



# Designing and growing innovation capability

## A CASE STUDY

January 2013

## Executive Summary

As part of a wider project to analyse public sector innovations occurring after the Canterbury earthquakes, the State Services Commission (SSC) conducted a case study of two organisations considered instrumental to those innovations, Inland Revenue (IR) and the Canterbury District Health Board (CDHB).

The case study is not an evaluation. Rather, on the basis of interviews with leaders, staff and other stakeholders, it describes the origins and current state of IR's and CDHB's innovation capability. The aim is to provide lessons for other agencies and to inform future work to encourage innovation in the public sector.

The case study tests IR and CDHB against the characteristics cited in international literature as being common to high-performing organisations that enable and support innovation.<sup>1</sup> International evidence suggests that those organisations:

- Have leaders that are clear about what they are trying to achieve (outcomes and goals) but flexible about how to reach those goals (tight/loose balance).
- Encourage experimentation and bounded and informed risk-taking.
- Are customer focused, solicit ideas from and engage with diverse internal and external sources.
- Have capability, skills and experience in innovation disciplines/methods supported by resources (funding, time and space).

These characteristics align closely with characteristics defined in the Performance Improvement Framework (PIF) system level findings as being indicators of high performance.

Both IR and CDHB embarked on an innovation journey based on a similar 'burning platform', a desire to put the customer at the centre of the business while at the same time responding to increasing demands for services and decreasing funding baselines. Both agencies have also invested in innovation capability over some time, not in isolation but as part of a package of business transformation strategies.

This case study found that both IR and CDHB reflect most of the characteristics derived from the literature as being common to organisations that support and enable innovation. IR's innovation capability is synonymous with its service design capability. We argue that CDHB takes a broader and more extensive approach to innovation, with an explicit strategy to embed innovation across the organisation and wider Canterbury health system. It is innovative in what it does, and in how it does it.

However, we conclude that even if an organisation does not fully reflect every innovation characteristic – for example, where risk aversion may mean it is not tapping its full innovation potential - having strong capability in service design or some other innovation discipline means that it can still enable innovation activity.

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<sup>1</sup> Based on: David Albury's research on more than 40 high-performing innovative organisations and 10 innovative sectors, [http://www.anu.edu.au/discoveranu/content/podcasts/creating\\_the\\_conditions\\_for\\_radical\\_public\\_service\\_innovation\\_david\\_albury/](http://www.anu.edu.au/discoveranu/content/podcasts/creating_the_conditions_for_radical_public_service_innovation_david_albury/); The Australian Public Service 'Innovation Compact for Leaders' <http://innovation.govspace.gov.au/>; 'The Public Innovator's Playbook: nurturing bold ideas in government'; Deloitte, and the Harvard Kennedy School's Ash Institute for the Democratic Governance and Innovation <http://www.deloitte.com/innovatorsplaybook>; and 'Innovation in the public sector: enabling better performance, driving new directions', Australian National Audit Office [www.anao.gov.au](http://www.anao.gov.au)

## Introduction

The Better Public Services (BPS) Advisory Group Report (November 2011) noted that innovation in the New Zealand public management system is currently “stifled by a lack of capability, an undue degree of risk aversion on the part of chief executives, boards and Ministers and little consideration of how to manage risk in this context”<sup>2</sup>. In launching the BPS report and BPS Results the Prime Minister called for “a public sector that embraces innovation.”<sup>3</sup>

A range of OECD governments, including Australia, Canada, Denmark, UK, and the USA have established specific strategies for driving public sector innovation recognising that they cannot meet the fiscal and social challenges of the 21st Century without intentionally seeking new and different ways of doing business.<sup>4</sup> The wider application of recognised innovation methodologies as well as improved organisational capability to generate new ideas, convert them into new approaches to the design and delivery of services, and more deliberate strategies to diffuse and up-scale those approaches across the state services would improve the customer focus and responsiveness of New Zealand public services and help to achieve the vision of BPS.

Canterbury following the earthquakes showed what is possible. The earthquakes provided a ‘perfect storm’ for innovation. The status quo was not an option and public servants were given new permission from Wellington to “do whatever it takes”. They responded to the challenge with new and different approaches to service delivery and design which provide live demonstrations of better public services. The State Services Commission (SSC) has an ongoing programme to document and disseminate the lessons from the Canterbury innovations. Case studies and a related report to Cabinet are available on the SSC website.<sup>5</sup>

Some of the Canterbury initiatives could be directly replicable elsewhere. But their greater value lies in demonstrating new ways of working that can inform and drive change elsewhere: a ‘graft and grow’ rather than a ‘cookie cutter’ strategy for up-scaling successful innovations. The Christchurch story also paints a picture about what enables innovation to flourish in a public sector context. Many of the innovative responses to the earthquakes were not simply a reaction to the crisis. Rather they were enabled by pre-existing innovation capability in public sector agencies there, most notably in the Canterbury District Health Board (CDHB) and in Inland Revenue (IR).

IR’s service design team based in Christchurch was instrumental in initiatives such as Recover Canterbury<sup>6</sup> (a public/private partnership for business recovery), and co-location initiatives leading to the forthcoming Shared Front of House (a multi-agency shared service facility or “one stop shop”). CDHB implemented the ‘shared care record view’<sup>7</sup> (eSCRV), a secure on-line system for sharing patient information between health professionals, invaluable in a disaster when paper records were irretrievable and access to usual health providers was disrupted. The eSCRV was in the pipeline prior to the earthquakes but its development was accelerated in response to post-earthquake needs. In short, the earthquakes expedited innovations but the organisational foundations were pre-existing. The SSC has conducted a case study of IR and CDHB to describe their innovation capability. It tests both organisations against the characteristics cited in international literature as being common to innovative organisations. The case study is not an evaluation or comprehensive assessment of either organisation. The aim is to provide information to agencies wishing to develop their own capability to innovate. This report starts with a description of the study

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2 Better Public Services Advisory Group Report, November 2011, p.20 <http://www.ssc.govt.nz/better-public-services>

3 <http://www.beehive.govt.nz/speech/better-public-services-speech-auckland-chamber-commerce>

4 The OECD has a programme to document these strategies. See

<http://www.oecd.org/governance/oecdobservatoryofpublicsectorinnovation.htm>

5 <http://www.ssc.govt.nz/christchurch-innovations>

6 <http://www.ssc.govt.nz/ci-recover-canterbury>

7 <http://www.ssc.govt.nz/ci-shared-care>

method including a template of research questions. The template itself might offer the foundations for an organisational self assessment too.<sup>8</sup> We then compare the two organisations against some broad headings derived from that template, including:

- The importance of leadership, clear goals and strategy to embed a culture of innovation
- Permission, a tolerance for experimentation, risk-management and rewards as key components of the innovation enabling environment
- Customer focus, engaging stakeholders and soliciting ideas from diverse internal and external sources as key inputs to innovation
- Capability and skills in innovation disciplines/methods supported by resources (funding, time and space) as the organisational tools for innovation.

The characteristics of innovative organisations align closely with the characteristics defined in the Performance Improvement Framework (PIF) system level findings as common to the best performing agencies. In terms of the efficiency and effectiveness of their core business, “the best agencies demonstrate that they value learning, innovation and continuous improvement”.<sup>9</sup>

Responding to the Prime Minister’s call for public sector that embraces innovation requires a three-pronged approach. We need mechanisms to up-scale and disseminate successful innovations, enhanced innovation capability in organisations, and an underpinning public management infrastructure that includes systemic incentives and support to encourage innovation. This case study concentrates on the middle prong of that approach.

## **Innovation and innovation capability – definitions and method**

We adopt the following definition of innovation: “Innovation is the ‘creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in the efficiency, effectiveness or quality of outcomes’<sup>10</sup>. Innovation capability therefore, is the capacity of an organisation to create the conditions, and apply the resources (people, financial, tools and methods), to enable and support innovation activity.

For this study we developed a template of research questions (see Table 1) based on the international literature about the characteristics of innovative organisations.<sup>11</sup> We conducted semi-structured interviews with a small group of leaders and staff of the two target organisations, to get views from people at a range of levels and functions in the organisations.<sup>12</sup> Individual case studies of the two organisations appear as annexes to this report.

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<sup>8</sup> Diagnostic tools have been developed elsewhere to test the innovation potential or performance of organisations. For example, the Australian Public Service includes a diagnostic tool in its Public Sector Innovation Toolkit (<http://innovation.govspace.gov.au/tools/diagnostic-tool/2/>).

<sup>9</sup> See Deborah Te Kawa and Kevin Guerin, Provoking debate and learning lessons – it is early days but what does the Performance Improvement Framework challenge us to think about?, Policy Quarterly, Vol 8, issue 4, November 2012.

<sup>10</sup> Geoff Mulgan and David Albury, Innovation in the Public Sector, Cabinet Office Strategy Unit, United Kingdom Cabinet Office, 2003

<sup>11</sup> Based on: David Albury’s research on more than 40 high-performing innovative organisations and 10 innovative sectors, [http://www.anu.edu.au/discoveranu/content/podcasts/creating\\_the\\_conditions\\_for\\_radical\\_public\\_service\\_innovation\\_david\\_albury/](http://www.anu.edu.au/discoveranu/content/podcasts/creating_the_conditions_for_radical_public_service_innovation_david_albury/); The Australian Public Service ‘Innovation Compact for Leaders’ <http://innovation.govspace.gov.au/>; ‘The Public Innovator’s Playbook: nurturing bold ideas in government’; Deloitte, and the Harvard Kennedy School’s Ash Institute for the Democratic Governance and Innovation <http://www.deloitte.com/innovatorsplaybook>; and ‘Innovation in the public sector: enabling better performance, driving new directions’, Australian National Audit Office [www.anao.gov.au](http://www.anao.gov.au)

<sup>12</sup> Quotations (italicised) in this paper are generally not attributed to protect the confidence of the people interviewed.

**Table 1: Characteristics of organisations that support and enable innovation**

- 1 Leadership that is passionate about outcomes and has clear goals but is flexible about how to reach those goals
  - How are those agency goals articulated – to staff/to stakeholders?
  - Where and how does innovation (or the desire to seek new and better ways of doing things) fit into organisational strategies and how is that communicated across the organisation?
- 2 Encourages experimentation and bounded and informed risk-taking, while tolerating some failure as a learning experience
  - How do they show that they are prepared to consider and trial new ideas and new ways of doing things?
  - How do they communicate a tolerance for risk? What risk management strategies are in place? How is efficiency and effectiveness built into decision-making – quick iterations/prototyping/"fail fast/fail cheap"? How is failure dealt with – is it seen as a learning opportunity?
  - What incentives? How is innovation recognised and rewarded? To what extent are budgets and resource allocations linked to improvements in performance driven by innovation?
- 3 Is customer focused, solicits ideas from and engages with diverse internal and external sources
  - What channels are there for seeking ideas from inside and outside the organisation – including scanning international exemplars, engagement with stakeholders/users?
  - How are successful innovations re-used/adopted/adapted and shared within and outside the organisation?
  - Is collaboration with other organisations part of the innovation equation?
- 4 Has capability, skills and experience in innovation disciplines/methods supported by resources (funding, time and space)
  - Do staff have access to and training in innovation disciplines, methods, tools and approaches?
  - Is there dedicated space and/or time for 'thinking' and developing new ideas/ways of doing things?
  - Is there a special part of the organisation dedicated to innovation (R&D, service design/design thinking)?

### **The view from a different lens**

It is important to see the above characteristics and related questions, and the evidence that they exist, through multiple lenses including the organisation's:

- Leadership/senior management – what commitment, support, permission is deemed important?
- Staff – what is their perception of engagement, ability to share ideas and sense of freedom and permission to try new things?
- Key stakeholders – partners, customer/client/user perspective. How are they involved in generating/co-producing ideas, implementation and dissemination of innovations?

## Leadership, goals and strategy

Passionate leaders, a common vision and common language are key components of developing a culture that supports innovation. While it is difficult to measure the relative passion of leaders, our interviewees saw this element as crucial, describing it as the need for leaders to be “*courageous*” and “*brave*” in defining and articulating their vision.

In terms of clarity of purpose, vision and strategy, senior CDHB managers interviewed were all completely ‘on message’ with a shared understanding of the vision of the organisation and the wider Canterbury health system. They were clear that the visibility of senior management was vital to translating a vision and “*a direction of travel*” to all parts of the organisation, and further out to the wider health system. They saw this as an explicit responsibility. They emphasised the role of senior leadership as “*painting the picture*” so that staff and stakeholders could see where they fitted into it. The CEO noted that “[We are] *really passionate and dogged about the vision*”. We also found that IR staff interviewed for this case study all referred to IR’s strategy, IR for the future, and could articulate the key messages embodied in it.

In contrast, an overview of the 21 PIF reviews to date found that only about a third of the public service agencies reviewed were strong or well placed on indicators relating to articulating purpose, vision and strategy, indicating that this is a weakness across the system.<sup>13</sup> In general, agencies appear to be good at serving Ministers and dealing with day-to-day challenges but less skilled at defining a vision for the future and developing a strategy and capability to get there.

## Permission, experimentation, risk management and rewards

Organisations that enable innovation encourage experimentation, support it with risk management strategies, allow some failure which is seen as a learning experience rather than sunk costs, and reward innovation initiative. People interviewed for this study identified permission from senior managers to ‘do things differently’ as the top enabler of innovation, supporting the notion that top down permission enables bottom-up innovation. Yet research conducted by Ryan et al. suggested that we have very few champions or ‘guardian angels’ of innovation at senior leadership level across New Zealand’s public service.<sup>14</sup>



CDHB was seen as encouraging of experimentation and tolerant of risk-taking. Senior managers noted that if an organisation penalises failure when people try new things then it will perpetuate a risk-averse culture and reduce innovation capability. They argued that staff should understand what they are trying to achieve, know that their backs are covered, and if they fail it should be quick and early and used as a learning experience. The CEO referred to this as tolerating “*sensible risk*”.<sup>15</sup>

CDHB have specially designed training and development programmes, notably ‘Particip8’ and ‘Xcelr8’, to give staff the tools and permission to think and do things differently. Particip8 is largely about teaching change management while Xcelr8 is about encouraging participants to seek new and better ways of doing things, to own the innovation challenge. Xcelr8 includes a component where participants in small groups actually design an innovation for the Canterbury health system. Participants in that programme take away a “permission card” from the CEO which can be used to unblock future barriers to change.<sup>16</sup> One senior manager noted that they were aiming to give “*everybody permission to do things differently*” but within

<sup>13</sup> <http://www.ssc.govt.nz/pif>

<sup>14</sup> Bill Ryan, Derek Gill, Elizabeth Eppel and Miriam Lips, Managing for joint outcomes; connecting up the horizontal and the vertical, Policy Quarterly Vol. 4, issue 3, September 2008.

<sup>15</sup> Interview with David Meates, CEO, CDHB, 9 October 2012.

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the boundaries of the vision, *“Is this right for the patient and is this right for the system?”* References were made to the need to create *“architects of change”* within the organisation and in partnership with stakeholders. One senior manager argued that the key to better services was shifting decision-making as close as possible to where the actual service gets delivered.



IR interviewees were less confident that experimentation and failure would be tolerated. They often referred to the organisation as *“risk averse”*. This might reflect the risk profile associated with the regulatory environment IR operates in, including its strict legislative provisions related to privacy and secrecy. The Commissioner expressed the challenge as follows: *“One of our biggest challenges is how we develop such an innovative culture without compromising the integrity of the tax system. For me, ensuring that we protect the integrity of the tax system is paramount and we currently have strict secrecy and privacy legislative provisions to support this.”*<sup>17</sup> But accepting a degree of risk and managing it effectively is a key factor in successful innovation. Managing risk is not the same as avoiding it.

Despite this apparent risk aversion, PIF findings show IR to be the only public service agency to score consistently well on indicators related to self-review and improvement. This dimension of performance demonstrates how an agency learns from its experiences to identify opportunities for continuous improvement and innovation.

Both CDHB and IR include innovation and continuous improvement as part of a package of change strategies. Views from these organisations offer insight into the interface between innovation and continuous improvement; they are not interchangeable but complementary. One CDHB senior manager described a continuum involving a *“need to do business as usual really well, constant improvement, and work on transformation at the same time”*. Another noted that continuous improvement on its own was not enough to meet the challenges facing the organisation: *“you couldn’t continuously improve this organisation, we had to transform it - you can’t leap a chasm one step at a time”*. A similar distinction was made by an IR interviewee, using a series of questions to highlight the component parts of organisational transformation:

- “What level of investment is needed to keep the lights on?”
- What is needed to ensure continuous improvement?
- What is needed for big change/innovation?
- What is left over for seed funding or to keep improving innovation capability?”

Strategies for change that include keeping up the momentum of incremental improvement in processes (through continuous improvement), and innovation for more significant shifts reflect what David Albury describes as a *“split screen narrative”*. His research defined leaders of innovative organisations as those that are:

*“...interested in innovation but not for its own sake, rather they are concerned about how to continue to improve their day-to-day operations and services and products while at the same time building innovative capability to address present and future challenges”*.<sup>18</sup>

<sup>17</sup> Naomi Ferguson, Chief Executive and Commissioner of Inland Revenue, 21 December 2012.

<sup>18</sup> David Albury, ‘Creating the Conditions for Radical Public Service Innovation’, Australian Journal of Public Administration, vol. 70, no. 3, p.230

Recognition and rewards for successful innovation provide crucial messages about the value of doing things differently and encourage further innovation. There are some symbolic rewards for innovation in both IR and CDHB. IR has an annual Commissioner's Award for innovation, while in CDHB awards are given for the best idea coming out of "David's Den" (a play on the Dragon's Den concept) at the end of each Xcelr8 programme. The fact that each successful Xcelr8 idea is allocated to a senior manager to take forward is further testimony to the value attached to innovation.

## Customer focus, ideas generation and stakeholder engagement

A focus on users, engaging stakeholders and soliciting ideas from diverse internal and external sources are all key inputs to the innovation process. The BPS Advisory Group Report pointed to poor customer focus as one of the weaknesses of the New Zealand public management system and one that has led to a general inability to design or adapt services to the needs of citizens and business: "state services in New Zealand do not listen well or respond to citizens and businesses, nor adapt design and delivery to their needs".<sup>19</sup>

We found that both IR and CDHB were strongly customer-focused and the desire to improve the customer journey has been a key driver for change. CDHB's map of the Canterbury health system<sup>20</sup> has the customer firmly in the centre of the picture, while a key indicator of success across the system is "reducing the time people waste waiting".<sup>21</sup> People interviewed from IR stressed that "*the customer is at the centre of the organisation*". Their capability in service design, discussed below, is about understanding and designing services around customer needs.

Both organisations utilise customer feedback mechanisms. IR was the first government agency in New Zealand to develop online customer forums. Both are also open to, or actively solicit, ideas from inside and outside the organisation. CDHB managers stressed the importance of looking to other sectors for new ideas and models. Its use of alliancing was borrowed from the construction industry, while organisations as diverse as Air New Zealand and public libraries are invited to present their service models at Xcelr8 sessions.

CDHB exhibits strong engagement with stakeholders (reflecting the need to engage other health sector partners to deliver outcomes) and has deliberate strategies to engage staff and stakeholders in the actual design of improvements to processes and services. Over 2000 stakeholders were involved in developing its Vision 2020 (described below). As noted above, the Xcelr8 programme involves participants (drawn from across the Canterbury health system) designing an innovation.



CDHB also co-produces services with other parts of the Canterbury health system. The eSCRV was the product of collaboration between CDHB, Pegasus Health, a range of health providers and a software company, Orion. Its use of alliancing is similarly based on good faith contracting whereby projects and services are co-produced with outside partners. As one senior manager explained, "*be clear about the end point, define the problem and context, and enable people*". The intended results for users from this integrated process mean that: "*It should be seamless for the person...they have no sense of having been passed from one organisational structure to another...the services are just organised around them*".

<sup>19</sup> See the Better Public Services Advisory Group Report at: <http://www.ssc.govt.nz/bps-background-material>

<sup>20</sup> The map is a pictorial depiction of the health system and used to describe Vision 2020 which became Transition 2012 following the earthquakes.

<sup>21</sup> —



## Capability – skills, space, tools and investment

Innovation is not just about unleashing creativity. Successful innovation occurs through the conscious application of recognised disciplines, methods and tools. Both CDHB and IR have invested in developing capability and skills in innovation disciplines, most notably design-thinking and service design.<sup>22</sup> Service design is an internationally recognised method for driving innovation in both the public and private sectors. Through “harnessing user participation, feedback, insight generation and connecting these things to organisational or system design and development, service design’s model of change is focused on creating a system able to continuously adapt, reconfigure and most importantly, learn from itself”.<sup>23</sup>

IR has a strong service design capability which is sought after by other public service organisations. Currently IR acts the good corporate citizen by deploying its capability to assist other agencies, in Christchurch and elsewhere (including for the delivery of BPS Result 10).<sup>24</sup> There is anecdotal evidence of increasing demand and a shortage of people with service design expertise across the public service. This might become more acute as agencies respond to the BPS message to be more innovative.



CDHB also has a recognised service design capability but its innovation capability extends well beyond this team. As described above, its training programmes such as Particip8 and Xcelr8 are designed to give participants across the organisation and wider Canterbury health system the tools to generate new ideas and drive their implementation. Moreover, innovation is evident in not only what they do, but how they do it. For example, Vision 2020 was produced through a highly innovative experiential process, dubbed Showcase.<sup>25</sup> This involved small groups of participants being taken through a warehouse where they experienced mock-ups of health services. Their reactions were captured, including as visual conversations by an artist, and later used to define a vision for the Canterbury health system. It took a lot of courage on the part of the CEO to agree to such a non-traditional process, but the result was highly successful and was perceived to have been responsible for the high level of buy-in and ownership of the overall vision. A second Showcase is being held in early 2013 to refresh that vision.

A key message from this case study is that it takes time and investment to develop and maintain organisational capability to enable innovation. This echoes the international literature on innovation capability, and is common to both the public and private sectors: “Experience and research show that top management must show long-term dedication to set aside resources for innovation in order to establish a lasting organisational capability to innovate”.<sup>26</sup> Both IR and CDHB have invested in innovation capability. This has been built over 5 to 7 years and sustained over the tenure of several Chief Executives and, in the case of CDHB, several boards.

One of the early architects of IR’s service design capability highlighted the potential return on that investment: “The journey is worth it. Everyone is a citizen, everyone has a customer experience; better design will benefit all New Zealanders. Also, if we achieve excellence in public service design, the result will be an innovative and efficient public service”.<sup>27</sup>

<sup>22</sup> Saco, R and Goncalves, A (2008) ‘Service design: an appraisal’, Design Management Review, Vol 19, no.1

<sup>23</sup> ‘The Journey to the interface: how public sector design can connect users to reform’, DEMOS, 2006, UK, [www.demos.co.uk](http://www.demos.co.uk), p90

<sup>24</sup> Result 10 is: New Zealanders can complete their transactions with the Government easily in a digital environment. Further information about BPS results are available at <http://www.ssc.govt.nz/bps-results-for-nz>

<sup>25</sup> Described in more detail in annex 1.

<sup>26</sup> Davila T, Epstein M.J and Shelton R, ‘Making innovation work: how to manage it, measure it, and profit from it’, Wharton School Publishing, USA, 2006.

<sup>27</sup> Jim Scully quoted in Karyn McLean, Jim Scully, Leslie Tergas, ‘Inland Revenue New Zealand: service design in a regulatory

## A cross-agency innovation hub?

The CDHB service design team and the Christchurch based IR service design team intend to co-locate which could provide a prototype for some future cross-agency innovation capability. The two teams already share information, methods and training and expect to co-locate in early 2013.

Overseas jurisdictions with a strong innovation strategy have put in place an innovation hub, or some centre of expertise (virtual or real) to provide practical support to develop innovation capability.<sup>28</sup> The functions provided by such labs/centres of expertise include:

- Providing advice, active support and practical toolkits
- Providing a repository of local and international, public and private exemplars of innovations and innovation capability
- Facilitating networks for sharing knowledge and experiences
- Providing capability development (training and development/expertise)
- Providing mechanisms for up-scaling or diffusing innovations.

CDHB sees this Canterbury co-location as an opportunity to create a design lab and is explicit about the potential for the hub to provide cross-government innovation capability. It promotes the potential public value to be gained from that. IR has been more cautious, perhaps reflecting the current regulatory constraints around privacy and the related tensions co-location raises. The hub will be something to watch.

## Innovation capability links to superior performance

The characteristics derived from the literature as being common to organisations that enable and support innovation align closely with the characteristics defined by the PIF system level findings as indicators of good performance and of aspirational 'great public institutions'. Table 2 compares those two sets of characteristics.<sup>29</sup>

**Table 2**

High performing public institutions	Organisations that enable innovation
Are clear about their purpose; know how they can add most value to New Zealand now and in the future; and are clear about the strategy for delivering that value.	Have leadership that is clear and passionate about what it is trying to achieve (outcomes and goals) but is flexible about how to reach those goals (tight/loose balance).
Develop and use information and analysis to support decision making to add value and manage risk. The others avoid risk rather than manage it.	Encourage experimentation and bounded and informed risk-taking.
Enlist the active support of all those outside the agency who are necessary to the agency delivering its key results.	Are customer focused, solicit ideas from and engage with diverse internal and external sources.
Demonstrate that they value learning, innovation and continuous improvement.	Have capability, skills and experience in innovation disciplines/methods supported by resources (funding, time and space).

<sup>28</sup> For example, Denmark's MindLab is internationally recognised. Australia has recently established a Centre of Excellence in Public Sector Design as part of its Public Service Innovation Action Plan.

<sup>29</sup> For a discussion of the PIF system level findings, see Deborah Te Kawa and Kevin Guerin, Provoking debate and learning lessons – it is early days but what does the Performance Improvement Framework challenge us to think about?, Policy Quarterly, Vol 8, issue 4, November 2012

The PIF currently concentrates on public service departments and while a few Crown entities have been reviewed it has not yet reviewed any district health boards (DHBs). Among the public service departments that have undergone a PIF review, IR is a high-flyer.<sup>30</sup> An indicator of CDHB's growing reputation as a high-performing organisation is that it is becoming a popular destination for overseas jurisdictions<sup>31</sup> and other DHBs seeking to emulate its innovative approach to achieving an integrated health system. Both organisations demonstrate that they value and invest in learning, continuous improvement and innovation.

## Conclusions

Both IR and CDHB embarked on an innovation journey based on a similar 'burning platform', a desire to put the customer at the centre of the business while at the same time responding to increasing demands for services and decreasing funding baselines. Both agencies have also invested in innovation capability over some time, not in isolation but as part of a package of business transformation strategies.

This case study found that both IR and CDHB reflect most of the characteristics derived from the literature as being common to organisations that support and enable innovation. However, we argue there is a qualitative difference between the organisations. CDHB encourages experimentation and seems prepared to accept and manage related risk. The perceived risk aversion in IR was seen as a barrier to the agency realising its full innovation potential. IR's innovation capability is synonymous with its service design capability whereas CDHB takes a broader and more extensive approach to innovation. It has an explicit strategy to embed innovation across the organisation and wider system. It is innovative in what it does and how it does it. We note however, that the relatively new IR Commissioner is committed to building IR's overall innovation capability, which bodes well for the future: "*Although Service Design is one of our key capabilities in delivering innovative and customer centric services, we also want to ensure we have a culture of innovation embedded throughout all areas of the organisation.*"<sup>32</sup> Moreover, our findings also suggest that even if an agency does not fully reflect every characteristic - for example, where risk aversion may mean it is not tapping its full innovation potential - having strong capability in service design or some other innovation discipline means that it can still enable innovation activity. That is an important message for other public sector organisations wishing to improve their own innovation capability.

Up-scaling successful innovation and building innovation capability in organisations are both crucial parts of the quest to embed innovation across the state services. Underpinning that, we need a public management environment that encourages innovation. Systemic barriers, related to the overall public management system and not specific to either organisation, were also mentioned by people interviewed for this study. These manifested more in IR than in CDHB which as a crown entity is relatively more autonomous. They included the challenge of collaboration between agencies and with private sector and NGO partners, difficulties with jointly funding initiatives, barriers to information sharing, and business case processes that require a level of specificity that does not enable the iteration and adjustments involved when prototyping or trialling design options.<sup>33</sup>

The challenge now is to build an 'innovation infrastructure' for the state services, including enhanced systemic incentives (demand, mandate and expectations to innovate) and support (guidance on capability and methodologies) to move from 'random innovation' or 'innovation by necessity' (responding to crises such as the Canterbury earthquakes) to a new state of 'innovation by design'.

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<sup>30</sup> See Figure 4 in *ibid*, p. 34

<sup>31</sup> These include several Australian states, Singapore, Canada and the UK National Health Service.

<sup>32</sup> Naomi Ferguson, Chief Executive and Commissioner of Inland Revenue, 21 December 2012.

<sup>33</sup> Legislative changes proposed in the State Sector and Public Finance Reform Bill provide for greater flexibility in funding arrangements including through multi-category appropriations. More flexible business case processes can also support agencies to work collaboratively and enable an iterative approach to service design and delivery.

## CDHB: designing an innovative system

### Introduction

The Canterbury District Health Board (CDHB) has a growing reputation as a high-performing, innovative organisation. It is becoming a popular destination for overseas jurisdictions<sup>34</sup> and other DHBs seeking to emulate its innovative approach to achieving an integrated health system.

CDHB was recognised for its speedy and innovative responses to the Canterbury earthquakes. For example, its electronic shared care record view (eSCRV) was chosen as one of the SSC's case studies of public sector innovations following the quakes. The eSCRV (described in more detail below) is a secure on-line system for sharing patient information between health professionals. The case study revealed that eSCRV was not simply a response to the disruption of the earthquakes. In reality, the eSCRV had been in the pipeline prior to the earthquakes. Its development was accelerated in response to post-earthquake needs but the organisational foundations that enabled this and other CDHB innovations were pre-existing.

CDHB's innovation capability has been built over a number of years. This case study tells the story of how CDHB has embedded a culture of innovation across the Canterbury health system. It tests CDHB against the characteristics cited in the literature as being common to organisations that support and enable innovation.<sup>35</sup> The case study is not intended as an evaluation or comprehensive assessment of CDHB's capability. Rather it is designed to offer lessons to other organisations seeking to develop or expand their innovation capability.

### The burning platform

In 2007 Canterbury's health system was fragmented and characterised by growing admissions, increased waiting times at hospitals, and escalating demand for aged residential care. CDHB reckoned that if the status quo continued, by 2020 a new hospital the size of Christchurch's main hospital, 20% more general practitioners, and 2,000 more aged care beds would be required. In addition, it faced a future of scarce resources and an ageing workforce.

While work had been done on lean thinking<sup>36</sup> at the hospital, it was clear this approach would not adequately address the challenges facing the CDHB. Senior leaders realised a major transformation was required. One described the situation as "you can't leap a chasm one step at a time". The focus was deliberately shifted from cutting costs and the needs of the organisation, to a vision for the Canterbury health system as a whole, concentrating on the patient journey through the system. Vision 2020 was the result.

<sup>34</sup> These include several Australian states, Singapore, Canada and the UK National Health Service.

<sup>35</sup> Based on: David Albury's research on more than 40 high-performing innovative organisations and 10 innovative sectors, [http://www.anu.edu.au/discoveranu/content/podcasts/creating\\_the\\_conditions\\_for\\_radical\\_public\\_service\\_innovation\\_david\\_albury/](http://www.anu.edu.au/discoveranu/content/podcasts/creating_the_conditions_for_radical_public_service_innovation_david_albury/); The Australian Public Service 'Innovation Compact for Leaders' <http://innovation.govspace.gov.au/>; 'The Public Innovator's Playbook: nurturing bold ideas in government'; Deloitte, and the Harvard Kennedy School's Ash Institute for the Democratic Governance and Innovation <http://www.deloitte.com/innovatorsplaybook>; and 'Innovation in the public sector: enabling better performance, driving new directions', Australian National Audit Office [www.anao.gov.au](http://www.anao.gov.au)

<sup>36</sup> The goal of lean thinking is to create more value with fewer resources and zero waste." The term "lean" was coined by a team at MIT to describe Toyota's business during the late 1980s. The characteristics of a lean organisation and supply chain are described in *Lean Thinking* by James. P. Womack and Daniel T. Jones (2003), Free Press, USA.

The Canterbury earthquakes brought the future forward. They resulted in a reduced workforce and increased demand for services, the central issues CDHB had predicted the system would have faced in 2020. But because work had been done to collectively anticipate the 2020 challenge, the Canterbury health system was able to show agility in the face of that disruption. Vision 2020 quickly became Transition 2012.<sup>37</sup> An indicator of the resilience of the Canterbury health system is that even after the February earthquake, Canterbury missed its elective surgery target by only 4%, a better result than for other DHBs. The performance of the system has remained constant and compares well with other DHBs despite the significant challenges faced, including fewer acute admissions to hospital,<sup>38</sup> shorter waiting times, and fewer people going into aged residential care or not staying as long when they do (ie: a reduction in the number of bed days for rest home level care).

The results speak for themselves. But to what extent is innovation capability a part of this ability to adapt and evolve in the face of immediate demands and future pressures? The following sections test CDHB against the key characteristics cited as being common to organisations that enable and support innovation. International evidence suggests that those organisations:<sup>39</sup>

- Have leaders that are clear about what they are trying to achieve (outcomes and goals) but flexible about how to reach those goals (tight/loose balance).
- Encourage experimentation and bounded and informed risk-taking.
- Are customer focused, solicit ideas from and engage with diverse internal and external sources.
- Have capability, skills and experience in innovation disciplines/methods supported by resources (funding, time and space).

## Leadership, goals and strategy

**1** Characteristic: Leadership that is passionate about outcomes and has clear goals but is relaxed about how to reach those goals.

Lead questions:

- How are those agency goals articulated – to staff/to stakeholders?
- Where and how does innovation (or the desire to seek new and better ways of doing things) fit into organisational strategies and how is that communicated across the organisation?

Passionate leaders, a common vision and common language are key components of developing a culture that supports innovation. In terms of clarity of purpose, vision and strategy, senior CDHB managers interviewed were all completely ‘on message’ with a shared understanding of the vision of the organisation and the wider Canterbury health system. Vision 2020 (see box) stands as the key document underpinning the Canterbury health system and driving future transformation.

<sup>37</sup> Transition 2012, CDHB April 2012.

<sup>38</sup> Age standardised acute medical admission ratio for 2010/2011, CDHB 0.74, other major DHBs 1.09 and for 2011/2012, CDHB 0.69, other major DHBs 1.08.

<sup>39</sup> Based on: David Albury’s research on more than 40 high-performing innovative organisations and 10 innovative sectors, [http://www.anu.edu.au/discoveranu/content/podcasts/creating\\_the\\_conditions\\_for\\_radical\\_public\\_service\\_innovation\\_david\\_albury/](http://www.anu.edu.au/discoveranu/content/podcasts/creating_the_conditions_for_radical_public_service_innovation_david_albury/); The Australian Public Service ‘Innovation Compact for Leaders’ <http://innovation.govspace.gov.au/>; ‘The Public Innovator’s Playbook: nurturing bold ideas in government’; Deloitte, and the Harvard Kennedy School’s Ash Institute for the Democratic Governance and Innovation <http://www.deloitte.com/innovatorsplaybook>; and ‘Innovation in the public sector: enabling better performance, driving new directions’, Australian National Audit Office [www.anao.gov.au](http://www.anao.gov.au)

## VISION 2020

Integrated health and social services - a connected system centred around people that aims not to waste their time.

### THREE STRATEGIC GOALS:

1. People take greater responsibility for their own health.
2. People stay well in their own homes and communities.
3. People receive timely and appropriate complex care.
- 4.

**A collaborative way of working is central to the achievement of these goals.**

#### *One health system one budget*

- a. Removing barriers and perverse incentives created by contracts and organisational boundaries by planning and working collaboratively across the public, private and NGO sectors.
- b. Getting the best outcomes possible within the resources we have.

#### *It's about people*

- a. The key measure of success at every point in the system is reducing the time people waste waiting.
- b. Right care, right place, right time, delivered by the right person.

#### *Focus on leadership*

- a. The DHB's role is to buy the right thing for the population.
- b. Clinicians are enabled to do the right thing the right way.

#### *Take a 'whole of system' approach*

- a. Understand and respond to the needs of populations.
- b. Use information to plan and drive service improvement.
- c. Manage the short term in the context of the long term.
- d. Focus on improving productivity by doing the right thing the right way at the right time.
- e. Make decisions based on where services are best provided:
  - a. What is best for the patient?
  - b. What is best for the system?

CDHB leaders were clear that the visibility of senior management was vital to translating the vision and “a direction of travel” to all parts of the organisation, and further out to the wider health system. They saw this as an explicit responsibility. They emphasised the role of senior leadership as “painting the picture” so that staff and stakeholders could see where they fitted into it. The CEO described it as: “So as opposed to this traditional top down forcing something through we have engaged a system, to create a shared vision and we have...been really passionate and dogged about the vision.”<sup>40</sup>

Vision 2020 was designed collaboratively involving stakeholders from throughout the Canterbury health system, including through a highly interactive and experiential process dubbed Showcase, held in late 2009. It took a lot of courage on the part of the then Chief Executive to agree to such a non-traditional process or as one senior leader described it, “probably the single most creative innovative process I have ever been at”.

<sup>40</sup> Interview with David Meates, CEO CDHB, 9 October 2012.

## **“Showcase”- developing Vision 2020**

“Showcase” was held in 2009 and was a key event for co-producing a vision of the future of the Canterbury health system. Designed with the assistance of innovation expert Roger Dennis, Showcase involved taking over a warehouse where mock ups of health services, for example, a hospital ward and a GP’s surgery, were set up. Groups of 10 people at a time were taken through to consider scenarios of the future of the health system, in particular the looming challenges of 2020. Discussions within these groups were captured pictorially by an artist. Participants were able to take away those ‘visual conversations’. Pictures of those discussions continue to be displayed on the walls of the CDHB offices.

Showcase was advertised by word of mouth and open to a wide range of participants, not just employees of the CDHB. Employees of partner organisations, for example Orion Health also attended. Initially ‘thought leaders’ were asked to invite people and the intention was to create a social movement of attendees, who would in turn invite others. The initial expectation was that the event would last one and a half weeks and 400 people would attend. Showcase ended up lasting 6 weeks and over 2,000 people attended.

The experience enabled people to understand what was required from the health system and their place in it. It allowed people to see how they could contribute, making them active participants rather than passive recipients, thereby creating a richer vision. It is perceived to be partly responsible for the high-level of buy-in and ownership of what has become a shared vision.

A second Showcase began in late 2012. Around 3000 people are expected to attend by the end of February 2013. This latest version is open to the public via community interest groups. The focus this time is on what an aging population means for both the workforce and the health service. It explores the unique opportunity in Canterbury to redevelop health infrastructure post earthquakes based on a whole of system design and focused on health delivery centred on people in their homes. The aim is to encourage people to explore these themes by informing them of the issues behind the need for further change and engaging them in the design opportunity. CDHB argues that “System wide change can only occur if everyone understands and connects with the drivers for change, and understands how to engage”. Showcase is designed to be one step in this process.

People interviewed for this case study consistently referred to senior CDHB leaders as highly visible and clear in how they articulate the vision for CDHB and the wider health system. The Chief Executive’s visibility was seen as especially important. A weekly update to staff from the Chief Executive, and regular staff forums are designed to keep staff informed and involved. For example, senior doctor ‘away days’ are held regularly, taking doctors away from their regular functions and involving them in decision making about the Canterbury health system. Interviewees stressed that senior leaders engagement with staff needs to be genuine and not formulaic. This helps create trust and confidence while modelling desirable behaviour and inspiring staff.

Common language is part of the glue across the system. For example senior leaders and staff consistently referred to the “Canterbury health system” as opposed to CDHB. While this might appear a semantic distinction, it is seen as part of a shift in focus from the organisation and hospital to the wider system and desired health outcomes. Transition 2012 summarises this as: “We need the whole system to be working for the whole system to work”. Similarly, change is never presented as a way to save money; effectiveness trumps efficiencies. As one senior leader explained: “you can’t fix the bottom line by focusing on the bottom line – instead you need to look at the future horizons and invest in the direction of travel”.

## Permission, experimentation and risk management

2. Characteristic: Encourages experimentation and bounded and informed risk-taking, while tolerating some failure as a learning experience.

Lead questions:

- How do they show that they are prepared to consider and trial new ideas and new ways of doing things?
- How do they communicate a tolerance for risk? What risk management strategies are in place? How is efficiency and effectiveness built in to decision-making – quick iterations/prototyping/fail fast/fail cheap? How is failure dealt with – is it seen as a learning opportunity?
- What incentives? How is innovation recognised and rewarded? To what extent are budgets and fund allocations linked to improvements in performance driven by innovation?

Organisations that enable innovation encourage experimentation, support it with risk management strategies, allow some failure which is seen as a learning experience rather than sunk costs, and reward innovation initiative.

CDHB was seen as encouraging of experimentation and tolerant of risk-taking. Senior managers noted that if an organisation penalises failure when people try new things then it will perpetuate a risk-averse culture and reduce innovation capability. They argued that staff should understand what they are trying to achieve, know that their backs are covered, and if they fail it should be quick and early and used as a learning experience. The CEO referred to this as tolerating “*sensible risk*”.<sup>41</sup>

CDHB’s ‘Particip8’, ‘collabor8’ and ‘Xcelr8’ (described in the box below) training and development programmes are designed to give participants the tools and permission to think and do things differently. Particip8 is largely about teaching change management, including creating narratives to make ideas stick.<sup>42</sup> Collabor8 is a training course on lean thinking. Xcelr8 is about encouraging participants to seek new and better ways of doing things, to own the innovation challenge. This is based on the notion that when people are empowered they think about how they can make a difference, rather than thinking it is someone else’s problem to deal with. One senior manager noted that they were aiming to give “*everybody permission to do things differently*” but within the boundaries of the vision “*Is this right for the patient and is this right for the system?*” References were made to the need to create “*architects of change*” within the organisation and in partnership with stakeholders.

Around 700 people (out of a workforce of approximately 8,000) have completed Xcelr8 since its inception, while 1000 have completed Particip8, representing a significant investment of time and resources in workforce development. The influence of Xcelr8 in particular, is often profound and visible; clinicians report being able to tell who has attended the course based on their behaviour and ‘can-do’ attitude.

<sup>41</sup> Interview with David Meates, CEO, CDHB, 9 October 2012.

<sup>42</sup> Participants are encouraged to read Chip and Dan Heath’s book, *Made to Stick: why some ideas survive and others die*, Random House, 2007, USA.



## Xcelr8 – creating architects of change

Xcelr8 is an immersion training programme that helps set expectations that employees of the Canterbury health system should all be seeking new and better ways of doing things. Xcelr8 started in 2007 with the initial goal of preparing the CDHB for the financial and volume issues of the subsequent two years. It has evolved to give participants a new experience of the Canterbury health system using techniques of experiential learning, symbolism, storytelling and theatre. A central goal of Xcelr8 is to develop “common stories, not group think”, as a way of refreshing and embedding the vision and change strategies in the system.

The course is typically launched with a function where the managers of participants serve food and wine which serves to symbolise the breaking down of hierarchies and barriers. Participants sign a pledge symbolising their commitment to the goals of the course. The Chief Executive makes a speech about why Xcelr8 is important and why the participants are on the course. Expectations are clear from the outset.

Groups on the course are deliberately mixed so people who do not usually work together interact, gaining a greater understanding of other parts of the health system and how the various part fit together. Workshops are designed to help participants understand themselves, others and the health system overall. The final workshop is about sustaining change and looks at business modelling, planning, supply and money. Money is deliberately the last thing considered as the focus is about designing effective services around patients and valuing patients’ time. There is a deliberate attempt not to see the exercise as limited to achieving efficiencies or cutting costs.

Towards the end of Xcelr8, groups develop their own project or innovative initiative for improving the system and adding value. These projects are presented to the Chief Executive, in what is referred to as “David’s Den” (referring to the Chief Executive David Meates, and a play on the Dragon’s Den concept). Each successful idea is allocated to a senior leader to sponsor and take forward. The winner of each David’s Den receives an award.

A “permission card” is given to participants at the end of the Xcelr8 programme. This card, which sets out the operating principles and is signed by Chief Executive, states “you have my permission to change our health system”. If a person wants to make a change and is not supported, they can ‘play’ this card, potentially invoking the authority of the Chief Executive.<sup>43</sup>

Trust was seen by those interviewed for this case study as an essential component of an innovative organisation. However, trust does not mean everyone agrees all the time. The key to an environment of trust is that people feel they have had input and have been heard. Furthermore, being innovative does not mean giving staff permission to make every decision. Being clear about who makes decisions is crucial. As one senior manager explained, “some decisions need to be made by Ministers and others need to be made by the board of the CDHB because they are accountable for certain things”. But it was argued that in principle the key to better services was shifting decision-making as close as possible to where the actual service gets delivered. “Shift as much of the decision making and control to where the actual service gets delivered and then you come back to better public service.”

Devolution of decision rights encourages and enables an expectation that everyone takes responsibility for change. The CEO argues that most people can be trained to lead change given the right challenges, environment, tools and experiential learning. He also argued that while we have an abundance of administrators across the public sector, real leadership

<sup>43</sup> The card sets out the following principles/values: \* Sustainability – living within our means. \* We are the architects of our future – we solve our own problems with clinically led solutions. \* Getting the basics right – systematic simplicity, remove duplication and achieve standardisation. \* Single focus on delivery of agreed actions – planning at speed/action required today. \* Engagement and partnership with the community. \* Our organisation reflects its leadership and our priorities.

requires people who can “take people with them and need to be able to engage and connect with others and ask them to be part of the solution”.<sup>44</sup>

## Customer focus, ideas generation and stakeholder engagement

3. Characteristics: Is customer focused, solicits ideas from and engages with diverse internal and external sources.

Lead questions:

- What channels are there for seeking ideas from inside and outside the organisation – including for scanning international exemplars, engagement with stakeholders/users?
- How are successful innovations re-used/adopted/adapted and shared within and outside the organisation?
- Is collaboration with other organisations part of the innovation equation?

A focus on users, engaging stakeholders and soliciting ideas from diverse internal and external sources are all key inputs to the innovation process.

CDHB is strongly customer-focused; the desire to improve the customer journey has been a key driver for change. CDHB’s map of the Canterbury health system<sup>45</sup> has the customer firmly in the centre of the picture, while a key indicator of success across the system is “reducing the time people waste waiting”.<sup>46</sup>

CDHB exhibits strong engagement with stakeholders (reflecting the need to engage other health sector partners to deliver outcomes) and has deliberate strategies to engage staff and stakeholders in the actual design of improvements to processes and services. As noted above over 2000 stakeholders were involved in developing its Vision 2020, Xcelr8 programme involves participants (drawn from across the Canterbury health system) designing an innovation, and all staff are encouraged to suggest new and better ways of doing things .

Good ideas are deliberately sought from outside the health sector. At Xcelr8 good customer service and production principles from other industries, for example Air New Zealand and public libraries, are discussed. The CEO argues that there are many potential answers to business challenges and those answers are often found in unexpected quarters. For example, the alliancing approach to funding and implementing projects comes from the construction industry (see box below).

CDHB also co-produces services with other parts of the Canterbury health system. For example, the eSCRV (see box below) was the product of collaboration between CDHB and other partners in the Canterbury health system.

<sup>44</sup> Interview with David Meates, CEO CDHB, 9 October 2012.

<sup>45</sup> The map is a pictorial depiction of the health system and used to describe Vision 2020 which became Transition 2012 following the earthquakes.

<sup>46</sup> Transition 2012, CDHB, April 2012, p.4.

### **Alliancing: working together to achieve shared outcomes**

Alliancing is based on the achievement of a particular outcome, where a group of organisations collectively manages the process, risk is shared across the alliance, and any problems arising are considered everyone's to resolve. As one senior CDHB manager described it: *"...the thinking behind an alliance contract is that everyone gets the right risk. So they get to manage the risk they can manage. So you are not trying to pass off to some organisation a risk that is beyond their capability of managing."*

Alliancing is being rolled out across the South Island health system. It is a deliberate move away from the old contract-based system. The traditional contract-based system was said to drive undesirable, competitive behaviour amongst contracting parties. It was seen to disempower decision makers by requiring a 'one size fits all' approach to service delivery rather than allowing people to come up with local solutions to local problems to meet desired outcomes.

Under alliancing participants sign a charter, co-produced by them, that sets out how they will behave in the alliance and what the alliance is expected to achieve. Disagreements occur but partners are expected to come to the table to jointly resolve issues. Senior managers report that alliancing has had a positive impact on behaviour, with more collaboration and less competition. One senior manager explained the process and benefits. You need to *"be clear about the end point, define the problem and context and enable people"*. The intended results for users from this integrated process mean that: *"It should be seamless for the person...they have no sense of having been passed from one organisational structure to another...the services are just organised around them"*.

### **The Shared Care Record View (eSCRV): co-production in action**

The eSCRV is a secure on-line system for sharing patient information between health professionals. It is an example of collaboration-based innovation. The eSCRV was co-produced by the CDHB, Pegasus Health, the Canterbury Community Pharmacy Group, Nurse Maude and Orion Health. The eSCRV allows for an integrated approach to case management, better patient care, faster treatment and shorter waiting times.

The eSCRV has resulted in a reduction in acute admissions. 24 hour practices need to send fewer patients to hospital as they can be treated on the spot. It has also helped reduce the unnecessary duplication of procedures. Access to relevant clinical information greatly increases patient safety. As an on-line rather than a paper-based system eSCRV also reduces the vulnerability of the health system to disasters such as the Canterbury earthquakes.

By the end of 2012 eSCRV will have been extended to all Canterbury health providers (108 out of 128 practices currently have access). South Canterbury, West Coast and Nelson Marlborough DHBs are likely to be the next to implement eSCRV and other South Island DHBs are expected to also adopt it.

## Capability – skills, space, tools and investment

4 Characteristic: Has capability, skills and experience in innovation disciplines/methods supported by resources (funding, time and space).

Lead questions:

- Do staff have access to and training in innovation disciplines, methods, tools and approaches?
- Is there dedicated space and/or time for ‘thinking’ and developing new ideas/ways of doing things?
- Is there a special part of the organisation dedicated to innovation (R&D, service design/design thinking)?

CDHB has invested considerably in developing capability and skills in innovation and change management. Innovation methods such as design thinking, prototyping and iteration are standard practice throughout the Canterbury health system. CDHB has a specific service design capability, the Business Development Unit, which is a team of 12 service designers, but its innovation capability extends well beyond this team. Rather than designating certain employees or a certain group as responsible for innovation, people throughout the organisation are encouraged to think about new ways of doing things. As described above, CDHB training programmes are designed to give participants across the organisation and wider Canterbury health system the tools to generate new ideas and drive their implementation.

A further innovation emerging from the experience of the Christchurch earthquakes is the intended co-location of the CDHB and Inland Revenue (IR) service design teams. CDHB sees this co-location as an opportunity to create a design lab and is explicit about the potential for the hub to provide cross-government innovation capability. It foresees significant “public value” to be gained. The co-location will be in a warehouse which offers the opportunity to mock up services. CDHB staff have designed the space to reflect international best practice following a study tour including to the design capitals of Seattle and San Francisco.

## Conclusions

CDHB reflects all the characteristics cited in the literature as being critical to organisations that enable and support innovation. It has clearly defined goals that have permeated the organisation and wider health system, a committed customer focus, and recognised capability in innovation methods and tools. It is innovative in what it does and how it does it.

These practices and capabilities have been built up over time and have developed through the tenure of 2 Chief Executives and 3 boards. This is a lesson to be taken from this case study: it takes time, investment, commitment and leadership to develop and maintain organisational capability to enable innovation. This corroborates the international literature on innovation capability, and is common to both the public and private sectors: “Experience and research show that top management must show long-term dedication to set aside resources for innovation in order to establish a lasting organisational capability to innovate”.<sup>47</sup> CDHB fits this bill.

<sup>47</sup> Davila T, Epstein M.J and Shelton R, ‘Making innovation work: how to manage it, measure it, and profit from it’, Wharton School Publishing, USA, 2006.

# Inland Revenue: designing innovative services

## Introduction

Inland Revenue's (IR) innovation story is synonymous with its service design capability built up over the last decade. The 'burning platform' for developing that capability was a desire to make voluntary regulatory compliance easier for clients and to improve the customer experience. This was situated in the context of streamlining business processes to achieve greater efficiencies in response to reducing baselines and increasing demand for services. The department has had to transform itself from being an agency concerned with tax and revenue to accommodating new roles related to administering Kiwi saver and other social entitlements (Working for Families, student loans). Now it is more than a tax department; it is also a major social service delivery agency.

IR, and in particular its service design team based in Christchurch, was recognised as being instrumental in many of the public service innovations occurring following the Canterbury earthquakes<sup>48</sup>. The small service design team helped design several recovery services including Recover Canterbury (a business recovery service) and the Earthquake co-ordination support service (support for people in need of accommodation and other social services). It is also a key player in new innovation initiatives such as a 'shared front of house', a Christchurch based one-stop-shop and a prototype for Better Public Services (BPS) Result 10.<sup>49</sup>

This case study tells the story of the development of IR's service design capability. It holds the organisation up to the mirror of the broader characteristics cited in the literature as being common to organisations that support and enable innovation. It is not intended as an evaluation or comprehensive assessment of IR's capability. Rather it is designed to offer lessons to other organisations seeking to enhance their innovation capability.

## The burning platform

In 2000 a new Commissioner joined IR from the Australian Tax Office where user-centred service design was in its infancy.<sup>50</sup> His Australian counterpart had witnessed a compliant businessperson trying to do the right thing to pay taxes but struggling with the level and complexity of forms required. Meanwhile in NZ the suicide of a taxpayer, linked to frustration over tax compliance and covered in the media, had shaken IR. The scene was set for a new NZ Commissioner to drive a cultural shift towards IR better understanding its customers and improving customers' interactions with the department. A 'customer charter' followed as did the transformation of the Operational Strategy and Business Design function into a deliberate service design capability.

Service design as a method focuses on the customer and their experience as the starting point for designing services and is a recognised method for driving innovation in the public sector. The development of the service design capability is described in an article published

<sup>48</sup> <http://www.ssc.govt.nz/christchurch-innovations>

<sup>49</sup> Result 10 is part of the BPS programme to improve interaction with government and specifically designed to ensure "New Zealanders can complete their transactions with the government easily in a digital environment". It involves a number of government agencies and goes beyond digital interactions to other channel strategies as part of an integrated service delivery network.

<sup>50</sup> The ATO is considered a pioneer in applying design methods to its administrative work. For a discussion of this see Nina Terrey, "Managing by design - enacted through situated networks", in Leading innovation through design, 2012 International design management research conference, Boston, USA, August 2012

in an international journal by the staff responsible for introducing it to the organisation.<sup>51</sup> The value proposition was explicit: “well designed user-centred services reduce barriers to meeting tax obligations and accessing entitlements, and reduce the costs of doing this to the department, as well as to the customer”.<sup>52</sup> A deliberate strategy was employed to develop the capability, embed it into the organisation and to maximise its sustainability. The component parts were mutually reinforcing and included:

- Developing a **framework of tools, methodologies, and approaches** reflecting best practice in the public and private sectors (in design vision, customer experience, service systems, service interactions, service embedding and project management).
- **Building a team of designers**, including from the ranks of non-designer staff, and developing the notion of a profession with a career path as well as co-ordinated training (“boot camp of design thinking”). New staff with specialist skills in design were also recruited.
- **Forging relationships with other key groups**, in particular building synergies with an existing customer insight group: “The success of the customer insight and the design groups is mutually dependent – one provides knowledge of the customers and the other melds it into a truly customer-centred, organisationally useful design”.<sup>53</sup>
- **Engaging senior leadership** and other internal clients to ensure buy-in, to develop and maintain support and relevance, and to ensure sustainability. This included the design team running an ‘experience’ for senior managers to get them to stand in the customer’s shoes and to see the value of design techniques. Customer interviews were also transformed into videos to tell the customer story and used to further engage staff.
- **Demonstration projects to show the value** gained through applying design techniques to presenting opportunities/challenges.

## Current state

The service design capability has been sustained since that time. The Service Design and Implementation (SDI) group now includes some 220 staff. Some staff are based in the regions, such as the small Christchurch team, but managed from and working to programmes driven out of Head Office. Other staff have been deployed to assist with cross-government activities; some are currently working in DIA on developing strategies to achieve BPS Result 10.<sup>54</sup>

IR service design capability means that it can create innovation activity. But does that mean that it is an innovative organisation? The following section tests IR against the key characteristics cited as being common to organisations that enable and support innovation. International evidence suggests that those organisations.<sup>55</sup>

- Have leaders that are clear about what they are trying to achieve (outcomes and goals) but flexible about how to reach those goals (tight/loose balance)
- Encourage experimentation and bounded and informed risk-taking
- Are customer focused, solicit ideas from and engage with diverse internal and external sources

<sup>51</sup> Karyn McLean, Jim Scully, Leslie Tergas, Inland Revenue New Zealand: service design in a regulatory context, Design Management Review, Vol. 19, no.1, Winter 2008, USA

<sup>52</sup> Ibid p. 31

<sup>53</sup> Ibid p32

<sup>54</sup> BPS Result 10 is “New Zealanders can complete their transactions with the Government easily in a digital environment”. <http://www.ssc.govt.nz/bps-results-for-nzers>

<sup>55</sup> Based on: David Albury’s research on more than 40 high-performing innovative organisations and 10 innovative sectors, [http://www.anu.edu.au/discoveranu/content/podcasts/creating\\_the\\_conditions\\_for\\_radical\\_public\\_service\\_innovation\\_david\\_albury/](http://www.anu.edu.au/discoveranu/content/podcasts/creating_the_conditions_for_radical_public_service_innovation_david_albury/); The Australian Public Service ‘Innovation Compact for Leaders’ <http://innovation.govspace.gov.au/>; ‘The Public Innovator’s Playbook: nurturing bold ideas in government’; Deloitte, and the Harvard Kennedy School’s Ash Institute for the Democratic Governance and Innovation <http://www.deloitte.com/innovatorsplaybook>; and ‘Innovation in the public sector: enabling better performance, driving new directions’, Australian National Audit Office [www.anao.gov.au](http://www.anao.gov.au)

- Have capability, skills and experience in innovation disciplines/methods supported by resources (funding, time and space).

## Leadership, goals and strategy

1. Characteristic: Leadership that is clear about outcomes and has clear goals but is flexible about how to reach those goals.

Lead questions:

- How are those agency goals articulated – to staff/to stakeholders?
- Where and how does innovation (or the desire to seek new and better ways of doing things) fit into organisational strategies and how is that communicated across the organisation?

IR's current Business Transformation programme is designed to deliver on the goals set out in the strategic document, IR for the future, which was developed over several years, in consultation with staff but led directly by the then Commissioner. The current and relatively new Commissioner has taken up the baton and makes an explicit link between this strategy and innovation: *"Innovating to make a difference' is one of our core values and is one of the cornerstones in our strategic document IR for the Future".*<sup>56</sup>

Staff interviewed for this case study all referred to the strategy and could articulate the key messages embodied in it including the need to "meet changing customer expectations by providing customer services that make compliance easier, faster and less costly".<sup>57</sup> They also referred to mandate and leadership from the top as being vital to a focus on, and shared language around, customers and citizen-focused service design. One noted: *"Outcomes are locked in but the process is not prescribed"*.

Other performance improvement initiatives such as a strong focus on continuous improvement (for example using Lean Six Sigma business management tools) are further indicators of this. *"IR have a very strong culture of improvement. Many of those are with the service design team but some of them are not. We have Sigma teams and a whole range of people outside the design shop who are involved in improving the processes and doing things differently. The lean people are all about process, it's about data and facts. The design folks are more about customer centric stuff, what the outcome is we are trying to achieve, whereas the lean guys are more about changing the processes...so it's about [cutting] waste"*.

## Permission, experimentation and risk management

2 Characteristic: Encourages experimentation and bounded and informed risk-taking, while tolerating some failure as a learning experience.

Lead questions:

- How do they show that they are prepared to consider and trial new ideas and new ways of doing things?
- How do they communicate a tolerance for risk? What risk management strategies are in place? How is efficiency and effectiveness built in to decision-making – quick iterations/prototyping/"fail fast/fail cheap"? How is failure dealt with – is it seen as a learning opportunity?
- What incentives exist? How is innovation recognised and rewarded? To what extent are budgets and resource allocations linked to improvements in performance driven by innovation?

<sup>56</sup> Naomi Ferguson, 21 December 2012. Naomi Ferguson became Chief Executive and Commissioner of Inland Revenue in July 2012.

<sup>57</sup> Annual Report 2012, inland Revenue, p.13

Despite indications that staff are encouraged to find new and better ways of doing things, most interviewees referred to the organisation as risk-averse and appeared less than confident that experimentation and mistakes would be tolerated. It was suggested that there was a competing values framework in the organisation between managing risk and encouraging innovation, with controlling risk having precedence: *“Control of risk is the main diet of IR”*. One interviewee suggested that staff would draw their own conclusions if they were asked to be courageous, agile and innovative but then subject to other processes designed to eliminate risk: *“If you want to innovate you have to lose the risk-filter, let go, and trust. IR is always trying to have 100% certainty before we try anything. It asks people to take risks to come up with new things but then undermines the opportunity by a work programme that locks down agility”*.

The story in Christchurch was different. Following the earthquakes, managers in Christchurch were given enhanced decision-rights or as one described it: *“Luckily we didn’t have to ask anyone’s permission”*. With the loss of accommodation in Christchurch, about 120 IR staff were deployed to work for other organisations; others worked from home or in the community. Some staff worked with other government agencies (and private sector and NGO partners) to design earthquake related services. Having staff working in other organisations and/or remotely from home, raised security concerns including about how to protect sensitive information. The earthquakes necessitated the use of communication tools like using PCs remotely, Facebook and/or texts to communicate with staff, which it was argued, *“would have been vetoed”* [without the earthquakes]. IR is now evaluating the experience to see if there is merit in adjusting policies, such as those related to working from home, and applying them to business as usual.<sup>58</sup>

The Commissioner explains the challenge of enabling innovation in a regulatory environment: *“One of our biggest challenges is how we develop such an innovative culture without compromising the integrity of the tax system. For me, ensuring that we protect the integrity of the tax system is paramount and we currently have strict secrecy and privacy legislative provisions to support this.”*<sup>59</sup>

Service design people acknowledged that experimentation can be problematic in a regulatory environment. However, they argue that service design tools such as prototyping and user testing can offer a different approach to managing and mitigating risk. For example:

If you understand the customer needs then you are less likely to get things wrong Prototyping<sup>60</sup>, usability testing, and adjusting after each iteration can help to design out bugs early before significant resources are committed.

In short, while the department was perceived as risk-averse by those interviewed the strong culture of improvement, in the service design team and elsewhere, indicates that there is scope for trying new things. A Commissioner’s Award for innovation shows there is also recognition of successful innovation by staff.

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<sup>58</sup> The research is a joint project between IR, PSA and VUW.

<sup>59</sup> Naomi Ferguson, Chief Executive and Commissioner of Inland Revenue, 21 December 2012.

<sup>60</sup> Prototyping is the design technique of developing mock-ups on a small scale in the research phase of a project. It is distinct from piloting, where a larger-scale test version is rolled out over a longer period. The role of design in public services, Design Council Briefing no.2, 2008, [www.designcouncil.org.uk](http://www.designcouncil.org.uk)



## Customer focus, ideas generation and stakeholder engagement

3 Characteristic: Is customer focused, solicits ideas from and engages with diverse internal and external sources.

Lead questions:

- What channels are there for seeking ideas from inside and outside the organisation – including for scanning international exemplars, engagement with stakeholders/users?
- How are successful innovations re-used/adopted/adapted and shared within and outside the organisation?
- Is collaboration with other organisations part of the innovation equation?

There was a clear message from people interviewed for this case study that “*the customer is at the centre of the organisation*” and that IR is an organisation focused on meeting customer needs. The service design capability is a key part of achieving this. “*We are a customer-centric organisation. As a designer of IR my job is to be the voice of the customer and balance that up against the needs of the organisation and what it’s mandated to do...that’s an approach that’s used to manage and deliver change within the organisation*”. Service designers facilitate the process of bringing together stakeholders and subject matter experts to ensure that services capture those diverse needs and perspectives and are ultimately fit for purpose.

IR not only designs its services to meet customer needs and to improve the customer experience, it also has a strong commitment to seeking customer feedback (through various survey instruments) and building that into future service improvements. Inland Revenue was the first government agency in New Zealand to develop online customer forums.

In terms of ideas generation, the department appears to be open to input from various sources:

Internal: one interviewee expressed confidence in channels for suggesting ideas to senior management: “*I would have no issue with sharing an idea with management. I am not sure what the result would be but I have the feeling that they would listen.*”

External: ideas and models are sourced from other organisations and sectors (for example, NZ Post’s prototyping experience), and from customer feedback (as noted above).

IR also collaborates widely with other organisations. It operates as a good corporate citizen by sharing ideas and capability with other organisations, in Christchurch and elsewhere (for example, to assist DIA with designing BPS Result 10). It has 15 formal interagency MOUs.

IR sees this collaboration as helping to meet the Government’s expectations of delivering interagency capability. The Commissioner noted: “*I see balancing these types of exciting [collaboration] opportunities to provide truly customer-centric services with the absolute need to preserve the integrity of the tax system as being one of our key challenges for the future, but one that we’re ready to tackle head on.*”<sup>61</sup>

<sup>61</sup> Naomi Ferguson, Chief Executive and Commissioner of Inland Revenue, 21 December 2012.

## Capability - skills, experience and tools

4. Characteristic: Has capability, skills and experience in innovation disciplines/methods supported by resources (funding, time and space)
  - Do staff have access to and training in innovation disciplines, methods, tools and approaches?
  - Is there dedicated space and/or time for 'thinking' and developing new ideas/ways of doing things?
  - Is there a special part of the organisation dedicated to innovation (R&D, service design/design thinking)?

IR has a generally strong commitment to learning and development, with extensive courses, good on-line tools and significant resources attached to staff development.<sup>62</sup>

A specific service design 101 course is part of this repository and has helped to embed a general understanding across the organisation of the importance of design (design thinking and specific service design). As noted earlier, other organisations have tapped into IR service design capability. Interviewees noted that the size and scale of the organisation as well as the commitment to staff development means that internal career paths, including in design, are possible.

Service design is not separated from other parts of the business. Rather, service designers work with business analysts to ensure that the needs of customers are married with the needs of the business: *"Designers should translate customer needs and enable a conversation to address problems and opportunities while meeting business needs"*. In addition, since the mid-2000s, processes were introduced whereby some senior jobs were based outside of Wellington but retained national responsibilities. Staff in the regions can be managed from Wellington and vice versa. For example, the service design team in Christchurch is managed from Wellington. This allows cross-fertilisation of ideas, and enables varied customer experience and insight to be shared across the organisation.

There is a recognised trade-off associated with having a specific space dedicated to innovation (with the risk of being side-lined) and disseminating the capability around the organisation (where synergies might be lost and the benefits of design dissipated). IR seems to have found a workable balance. In addition, the IR service design team based in Christchurch intends to co-locate with the staff in the Canterbury District Health Board (CDHB) carrying out a similar service design function. Despite some concerns in Head Office, the value of the move to the organisation has been presented as enhanced cross-fertilisation of ideas, the opportunity to share approaches, methods, tools and space for design work (creating opportunities to mock-up customer 'experiences') thereby building capability and skills in both organisations. The idea could have wider value to the public sector by acting as a prototype of a cross-government innovation hub.

## Barriers and enablers

People interviewed for the case study were asked to indicate their top enablers and barriers to innovation.

The top enabler mentioned was senior management support for doing things differently, however this was said in the context of sometimes having to convince management that innovation was a good idea: *"work the crowd, by managing the stakeholders in the organisation to be allowed to do new things"*.

Change fatigue was seen as a barrier. One interviewee noted that it was difficult to get people to think about more change when they already feel overloaded by an overcommitted change

<sup>62</sup> PIF Formal review of Inland Revenue, May 2011

portfolio. There was a perception that the commitment to innovation and service design capability had reached a plateau and was not continuing to develop. Systemic barriers, related to the overall public management system and not specific to IR were also mentioned, in particular the difficulties with joint funding initiatives, and business case processes that require a level of specificity that does not enable the iteration and adjustments involved when prototyping or trialling design options .

## Conclusions

IR stacks up fairly well against the characteristics cited in the literature as being critical to organisations that enable and support innovation. It has clearly articulated goals that appear to have permeated the organisation, a clear customer focus, well defined and recognised capability in an innovation method (service design) and a commitment to change. These practices and capabilities have been built up over time and show an ongoing commitment to performance improvement. This corroborates the PIF findings which show IR to be the only public service agency to score consistently well on indicators related to self-review and improvement which are associated with innovation and continuous improvement. However, IR is also perceived to be risk-averse which means that it may not be fully tapping its innovation potential.

While IR may not yet be an innovative organisation in all its dimensions, its service design and other change related capabilities mean that it does enable innovation activity: *“IR is not highly innovative but we have a design shop and we have done some quite cool things”*. The relatively new Chief Executive is committed to building this innovation capability: *“Although Service Design is one of our key capabilities in delivering innovative and customer centric services, we also want to ensure we have a culture of innovation embedded throughout all areas of the organisation.”*<sup>63</sup> This bodes well for the future.

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<sup>63</sup> Naomi Ferguson, Chief Executive and Commissioner of Inland Revenue, 21 December 2012.