



***Te Kaihau - the windeaters***

## ***Public Sector Innovation***

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# 1 PUBLIC SERVICE INNOVATION

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Innovation can be thought of as '*new ideas put into action*'.

*New* can be new to the world, new to New Zealand, new to the public sector, or new to the type of use that it has been put to. An idea that is only new to the organisation is better described as adoption rather than innovation, but is nevertheless a powerful process of fostering innovative best practice.

*New ideas* can refer to new products or services like the Export Credit Office; new processes like the way the Education Review Office is now providing advisory audits in partnership with the schools; or new management systems like the way ACC is now handling claims.

New ideas are only proposals or inventions until they have been put into practice the first time. Then they become an innovation. Further use of that innovation is then called adoption and diffusion.

Most innovation is incremental, making small continuous improvements in the organisation and its products, services and processes. Surprisingly, organisations that achieve excellence through incremental improvement often fail to recognise the need for transformational change in response to changes in the external environment. The processes for fostering transformational innovation and incremental innovation are different.

*Intrapreneurship* is the process of entrepreneurship inside an organisation. They '*put ideas into action*'. To be an intrapreneur the ideas do not have to be new, but they do need to make a focussed effort to action an idea. Staff in the Public Service who have a significant role in driving an idea to uptake are intrapreneurs.

*Intrapreneurial innovation* is the process of '*staff putting new ideas into action inside their organisation*'.

This paper outlines the theory and practice of fostering innovation in the Public Service, and offers suggestions on how each of these issues might be researched and assessed. Issues covered are in two groups; developing the intrapreneurial capability of public servants, and developing innovative Public Service organisations:

## Developing the Intrapreneurial Capability of Public Servants

- Creativity skills
- Motivation for innovating
- Attracting and retaining intrapreneurs
- Developing intrapreneurship
- Mindsets for intrapreneurship
- Managing conflict
- Project management

## Developing Innovative Public Service Organisations

- Resources for innovation including internal seed venture capital funds

- Resource allocation processes
- Continuous improvement systems
- Innovation system
- Focus on outcomes and customers
- Leadership skills to foster Public Sector innovation
- Measurement process
- Measurements for innovation

## 2 OUTCOME SOUGHT

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Applying these principles of innovation will achieve the following results:

- A humming energy reflecting the joy that staff have in being at work;
- The ability to attract and retain innovative staff;
- Improved ability to generate creative solutions, both internally and for clients;
- An effective innovation process that leads to more good ideas being successfully implemented;
- Improved ability and willingness for staff to be intrapreneurial (i.e. make new ideas happen in the Public Service);
- Improved systems, processes and behaviours that foster intrapreneurship in the Public Service;
- Increase in motivation and decrease in demotivation to achieve the organisation's goals;
- Strengthened organisation culture to ensure incremental innovation is embedded and ongoing in the Public Service;
- Increase in the confidence, can do attitude and performance of New Zealand and New Zealanders as a result of a more efficient, effective and energising public sector;
- *Public Service Innovation!*

# 3 DEVELOPING INTRAPRENEURIAL CAPABILITY OF PUBLIC SERVANTS

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Innovation is a very human process. Government efforts to foster private sector innovation have tended to focus on improving information, technology, business planning, finance and the economic environment. These resources are tapped by people with a mindset to make an idea happen. Yet the government has put very little thought or resources into ways to develop latent innovators.

This section focuses on ways that public sector organisations can develop the mindsets and skills of public servants to foster innovation.

## 3.1 CREATIVITY

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Creativity is in part a learned skill. Elements that can be taught include:

- Principles of participating and managing brainstorming including requiring that many ideas are created, good and bad, before making any judgements
- Using metaphors, analogies, and 'what if' statements
- Disrupting habitual thought patterns
- Changing viewpoints and using techniques such as social atoms
- Identifying and dropping hidden assumptions
- Imagineering, attribute listing, morphology, and right brain exercises
- Practising creativity

Creativity can also be fostered in the organisation. Actions include:

- Developing a process to learn from mistakes
- Applying group processes to foster creativity such as De Bono's six thinking hat model
- Developing a process for evaluating and progressing good ideas
- Setting targets for the number of possible ideas, before making any judgements
- Role modelling creativity by managers, including using humour and bad ideas as ways of stimulating more ideas (this reduces self censorship by staff who are unwilling to present ideas in case they are judged to be poor)

This is not the place to discuss the development of neural processes for IQ (intellectual intelligence), EQ (emotional intelligence) and SQ (sensemaking intelligence) forms of thinking. In general though, university education fosters within rule, process driven IQ thinking. EQ neural processes that assist people to learn skills, set goals and work with others are dismissed as low-level education suitable only for Polytechnics. SQ neural processes that allow people to be creative and to make sense out of complex and wide ranging information is actively discouraged by universities. Phrases like 'I think' earn ridicule and low marks. Examinations and research reports encourage 'right answer' thinking.

The Public Service has been influenced and permeated by university trained thinking styles to the detriment of creativity, problem solving, judgement and insight.

### ***3.2 MOTIVATING FOR INNOVATION***

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Innovation is driven by motivation, in particular intrinsic motivation. Some of the numerous sets of theories on motivation are briefly discussed with the implications for the Public Service.

Intrinsic motivation implies that people are motivated from within. The three main drivers of intrinsic motivation are:

- Collaboration
- Context, and
- Choice

Collaborating in a well performing group creates excitement and commitment. However poorly performing groups can be very demotivating. Group performance can be improved through developing individual skills in groups, structuring groups to perform well, and through organisation norms and expectations.

Context is the ability to see the bigger picture of what is trying to be achieved. It is exemplified in the parable of the three stonecutters. The first stonecutter looked miserable and when asked what he was doing he muttered, "Breaking rocks". The second stonecutter looked more cheerful and when asked what he was doing said, "Earning a living". But the third stonecutter was ecstatic. He exclaimed he was, "Building a cathedral". Christchurch excelled following the earthquakes as public servants were inspired by what they could do to meet the urgent needs of the citizens.

Organisations that lack the ability to see context are often concerned with such things as internal politics, office size, and access to harbour views. Better performing organisations will focus on effectiveness and efficiency. Excellent organisations will also focus on the real purpose of what they are achieving. Many public servants have a deep commitment to the purpose of the organisation, but this can be eroded through poor management and bureaucracy.

Choice enables people to feel in control of their lives. Coronary disease has been shown to be highest in those people in jobs that lack autonomy. Burnout and bitterness accompanies powerlessness. Choice can be offered in terms of what staff do, how they do it, or when they do it.

A second branch of motivation is concerned with social learning. People are very adept at fitting into the prevailing norms. In my view the key to successful management is to build a chosen culture. It is powerful, enduring and will colour every other action taken within the organisation. This has implications for:

- Choosing an organisation culture (that includes fostering innovation)
- Taking active steps to build and sustain the chosen culture
- Role modelling especially by senior managers
- Symbols and stories
- Creating the process for sharing the culture especially with new staff.

Equity theories of motivation show that people are highly demotivated if they perceive unfairness. Usually, no amount of effort to motivate staff will overcome the powerful effects of demotivation. Action steps include:

- Reviewing practices and principles of pay, expectations, facilities, resources, authority levels, inclusion in groups, and symbols of respect.
- Active process of reviewing and acting on exit interviews.

Learning theories of motivation suggest that people can learn to meet the expectations of the organisation. One such theory is the ABC model; antecedents enable an individual to perform (eg facilities, training, resources), this leads to some behaviour that is solely in the control of the individual, and then there are some consequences. These consequences can be positive reinforcement, negative reinforcement, punishment or extinction. The most overlooked consequence is extinction, which can be used to remove either good or bad behaviours. For example, failure to acknowledge extra effort is likely to mean the staff member won't go to extra effort again. Of most interest to fostering innovation, is the damaging effect of the wrong actions leading to demotivation. In my view it is more important to remove the barriers, than to create the drivers. These learning theories of motivation are best dealt with through leadership and management development.

Clear goals can foster motivation to innovate. We will cover goal setting in a separate section.

The need theories suggest that individuals are motivated with different needs e.g. learning, recognition, belonging, job security and pay. Herzberg added the idea that some actions like learning, recognition and belonging can motivate, while others like job security and pay are hygiene factors that seldom motivate but need to be right to prevent staff from becoming demotivated. The significance for the Public Service is to understand what motivates each staff member and to try to act accordingly. It is also important to avoid reliance on salaries and bonuses as motivators. Bonuses have been found to have no impact on performance in salary positions, and often demotivate when workers are deprived of a bonus that they think they are entitled to.

### **3.3 ATTRACTING AND RETAINING INTRAPRENEURS**

We predict that the ability to create a sustainable lifestyle for staff will be the source of competitive advantage in this decade. This is based on the costs and benefits of a relatively low staff turnover rate, and retention of skilled women.

The knowledge economy requires all staff to contribute their knowhow for the organisation to compete. And it costs between 1.2 and 2.5 times salary to replace staff - including the loss of productivity to the organisation. Some knowhow is never replaced when staff leave.

Since people will seek to fit in, then minorities will modify their behaviour to match the norms of the majority. Many are surprised to learn that studies have repeatedly shown that women managers behave in exactly the same way as male managers in the same organisation (although identical behaviour can be perceived differently). Behaviour changes, though, as the ratio of men to women change. In a female dominated organisation, men will modify their behaviour to fit in with the norms of the organization, and vice versa.

As women move increasingly into senior management positions, the organisation will increasingly take on female concerns and values – for men and women. This includes the perception of success as being not only going up the ladder in paid employment, but also contributing to their community and family. As organisations are changing their norms and perceptions of success, men are increasingly setting boundaries to have more balanced lifestyles.

The pressures between family and work commitments has become stark as the average hours worked by salaried workers in New Zealand has increased 10 hours per week in the last fifteen years, although officially the hours have remained the same. The extra hours are unpaid expectations. Organisations who believe output can be increased through staff working longer or faster will find it is like the machine when you tighten the screws and strip the thread.

Short term pressure often fosters creativity and innovation, but long term sustained pressures such as many people experience between paid work expectations and community and family expectations, erodes both creativity and innovation. There is also strong evidence emerging that excellent staff are moving to where they can have a sustainable lifestyle.

The Inland Revenue Department has a good reputation for supporting staff efforts to have a sustainable lifestyle. Anecdotally, they have attracted and retained many staff who are more highly qualified and skilled than the job requires.

### ***3.4 DEVELOPING INTRAPRENEURSHIP***

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People make new ideas happen - not good ideas, not technology, not information, not systems, not mentors, not money, not management – people!

It is like having babies. There is a moment of creativity, followed by some months of planning, the birth of the new project, the grim realisation that all that planning was inadequate for the challenges, then 20 years of iterating between planning, learning and doing in the determination to raise a great protégé. Raising a child is not at all like being a nanny for somebody else's child. It is more visceral, more compelling.

Making new ideas happen is very difficult. It needs parent/s, not a hired nanny. This is why good ideas seldom survive the transition from their creator to an implementer. A more successful process is to build a project team around the person with the idea, and build shared commitment.

Intrapreneurship (making new ideas happen inside an organisation) can be taught and fostered. Like entrepreneurship, some people are naturals, while others have latent potential. The environment, beliefs and skills will determine the likelihood of successful intrapreneurship.

Developing intrapreneurship is best achieved through a process to assist individuals or groups make their ideas happen. Intrapreneurs tend to self select and have an idea they are committed to implementing. It helps if they have immutable deadlines, and have an outcome based on progressing the idea, not simply writing about how they would progress the idea as in a project plan.

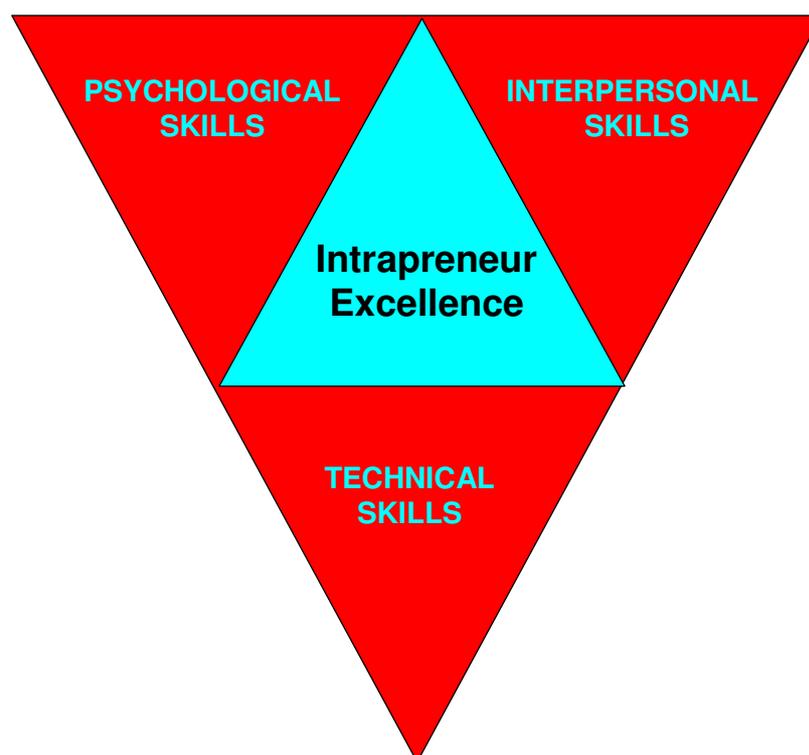
Successful intrapreneurship requires a combination of three sets of skills – psychological, interpersonal and technical. The relationship of these skills to intrapreneurial excellence is summarised in the figure below.

Psychological skills refer to the mindset and mental skills necessary for successful intrapreneurship. These essential mental skills include passion, commitment, confidence, self-awareness, willingness to learn, an action orientation, psychological resilience, and tolerance of uncertainty.

Interpersonal skills refer to those skills that revolve around managing key relationships and relationship-based settings central to new venture success. The essential interpersonal skills include sales skills, negotiation skills, team skills, influencing decision makers and general communication skills.

Technical skills include the areas of concept development, strategy, planning, market research, economic evaluation, marketing, financial control, risk management, intellectual property management and resourcing.

### **Core Skills for Intrapreneurial Excellence**



The New Zealand Met Service has actively supported their staff in developing their project ideas. The organisation has been so successful that it has captured business around the world, despite its very small size compared with rivals.

### ***3.5 MINDSETS FOR INTRAPRENEURSHIP***

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Successful intrapreneurs have mindsets that enable them to succeed. Lawrence Green is a New Zealand management academic and success consultant and has

captured these mindsets in his model termed “The Four Faces of Success”, outlined below:

Attitude management:

- Desire – commitment to being successful
- Resilience – how soon bounce back when things don't go well
- Self belief – level of certainty that will be successful

Self management

- Planning – structuring the process of goal accomplishment
- Awareness – understanding how to stop or support one's own success
- Smart action – getting maximum results for minimum effort

Performance management

- Learning – changes in skills or knowledge arising from daily work
- Enjoyment – having fun and finding pleasure in one's work
- Flow – that state of mind where work seems easy and effortless

Lifestyle management

- Relationships – managing those important in one's life
- Emotional wellbeing – doing those things that allow rest and recovery
- Physical wellbeing – ensuring adequate energy and stamina

There are some interesting measures of some of these dimensions like the ones developed by Seligman that test for language patterns that support optimism. He found that optimists are happier, healthier, live longer, are less likely to divorce, earn more, are more successful at sports, politics, sales, and business, but are less accurate. Pessimists are more accurate but die younger, are poorer, and more miserable. Optimism is learned. Martin Seligman's work has spawned nearly 1000 world studies on learned optimism.

### ***3.6 MANAGING CONFLICT***

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Paragon Solutions Ltd is a computer software company in Lower Hutt. They trained all of their staff in a process for managing conflict. A new employee was puzzled by the organisation until he did the training himself. He said he knew there was something extraordinary about the organisation but couldn't put his finger on it. After the training he realised that staff were more confident to confront and deal with issues than in most organisations, but that it led to constructive solutions rather than dispute. All staff would simply click into the conflict resolution process.

### ***3.7 IMPLEMENTATION SKILLS***

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Implementation skills are likely to be best in those staff in line not staff roles, and those with front line or regional experience, rather than head office experience. One group that routinely stifles innovation are policy analysts. Thinking about a project needs to be done by the person or people who will make it happen. This is not the role of the policy analyst. Nor can the vision, values and insights be successfully passed on to the implementer – even with the most skilfully worded document. As always, innovation is a human process. So raising innovation requires providing individuals with many opportunities to implement ideas of increasing challenge and complexity.

# 4 DEVELOPING INNOVATIVE PUBLIC SERVICE ORGANISATIONS

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The previous section focussed on the individual. This section looks at how organisations can foster innovation.

## 4.1 RESOURCES FOR INNOVATION

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The Department of Statistics had an internal seed venture capital fund. It provided an avenue for ideas to be progressed, a constructive outlet for staff to put forward their ideas, and a process for encouraging senior managers to think constructively about innovation.

## 4.2 RESOURCE ALLOCATION PROCESS

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Resource allocation drives decisions on what is important – and what is not important.

For example, in the former Department of Scientific and Industrial Research (DSIR), money was allocated to each of 24 divisions. These divisions became feudal baronetcies encouraging silo research and little focus on uptake of science. When a 30% cut in funding over three years was initiated with a revolving fund (the cut money could be earned and retained) there was a flurry to get uptake of the science. This was excellent except the science shifted to commercial, quick payback research, rather than longer term research or research that would benefit a wide range of possible clients instead of just one client.

This system was quickly followed by allocation based on outputs as measured ten days after the end of each month. Since this was impossible to determine in advance when writing proposals, scientists routinely applied for funds for work they had already completed. The government was also concerned about cross subsidisation between the public and private sectors. THE DSIR's core work was applied science that could be useful to New Zealand. This largely disappeared, with scientists making sure that public work had no private benefits - for example gene mapping techniques were developed using hedgehogs instead of sheep. Work that might benefit the private sector became contract work solely for single clients rather than industries or groups of industries so that it could be easily funded.

The universities provide another example of how resource allocation processes intended to foster performance in one aspect can stifle performance in other aspects. The Performance Based Research Fund (PBRF) was introduced to encourage research. Since it used publications as a unit of analysis, with greater weight for overseas, academic, peer reviewed publications it had a number of effects. Publications went up, although research did not necessarily rise, instead there was more effort to get several publications out of the same piece of research. Concern for implementation of research went down. Teaching declined, staff were told teaching was unimportant, and hundreds of academics across New Zealand who were great teachers but less engaged in research lost their jobs.\

Innovation, which by its nature is risky, uncertain and unknown by managers and planners, can be easily stifled by resource allocation processes that seek certainty.

### ***4.3 CONTINUOUS IMPROVEMENT SYSTEM***

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Below are some of the action steps that foster continuous incremental innovation:

#### ***INTRAPRENEURSHIP EVALUATION***

There are instruments for assessing the ability of organisations to foster intrapreneurship and innovation.

#### ***GOALS FOR INTRAPRENEURSHIP AND INNOVATION***

These goals need to include an expectation of sustained innovation through intrapreneurial behaviour from staff.

#### ***ENCOURAGE MAVERICKS***

As Kermit the Frog put it, "It isn't easy being green." Innovative organisations actively encourage mavericks in their selection processes, acceptance of difference, and support to make new ideas happen.

#### ***MINIMISE CONTROLS***

This will be discussed later.

#### ***TOLERATE FAILURE***

Innovative organisations perceive failures as learning experiences.

#### ***ENCOURAGE DIVERSE EXPERIENCES***

Researchers have found that the majority of innovations began with the ideas of an individual with cross sectional experiences.

#### ***LINK PEOPLE TOGETHER***

The second most common source of ideas comes from linking two individuals with different experiences. Technical and market research sources rarely initiate new ideas for innovations. Innovative organisations create ways for staff to link across organisation boundaries. They also actively work on building trust, shared goals and shared experiences, which enable ideas to progress to fruition.

#### ***MARKET OR CLIENT FOCUS***

Outward looking organisations that care about their clientele are much more likely to successfully innovate.

#### ***ACCEPT SOME RISK***

New ideas will always be risky, cost more and take longer than expected. Some of them however will herald great success. The Public Service has a major problem with very risk averse practices.

#### ***PROVIDE RESOURCES***

Resources can include the authority to spend, access to information and bootlegging time.

## **4.4 TRANSFORMATIONAL INNOVATION**

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Surprisingly, excellent organisations that are good at incremental innovation often fail to take on transformational innovation. History is awash with world leading companies who almost disappear without trace when superseded by competitors with a new innovation. For example Marconi was the world's best at producing valve radios, incrementally improving their product performance. The company never imagined that the inferior quality transistor radios would sweep their business away. More recently, Kodak, with 90% of the photographic film market in the 1970s, filed for bankruptcy protection when it failed to transform the business for a world dominated by digital photography.

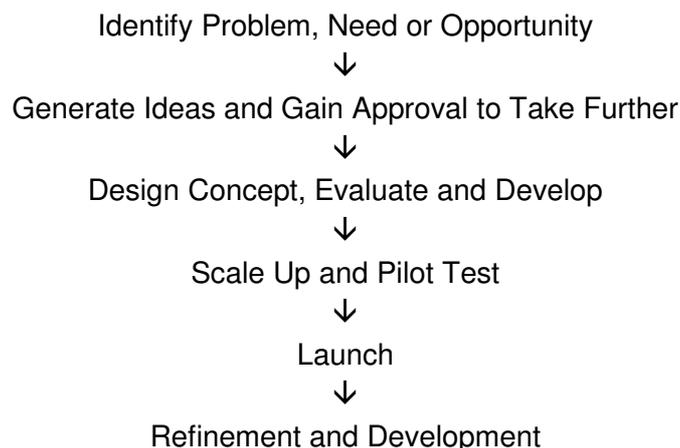
Examples in the public sector where excellence in current performance may be blinding organisations for the need for transformational innovation are:

- The justice system is highly developed yet it is unsuccessful in reducing recidivism. Longer prison sentences increase reoffending rates. The Police found that issuing pre-charge warnings to first time moderate offenders instead of prosecuting reduced the probability of the offender coming to the attention of the Police within the following six months from 45% to 22%.
- Health systems are impressive, yet established for sickness not wellness
- Parliamentary debate, intended to improve decision making through robust and open discussion, is instead stifling decision making through damaging public confidence.

## **4.5 INNOVATION SYSTEM**

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Innovation is making new ideas happen. The process typically has several steps although they are not necessarily sequential:



The process needs to be held together by intrapreneurs or project champions and works best in an organisation that fosters intrapreneurship, as discussed in earlier sections. Good organisations rigorously look at the barriers and drivers to innovation in each of the steps outlined above, both to make new ideas happen, and to stop unworthy ideas from progressing.

However to suggest that there are steps belies the true nature of innovation in a fast moving world. All of the steps above need integrated development teams who are

involved early in the process. Innovation is not like a relay race passing a baton, but more like a netball game with the team working the ball up to the goal. In the same way that a zip needs both halves at the beginning to work, so an innovation needs the team involved early in the process.

Innovation also requires systematic linkages with resource providers and clients, and requires a serious investment of senior management time to pursue those strategic linkages.

Systemic innovation implies a continuous process of innovation in all parts of the value chain. Like a jazz band all members support each other to come up with a new sound.

## ***4.6 FOCUS ON OUTCOMES AND CUSTOMERS***

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Many public servants are passionate about their work including teachers, nurses and police officers. There is evidence that some of this passion is being eroded as the focus of staff shifts from self directed meaning to output measures and accountability processes that seem remote from the purpose of the organisation.

## ***4.7 LEADERSHIP SKILLS TO FOSTER PUBLIC SERVICE INNOVATION***

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Research has repeatedly linked leadership skills with organisational innovation. Three styles of leadership work to foster innovation – the driver who leads innovation, the shaper who provides a road map for innovation, and the advocate who nurtures and supports innovators. It is more common to find CEOs who are neutral on innovation, busy with maintaining the existing business, and a few who so risk averse that they resist innovation.

Excellent leaders are able to:

- achieve charisma;
- develop a shared sense of mission;
- are a trusted role model;
- communicate high expectations;
- inspire people to give their best;
- stimulate and encourage innovation, creativity and questioning of old assumptions to more fully realise organisational goals;
- provide personal attention that recognises each individual's needs and differences;
- coach and advise people in a manner that supports the development of their potential;
- have the personal courage to make decisions despite risk and uncertainty

## **4.8 MEASUREMENT PROCESS**

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Observers have noted that successful, inspired people have clear goals that are specific, measurable, by a set time frame, believable, challenging and deeply felt. Organisations also know that they can't manage what they can't measure. The principles of goal setting are so widely adopted that they have been taken to extremes. There is so much emphasis on measuring goals that they have bred faster than rabbits and lost their motivating power. Measurements need to require minimum effort to comply. It is like measuring butterflies. A butterfly pinned out on the corkboard can be accurately measured and described but is dead. It is better to seek to measure and describe a butterfly in flight with all its attendant difficulties and inaccuracies.

More successful are big, hairy, scary goals that the organisation is overwhelmingly committed to, and rooting out all unnecessary measures that cost more in cash, time, energy, delays and emotion than the benefits they create. It would be interesting to see a study of the true cost of measurements in organisations, both tangible and intangible costs and benefits.

George Hickton, who is now with Tourism New Zealand, has had exceptional results from the judicious use and management of key measures.

## **4.9 MEASUREMENTS FOR INNOVATION**

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Measurements can be described as feedback, concurrent or feedforward. An example of feedback measurements would be 'Percentage of critical milestones met on time'. If the milestone has not been met it is too late to fix the problem.

An example of a concurrent control would be trigger points to manage risk.

An example of a feedforward control would be targets for innovation. A further type of feedforward control is to establish the shared vision and commitment. The Hillary Commission in its allocation of funds to 24 sporting bodies used this control successfully. They had previously relied on business plans but found these were written by consulting firms so lacked ownership by the sporting bodies. They also failed to address the critical and contentious issues facing the sport, or to form a shared understanding of these issues with the Hillary Commission. They moved to a meeting between the Commission, the sporting body and its detractors to reach and sign off on an agreement of strategic intent, facilitated by Dr Dai Gilbertson.

Where possible, the emphasis should be on feedforward and concurrent measures. This is consistent with a quality assurance rather than quality control approach.

There is nothing as out of control as a centralised control system. The keys to achieving decentralised control are:

- Clear and shared vision
- Encourage a chosen corporate culture (in this case fostering innovation) in key players' organisations
- Build traditions that support the vision
- Peer group expectations
- Socialisation and other forms of networking and discussion
- Profit centres that have rewards that meet shared goals.

Some concepts for innovation measures include:

- Number of new products, processes or services that have been implemented per 100 staff
- Percentage of projects that are co-funded
- Expected time to adoption vs actual time
- Sign off on strategic intent and output measures
- Case studies including cost benefit analysis
- Number of staff who took a critical role in the first adoption of an idea that is new to the world, NZ or the sector in the last 2 years
- Staff turnover rate
- Expenditure on innovation
- Innovation index based on three or four measures
- An innovation audit on innovative behaviours as a starter for internal discussion on strengths and weaknesses for fostering innovation in the organisation (see our Innovation Audit on [www.windeaters.co.nz](http://www.windeaters.co.nz)).