

Innovation in the Federal Government: The Risk Not Taken



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Abstract

Many external factors call for innovative behaviour on the part of organizations that wish to continue serving their constituencies effectively. Innovation in a government setting is essential to continuous improvement and to a greater focus on outcomes. To encourage innovation and risk-taking in government, we need to ensure that we have frameworks and incentives in place to support innovation, properly integrated risk and innovation strategies, real empowerment and trust in our people, and a persistent focus on client requirements.

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A. Introduction

Clearly, the demands placed on public service managers have changed dramatically over the last ten years. To quote Lawrence Strong's Advisory Committee Report on Senior Level Retention and Compensation (page 3):

"Citizens are demanding greater accountability, improved service, greater openness, enhanced accomplishments and, above all, results."

These demands have heightened the pressures on managers in the government to be more innovative personally, and to promote innovation and risk-taking behaviour across their organizations. The question is: Are we providing public servants with the frameworks and toolkits to innovate, which means, inherently, to take risks? Or, rather, have we changed our objectives without adequately realigning incentives? Employees, be they in the public or private sector, will respond rationally to the incentive frameworks within which they work.

B. Factors Demanding Innovation

Many factors, both external and internal to Industry Canada, have led to pressures for innovative initiatives and approaches to doing the business of Government.

- Imperatives of *globalization* - we have no choice but to respond to the results of globalization, which include a shrinking world, greater interconnectedness, increased and more intense competition, and a heightened need for speedy responses.

- The new *knowledge-based economy* has taken us into new waters, with new growth sectors, rapidly evolving information technologies, and pressing needs for new skills. This is forcing us to re-think and adapt our previous ways of doing business.
- *Citizen demands* for better services at lower cost, increased public involvement in government policy formulation and increased public scrutiny of government activity are forcing us to devise new ways of interacting with a more highly educated public.
- *Program Review* exercises have sharpened our focus on what is done in government and how it is done; they have also limited the resources available to do just as much work (if not more).
- *La Relève* - the federal public service initiative - is placing a higher premium on creativity and innovation at all levels, most tangibly, at the moment, at management levels.
- *New Reporting to Parliament* has led to requirements for better planning, monitoring and reporting on our performance in serving the Canadian public. This is an incentive to develop a sharper focus on results - to help understand what works well and not so well, in support of our quest for creative solutions.
- The *Portfolio Approach* to managing has generated pressures for new approaches to creating greater synergies through closer collaboration among organizations involved in similar fields of activity, but without changes in machinery, or public servant responsibility and accountability frameworks.

"The Government is determined to do more to support innovation and risk-taking in Canada and to attract more foreign investment in knowledge-based industries to Canada. We will build creative partnerships between the private and public sectors to accelerate the adoption of innovative technologies in all sectors of the economy."

Speech from the Throne
Government of Canada
September 23, 1997

C. One Department's Approach

In response to these various pressures for organizational and service innovation, Industry Canada has introduced a number of major changes, designed to encourage "new ways of doing things". Some examples:

- We have devoted significant time communicating a relatively simple statement of our goals and strategic objectives to all employees, and have indicated that all can, and must, contribute to their realization (see Figure 1). Inherent in this approach is a stronger emphasis on clients, a horizontal, team approach rather than a hierarchical one, and less of a control approach.
- The Department has created new "alternative service delivery" organizational arrangements which give each new business unit a much greater client orientation and the flexibilities to interact directly with clients. This has substantially altered our capacity for line-by-line activity oversight. Where different cultures interact most actively (e.g. Canadian Tourism Commission with its mix of public and private sector representatives), differences in risk-reward systems for innovation are most obvious.

- Industry Canada has shifted, in a massive way, from delivering funded assistance to providing information products and services. Funded assistance programs, by their very nature, were slow to be developed and slower to change. Objectives were often related more to inputs. Clients were clearly recognized, and the audit rules-of-the-game were well known. In contrast, in the world of information products, speed is key. The ability to adjust is more important than attempting to nail down the market ex ante with certainty, which is impossible in rapidly evolving cybermarkets (e.g. Strategis; Export Source).
- We have shifted to third-party partnerships for the delivery of programs in order to leverage additional resources, to broaden our reach, and to become more market oriented. This changes the nature of accountabilities and our capacity to exercise the sort of control which exists with in-house delivery. At the same time, it substantially leverages the scope for innovation through partnerships (e.g. the CANARIE and PRECARN initiatives).
- We have encouraged our employees to communicate directly with clients. Rather than having a few key players bear the main responsibility for communicating what Industry Canada does, our goal is to have 4900 communicators. This drastically increases our communications capacity and leverage, but, at the same time, it increases the risk of a miss-statement.
- Employee renewal is resulting in more flexible work arrangements. This creates a more productive, innovative workplace, but comes also with the risk of abuse of this flexibility (e.g. inappropriate Internet usage).

D. Challenges Encountered Along the Way

Given the demands for change, the initiatives above set out a number of ways we, in Industry Canada, have responded. Other departments have many different initiatives underway, all responding to the same pressures for innovation.

In what follows, we set out some of the challenges encountered in our movement towards becoming a more innovation-based organization.

- The public service is being encouraged, from many perspectives, to be innovative, less risk-averse and more results-based rather than rules-based. Managers and staff feel that, while we speak of "results management", there is still a strong tendency, in our evaluation systems, to focus on ex ante process, rules and prior risk-minimization, rather than on the outcomes that have been achieved. In our evaluation systems, particularly the audit process, there is the perception that we audit each micro activity rather than the bundle, or portfolio, of activities geared towards achieving an objective.
- In this regard, evaluation approaches in the public and private sectors can be quite different in practice. For instance, in the private sector, an operating unit may launch 10 initiatives to achieve a specified objective and if the objective is achieved, it does not matter whether all 10 initiatives worked adequately or whether 7 worked very well and 3 failed and were discontinued. Conversely, in evaluating a public sector organization, there would likely be an equal focus on each of the 10 initiatives as well as the overall objective. If such is the case, then the evaluation system creates a built-in bias towards minimizing failure and against maximizing innovation. It also likely results in setting less-than-aggressive overall objectives.
- In the public service, in addition to the traditional evaluation systems (which, in theory could be similar to the private sector, although, as noted above, may be different in

practice), we also have both political and public evaluation systems. With respect to the former, a fundamental aspect of our system of government is ministerial accountability. In this context, there are legitimate questions as to whether the political system supports risk-taking with respect to innovation (which is a needed complement to any shift towards encouraging more innovation and risk-taking among public servants), or whether it is risk-averse. If it is risk-averse, there would be a skewed valuation of, and hence response to, failure and success, and this would result in conflicting signals and confusing incentives for public servants. Public servants hear the call for greater risk-taking, but remain uncertain about the advisability of taking such risks if the cost of failure is greater than the reward for success.

- In the similar, and somewhat inter-related vein of "public evaluation systems", there is a concern that the media may have a skewed interest in outcomes, with more interest and publicity given to "bad news" than to "good news". Equally, there is a sense of public intolerance for public service "mistakes". In such a world, an asymmetrical political response to success and failure may be understandable, but the conflicting incentive system will be understood by public servants and will affect behaviour.
- Alternative service delivery vehicles represent an attempt to serve specific clienteles in "a more business-like manner". We have given them greater flexibilities to accomplish this objective, but have we accompanied this with an evaluation system that adequately melds the clients' culture with that of public sector accountability?
- Machinery changes aside, the strong push to capture "horizontal synergies" across government (and across governments) also raises challenging issues such as identifying who is accountable for achieving objectives, who are the people that will be evaluated, and what evaluation standards will be used.

In sum, becoming more entrepreneurial and innovative represents a major cultural shift. Many impediments have been removed to a new way of doing government business, but some that remain lie in our evaluation and incentive systems. They underpin many of the processes, rules and regulations that tend to inhibit innovation and risk-taking. At the same time that clients are expecting change, and public servants are being encouraged to deliver new ways of doing government business, employees, at times, wonder whether the "underlying frameworks" have been changed sufficiently to support innovation.

E. Looking Ahead

A clear, consistent and new approach to innovation and risk-taking is crucial to shape the sort of behaviour we want in the public service of the future.

Excessive risk-aversion can stifle progress and establish bureaucratic gridlock. It can result in significant underachievement, even harm, not to mention wasted resources. Excessive risk-taking is no better. The challenge is to reach a happy medium. But who gets to make that judgement? How do we handle the "second-guessers" with 20/20 hindsight? How do you create an evaluation system that is flexible across very different fields of government activity? Where is the "right" balanced "tolerance zone" between risk-aversion and risk-taking that is part of our framework and is accepted politically?

The case study of Strategis provided in Annex A is an example of where we feel our achieving the balanced "tolerance zone" was impeded by the traditional audit approach which focussed on

processes and controls from a project management perspective, rather than highlighting innovative management, portfolio approaches and results achieved. (December 1997 Auditor General's Report, Chapter 23, Systems Under Development). Had Industry Canada applied a process-oriented management approach to a dynamic project such as Strategis, it would have created impediments to the timeliness and usefulness of the required information, and, we believe, undermined the ultimate success of this initiative.

There is also a concern that the timeframe of some results audits may be shorter than the time required to achieve the public policy objectives. The outcomes of some public sector initiatives typically take longer to emerge than those of the private sector. It follows, therefore, that public service auditing must be compatible, in its timeframe, with the time required for public service initiatives to achieve the desired results. Public service auditors, therefore, cannot necessarily appear on the scene as soon as those in the private sector. If they do, there is a risk that audit approaches and standards are developed prematurely, and are applied before there is a solid understanding of how things actually work best in newly emerging (technology) areas.

For us to truly adopt an *outcomes-orientation* (i.e. less concern with process, rules and regulations, and activities and outputs), a greater tolerance for risk-taking and more support for managerial innovation are required. To some extent, this shift in attitudes, values and culture can be facilitated by training and development, by drastically changing some of our evaluation processes (for instance, the manner in which we monitor and assess our performance), and, perhaps most important of all, by "walking the talk" as leaders.

We need to develop *incentives and frameworks* that foster shifts in values and attitudes, so that the resulting behaviour of public service managers is what we expect of them from an innovation and risk-taking point of view. Being inherently rational, people respond to incentives. Creativity and risk-taking can be encouraged in many ways, however the wrong incentives are certain to generate the wrong behaviour.

There are unrealistic expectations among many stakeholders and the public for a perfect public service with no "horror stories". We talk about the need to widely communicate our "success stories", but, too often, the focus is on "problems" - to blame rather than to celebrate success. *Celebrating our successes* in an open, visible manner helps us all to feel pride in what we do, and motivates public servants towards change and growth.

In short, we must ensure that we have a *risk management strategy* that mirrors our *innovation strategy*. The key is that the strategies are integrated and that one considers both the upside and the downside. Risk entails not only potential loss, but also potential gain. And our strategy has to be one that fosters *empowerment and trust* in our people; one that contributes to shaping a climate in which managers can be entrepreneurial; one that frees staff to concentrate on WHY (i.e. intended impacts) we are doing things, or the intended results we are trying to achieve, rather than HOW (i.e. process) we are doing things. In very basic terms, this means a willingness to accept mistakes.

And we must never lose sight of the fact that *client service* and *client satisfaction* are key to any organization's success. Clients must drive public-sector innovation. But this is a two-way street,

and requires a greater acceptance of failure, and a greater understanding of the differences between the public and private sector cultures, incentive systems, and operational realities.

A Case of Innovation in a Government Setting: Strategis

Annex to a Background Document for a Round Table Discussion

Public Policy Forum, October 6, 1998

Strategis

(<http://strategis.ic.gc.ca>), our interactive and dynamic Web site for business and consumer information, is proving to be a market success, with more than 1.3 million visits and 12.2 million documents accessed in 1997-98. Strategis is:

Canada's largest business information Web site, with close to 2 million electronic documents

- available 24 hours a day, seven days a week
- a client-oriented service, allowing users to contact knowledgeable help-desk staff over the telephone, fax or e-mail for the assistance they require
- an evolving collection of more than 70 information products (as of January 1998), with thousands of links to other useful sites around the world
- saving users time and money.

Recent additions to Strategis include the Canadian Business Map, a powerful pathfinder to federal, provincial and municipal information for businesses.

New product/service development strategies are often highly unpredictable - neither the flow of development nor its end points can be specified with any degree of precision. Creativity lies at the heart of such programs - the creativity of organizations, and the talents, vision, inspiration and instincts of the individuals who work there.

With Strategis, the Department started small and knowingly confronted the risks of rapidly changing technology to develop new relationships with business and consumer clients. Calculated risks, new team-oriented ways of working, rapid, much faster cycle times, competitive internal business case resourcing mechanisms, and a less ponderous management structure were all intentionally used, in order to be at the forefront of the new, fast-moving Internet medium.

Innovation and change are inherently risky.

Strategis was initiated by Industry Canada in 1994. It was - and still is - a key element of Industry Canada's new way of doing business based on redirecting and realigning the service content and delivery mechanisms in IC. A multitude of new ideas were brought together, new models and concepts were developed for client services, and these ideas were implemented through advanced technologies.

It was recognized at the outset that realistic assessments of potential risks and benefits were essential.

Twelve months of intense study of client needs, Industry Canada capabilities and technological opportunities preceded the decision to embark on the family of Strategis projects. The danger of paralysis through analysis was ever present and fully recognized. In the end, a multitude of project proposals were considered, some projects were undertaken, some were not. Of those undertaken, some carried a greater degree of risk than others, but no one could say at the start which ones would succeed and which would not.

Managing innovation while minimizing risks was a key challenge.

Since we were dealing with new concepts and new technologies, management processes needed to be adaptive rather than prescriptive. Good judgement and diligent management oversight guided the evolution of this innovative project more than the strict adherence to policies and procedures that may or may not have been appropriate. Priorities, objectives, scope and resources were adjusted, in response to evolving difficulties and emerging opportunities, through regular senior management reviews. Certain projects were terminated when it became clear that potential risks outweighed potential benefits, while others were expanded to take advantage of new opportunities.

The perspective taken in measuring success;

Can cultivate a healthy environment to foster innovation and judicious risk taking, or it can become a serious disincentive to change. From a program perspective, Strategis has been a success. It was designed to help Canadian businesses, and from the usage statistics and client feedback, it is clear that we have hit the mark. Strategis and a number of its individual products are the recipients of a wide range of industry awards.

From the perspective of individual projects within Strategis, there were some clear successes and some clear failures. This was to be expected, since at the start, client requirements could only be identified in general terms and technological complexities could only be roughly estimated. Singling out specific failures, with 20/20 hindsight, and without full appreciation of the context and circumstances of key project decisions could do great harm to staff morale, and create a disincentive for risk taking. Our management challenge have been to extract the lessons learned, without associating a stigma of failure on the individuals involved.

Program Audits have a significant impact;

On how organizations and individual managers respond to risk management challenges. The Strategis Audit conducted by the Auditor General in the Fall of 1997 focused mostly on the management process, rather than on the results achieved. Our performance was measured against Treasury Board's "Enhanced Framework for the Management of Information Technology Projects" of May 1996. While this framework was developed with great care, it relates to large IT projects and is not in our view, an appropriate benchmark for Internet based information publishing projects. Strategis was also faulted for not following the structure in TB's guide for "Creating and Using a Business Case for IT Projects".

From the outset, Strategis, and all its sub-components, were managed on a business case approach. Emphasis was placed on timeliness, because speed counts, and on clarity, since efficient communications was essential for effective decision making. We feel that this less cumbersome approach to project planning and management has served the Strategis development

effort very well. Traditional IT project management methodologies would have been impediments to the timeliness of required transformation.

Notwithstanding these shortcomings, the Audit Report did provide useful suggestions for improvements and for reducing risks. However, its approach of measuring management processes against inappropriate benchmarks reduced the credibility of the report in the eyes of project managers and diminished the beneficial impact of useful observations.

Moving from innovation to operation called on a different set of management challenges.

As Strategis has become more structured and formal (with some 8,000 daily clients) it is now necessary to adopt a more structured approach to its operation and maintenance. However, new product and service developments will continue on an innovative track in order to support judicious risk taking.

Our challenge will be to implement steps to provide more stringent quality assurance and business planning, and to involve our clients even more closely, but in such a manner as to not bureaucratize the current innovative dynamic and responsive processes that are working well and providing "real time" feedback. We believe that in this way, Strategis will be best able to continue to advance and evolve to meet the changing requirements of Canadians.

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