelines on sensible risk-taking for federal public servants.

It is therefore also suggested that TBS give priority to developing and delivering in the short term, guidelines on risk management applicable to the federal public service. Training on how to interpret and apply these guidelines would also be an essential element of this initiative.

Cultural issues

As to the cultural side of the equation, fear of public humiliation for mistakes and failures is obviously one of the major factors contributing to risk aversion in the public service culture. This, however, is not a problem that can be solved as easily as systemic issues. In fact, one could presume that risk aversion and resistance to innovation are only one aspect of a general malaise in the public service compounded not only by increasing criticisms from politicians, the media and the public, but also by cutbacks, frozen wages, and other conditions of the current public service environment.

One unfortunate consequence of events occurring in the political sphere over the last decade is the damage that has been caused to the various relationships between politicians, public servants and citizens. Some examples of relationships and key issues that need to be discussed and clarified include:

- relationship of government with the public: making the public aware of the costs of a "mistake-free" government, in terms of both human and financial resources dedicated to avoiding mistakes, and of lost opportunities.
- relationship of government with the media: assessing and counter-acting the effect of "bad news" reporting on the public's trust in government and of the resulting misunderstandings or lack of agreement about the public interest.

- relationship of public servants with politicians (both their Ministers and with parliamentarians in general): developing mutual understanding on accountability for and the consequences of mistakes or failures.
- relationship of Deputy ministers with their staff: finding new ways of consistently communicating support for innovation and sensible risk-taking, and of handling mistakes and failures.

The lack of mutual trust among these various groups will continue to negatively affect public servants in their efforts to function at the level of excellence that is demanded of them.

It is therefore suggested that the responsible government bodies and senior government leaders undertake initiatives designed to improve these relationships as an essential ingredient to encouraging positive attitudes towards innovation and sensible risk-taking. For example:

- *the Privy Council Office might take the lead on bringing Parliamentary Committees and senior government leaders together to discuss issues of accountability and the proper approach towards mistakes or failures;*
- *the Canadian Centre for Management Development could take the lead on providing Deputy Ministers with the tools and expertise required in communicating support for innovation and sensible risk-taking to their staff.*

Other potential specifically-focused initiatives could be undertaken – such as:

- *a best practices study on how ASD and private sector organizations reward employees for innovation;*
- *examining the role of research in supporting innovation, or bringing leaders from all sectors together to debate how greater government transparency might be achieved as a means of increasing public trust.*

The Public Policy Forum would welcome suggestions as to how government and the Forum might work together to contribute to improving innovation and sensible risk-taking in the federal government.

Copies of the background documents prepared by the Public Policy Forum, the Office of the Auditor General and Industry Canada are available from the Public Policy Forum.

About the Author:

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