

# Market-based Government Through Innovation

How public sector leaders are improving collaboration  
and focusing on citizens





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*“Now ... our agency is at the point in development where we have achieved savings by doing things better. We want to do better things.”*

*– Public sector respondent, Global CEO study 2006*

## **Introduction**

Historically, the private sector has been more frequently heralded for valuing innovation than the public sector. Yet, results of the Global CEO Study 2006 underscored many similarities between the private and public sectors when it comes to acknowledging the importance of being innovative. However, the Global CEO Study revealed a stark contrast between how the public and private sectors collaborate with others in search of the new ideas that can lead to innovation.

Findings demonstrate that governments and agencies around the world are increasingly reaching outside to accomplish their missions more effectively and efficiently than in the past. But overall, private companies have done a much better job at engaging with their customers. Successful companies have long aimed to be “market-based” by soliciting and responding to the “voice of the customer.” Customer centricity is a key step toward the long-established private sector goal of becoming market-based. Today, that same goal of becoming market-based (or citizen-centered) can help leaders in the public sector as well.

The public sector recognizes the trend toward greater customer involvement, but action is needed to become more market-based. Agencies will need to turn to stakeholders more often: to improve the quality of services; to increase customer satisfaction; and to meet the demands of an ever-changing landscape and citizen sophistication.

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Virtually everyone expects continued organizational change. Of public sector leaders, 75 percent reported that they anticipate a *moderate to extensive* level of fundamental organizational change over the next two years. Unfortunately, when rating their past success in managing such change, results were very similar to the total group of CEO study respondents: just 54 percent of public sector respondents acknowledge being *successful*, with 20 percent citing *no success* and 26 percent only *moderate success*.

How can leaders in government, healthcare and education handle better the inevitable future changes? In what ways can they increase their focus on improving their operations to increase capabilities? How can collaboration, both internally and externally, be improved in systematic, yet perhaps unconventional ways to strengthen communication and participation among government groups, citizens and other stakeholders? In an environment that is admittedly constrained by funding and people-related obstacles, how can leaders integrate business and technology to improve performance and effectiveness and drive future innovation across all domains?

### **The Global CEO Study 2006**

As part of our Global CEO Study, we conducted in-depth, consultative interviews with 765 CEOs, business executives and public sector leaders from around the world.<sup>1</sup> Through these discussions, we explored CEOs' current views on innovation – what was on their innovation agendas, where their innovative energies were focused, and what they were doing to enable innovation. The survey population included leaders of companies both large and small, some public and some privately held. Our sample comprised a broad cross-section of CEOs and public sector leaders, spanning 11 geographic regions and 20 different industries.

As part of this worldwide study, we interviewed 106 public sector leaders, 61 percent representing government entities, 32 percent in healthcare and 7 percent in education organizations. The geographic representation included: Europe/European Union (37 percent), Asia Pacific (33 percent) and U.S./Canada (30 percent).

### **Overview of the current public sector environment**

*“Being a public sector [organization], there are issues associated with employee inertia and even government regulation. Although these have not prevented [us] from innovating, they do require dedicated and ongoing efforts to overcome...”*

– Public sector respondent, Global CEO Study 2006

Over the past several years, the public sector's processes, technologies and people skills have not been sufficient to meet the challenges facing its constituents. Many of these challenges have had high public visibility, such as border management across the European Union, the U.S. federal and local governments' responses to Hurricane Katrina and the need for U.S. states to provide uniform education against a set of minimum standards. These and many other challenges are forcing agencies to look for innovative solutions.

Innovation in the public sector can take many forms. The Global CEO Study defines innovation in three broad categories: *products and services*, *business model* and *operational*. Due to the inherent differences between the private and public sectors, slightly different definitions of these three types of innovation can apply to each (see Figure 1).

Despite these basic differences in defining and applying innovation, in most cases public sector responses to the Global CEO Study were surprisingly similar to those of their commercial counterparts. Both groups understand that innovation in products and services is still necessary, but also see that equal energy is needed to improve business models and operational efficiency.

**Figure 1. A public sector perspective on the three innovation categories**

	<i>Basic definition</i>	<i>Definition modified for public sector</i>
<b>Products and services innovation</b>	Innovation applied to products or services or “go-to-market” activities.	Innovation applied to new programs or services or citizen-facing activities.
<b>Business model innovation</b>	Innovation in the structure and/or financial model of the business.	Innovation in the structure and/or financial model of agencies or organizations that provide programs, service delivery or support operations (Typically, can have broad political implications).
<b>Operational innovation</b>	Innovation that improves the effectiveness and efficiency of core processes and functions.	Innovation that improves effectiveness and efficiency at tactical or core process/function level (Typically a targeted or point solution).

*Source: IBM analysis.*

To help citizens identify and access government services available to individuals, the national government of Canada changed its business model. Service Canada is a “one-stop” integrated, multi-channel service center for a broad range of federal programs and services. Services can be accessed through more than 300 offices throughout Canada, by phone or through the Web.

The New York City Police Department (NYPD) sought to solve and prevent crimes by decreasing the time it takes detectives and investigators to obtain and analyze billions of records. In an example of operational innovation, the NYPD used powerful data mining technology that helped create the Real Time Crime Center. It provides investigators in the field with information about crime scenes, potential suspects, satellite images, sophisticated city maps and other crime-fighting resources within minutes.

One might expect technology to be a major obstacle in improving business models and capabilities, yet technology itself was not considered a significant obstacle to innovation by the public sector. In fact, three of the four least-mentioned obstacles involve technology (see Figure 2). Above all, public sector organizations named *limited funding for investment*

(40 percent), followed by *government and other legal restrictions* (35 percent). People-related issues rounded out the top four obstacles, including *unsupportive culture and climate* (31 percent) and *workforce issues arising internally* (such as, leadership and culture) (24 percent).

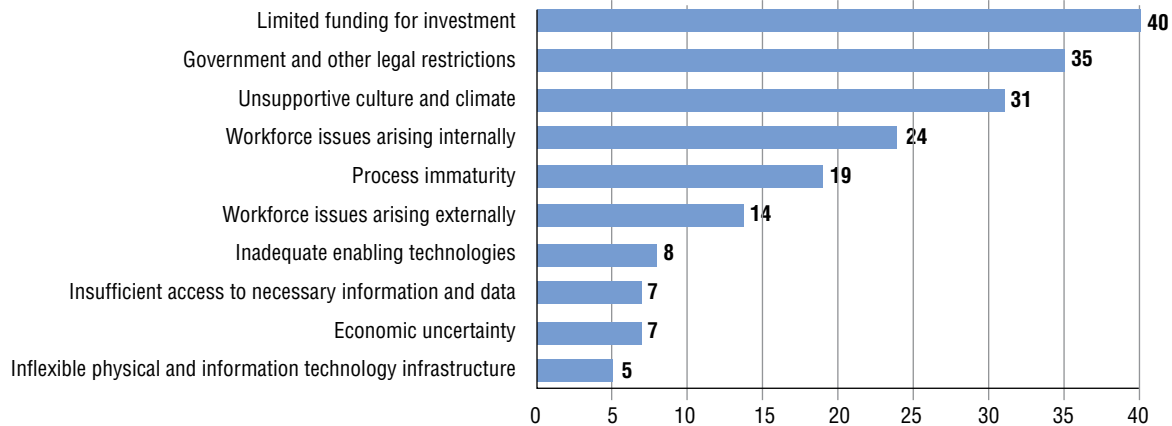
These findings indicate that government hurdles to innovation – and the improved collaboration that supports innovation – require attention to areas other than technology. The public sector must address many hurdles. But, it cannot overlook those obstacles within its control that appear near the top of this list, such as developing a supportive work climate and addressing internal workforce issues.

In fact, U.S. agencies are even making progress in addressing perceived legal restrictions. As described in a recent IBM Center for The Business of Government report, “Six Trends Transforming Government,” when several agencies faced pressure to achieve high performance in a more results-oriented federal government, they were granted special human resource management (HRM) flexibilities.<sup>2</sup>

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**Figure 2. Top obstacles to innovation.**

(Percent Public Sector respondents)



Source: *The Global CEO Study 2006.*

Taking advantage of these personnel flexibilities allowed managers to use performance management more effectively; provide competition, choice and incentives; operate as an on demand business; engage citizens; and use networks and partnerships.<sup>3</sup>

Based on the Global CEO Study and the “Six Trends Transforming Government” report, we believe that substantial opportunities await the public sector. Suggested areas of focus include finding ways to *enhance capabilities and business models; increase the scope and depth of collaboration; and better integrate business and technology.*

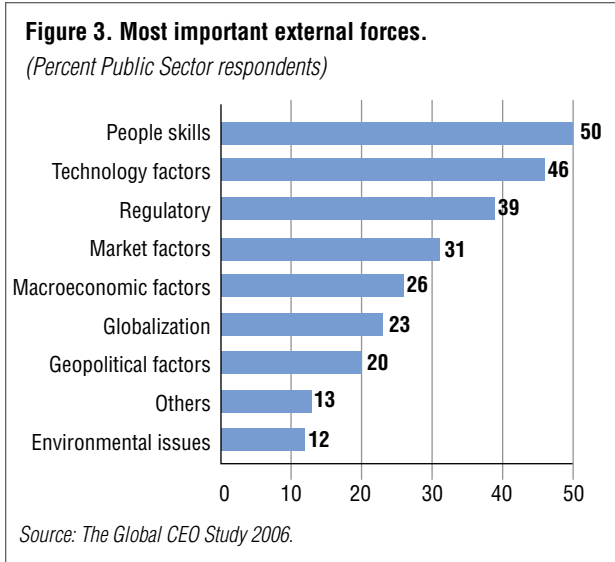
### Enhance existing capabilities and business models

*“We must develop the right business model for our organization, develop the most effective ways of delivering these services, and manage risk. Innovation and risk-taking are fundamental.”*

– Public sector respondent, *Global CEO Study 2006*

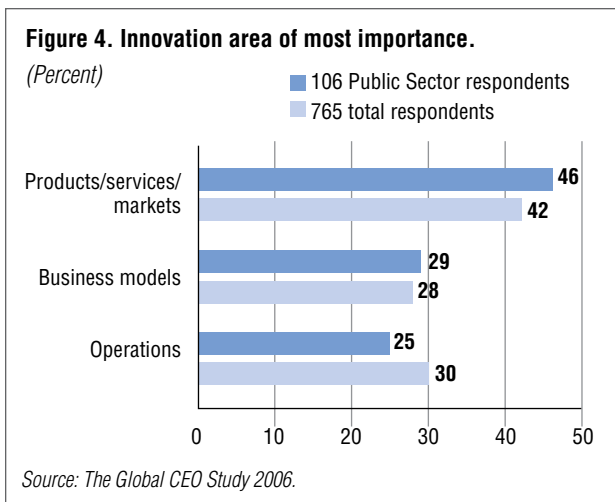
Public sector organizations are focusing on improving services, outcomes and performance; however, they face a variety of pressures that require them to improve business models and operational efficiencies. Over the next two years, innovative approaches will be vital due to numerous external pressures (see Figure 3). For example, half of the public sector respondents cited access to *people skills* as a looming challenge precipitated by an aging population that will soon leave the workforce at record rates. After the loss of human capital, the next two most frequently mentioned causes of fundamental change were *technology* (46 percent) and *regulations* (39 percent).

Innovation does not just happen. It comes from ideas and the application of tools that realize these ideas. Ideas come from people and knowledge, and tools can be provided by technology. By addressing the people skills and the potential drain of knowledge caused by a maturing workforce, the public sector can stimulate more new ideas and innovate through the application of technology against these ideas.



These innovations can be in many areas, but usually those that impact the fundamental premise of the organization, or business model, will carry the largest impact.

When evaluating the relative importance of different types of innovation, the responses of public sector leaders closely mapped to those of the total group of Global CEO Study respondents (see Figure 4). The similarity of the results between public and commercial sectors illustrates that, across all industries, there is growing focus on innovation beyond the traditional products and services perspective.



During the Global CEO Study, public sector leaders frequently described their organizations in terms of the services they provided. Like their commercial counterparts, much of their innovative energy is focused there. But, with budgetary pressures forcing leaders to do more with less, public sector leaders are now giving business model innovation as much emphasis as products and services innovation. Many of these efforts within government are being implemented under the umbrella of “business transformation,” such as the large Business Management Modernization Program (BMMP) at the U.S. Department of Defense and the National Health Service (NHS) in the UK.

The BMMP was replaced in October 2005 by the U.S. Deputy Secretary of Defense, with the establishment of the Defense Business Transformation Agency (BTA). Its mission is to transform business operations to achieve improved warfighter support, while enabling financial accountability across the Department of Defense (DoD). The BTA is specifically responsible as a corporate-level service organization for the DoD, accountable for successful definition and execution of DoD-wide business improvement initiatives and system investments.

In the UK, the NHS is an example of a government-funded healthcare system transforming itself. Constrained by a lack of public financing, for example, it has established partnerships with the private sector to provide surgical procedures via mobile operating units and strategically placed clinics.

***Steps toward enhancing existing capabilities and business models***

Think broadly, act personally and manage the innovation mix. Create and manage a broad array of innovation that emphasizes service model changes. Challenge your service model to be deeply different. Find ways to change substantially the way you add value.

- Are you sufficiently challenging the way your agency conducts its business?

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- How can you better measure your agency's performance in achieving objectives?
- What are your plans to start handling skills transfer today, as record numbers of people retire from the public sector?
- In what ways can your agency adapt to existing regulatory constraints to try innovative approaches?

### Increase the depth and scope of collaboration

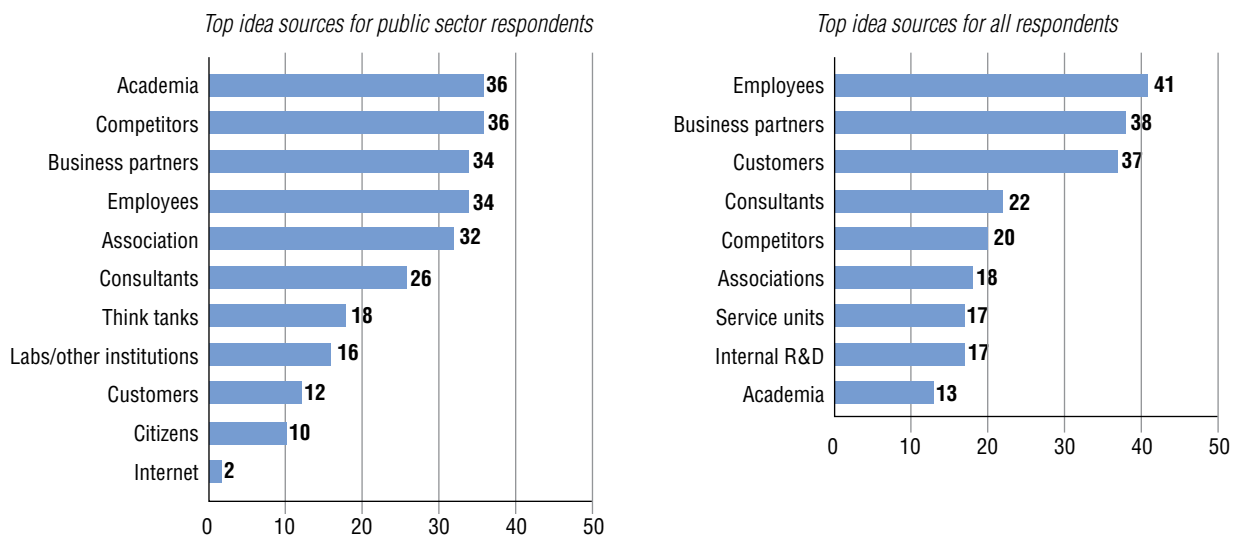
*"[We] need to reduce competition between government agencies and introduce [a] culture of sharing to give better overall service to citizens."*

– Public sector respondent, Global CEO Study 2006

Another way to meet the challenges ahead is by deepening the commitment to both internal and external collaboration, especially with citizens and other constituents. In fact, public sector respondents ranked *customers* and *citizens* near the bottom of the list of its sources of new ideas, cited by just 12 percent and 10 percent of public sector respondents, respectively (see the left side of Figure 5). This was far behind other sources, including *academia* and *competitors*, *business partners* and *employees*, each named by more than one-third of public sector respondents.

In striking contrast, 37 percent of all Global CEO Study respondents (see the right side of Figure 5) listed *customers* as a top source of new ideas, close behind *employees* (41 percent) and *business partners* (38 percent).

**Figure 5. Internal and external sources for new idea generation, public sector compared to all respondents.**  
(Percent respondents)



Source: The Global CEO Study 2006.

Opportunity lies within the “collaboration gap” – the difference between how many public sector respondents *recognize the importance of collaboration* (90 percent) and how many *are actually collaborating* (64 percent). Governments should determine which activities they need to continue performing on their own – typically, their core competencies – and determine which non-core activities would benefit from expanded forms of collaboration. Working to close this gap within the value chain and across the ecosystem can help public sector organizations improve services, outcomes and performance.

Corroborating the Global CEO Study’s findings, “Six Trends Transforming Government” reports that, more and more, governments are using both networks and partnerships to get things done. The report cites two primary reasons for this:

- Citizens increasingly expect government to deliver results – clean air, safe food, healthy children, safe streets.
- The challenges are far more complex than in the past. Terrorist attacks, the SARS outbreak and the potential of a bird flu pandemic are all examples of the increasing complexity of non-routine, yet large-scale, challenges facing the public sector.<sup>4</sup>

These challenges fall outside the boundary of any single government or agency, and cannot be solved through existing service delivery systems in most agencies. As a result, it is crucial to conduct collaborative efforts that reach across agencies, across levels of government, and across the public, nonprofit and private sectors. A vital part of improving collaboration, as indicated by the full set of Global CEO Study respondents, is the involvement of citizens and customers.

### **Regional collaboration and private-public partnerships: United Nations-Habitat (UN-HABITAT)<sup>5</sup>**

In preparation for the third World Urban Forum in June 2006, the government of Canada and UN-HABITAT, the United Nations agency for human settlements, wanted to solicit ideas from individuals and organizations worldwide about solving pressing urban issues.

For 72 hours in December 2005, the Canadian Government, in partnership with UN-HABITAT conducted Habitat JAM, an online global dialogue on urban sustainability. Over 39,000 people from 158 countries engaged to express their views and share ideas. A unique aspect of this dialogue was the fact that it gave a large number of citizens, representing all walks of life, an opportunity to immediately interact with people they typically do not have access to within the government and academia. And, the government and academic experts listened to these voices.

With the ultimate goal of turning ideas into action at the World Urban Forum, the global conversation helped shape the agenda. Topics ranged from improving the lives of people living in slums, access to water and environmental sustainability, to safety and security, finance and governance, and the future of our cities.

### ***Steps toward greater collaboration***

Force an outside look in...every time. Push your agency more to work with citizens and customers, making it first systematic and, then, part of your culture. Expand the limits of collaboration. Collaborate on a broad scale to meaningfully promote constituency involvement.

- What expanded role could your customers or citizens play as collaborators and partners in support of innovation?
- How could commercial leading practices improve your collaboration between citizens and your agency?

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- In areas where citizens are already demanding greater involvement, can you find ways to measure the benefits of encouraging their participation?
- How do your agency’s objectives overlap those of other government agencies? How can you collaborate with each other to limit duplicate efforts and increase efficiency?

### Integrate business and technology more cohesively

*“[We] need to understand public expectations and see technology as an important enabler.”*

– Public sector respondent, *Global CEO Study 2006*

Leaders clearly agree on the importance of integrating business and technology, yet the public sector struggles to close the “integration gap.” While 89 percent of public sector respondents acknowledge the importance of business and technology integration, just 46 percent reported integrating to a large extent.

Though they are admittedly struggling to achieve such integration, leaders readily identified many of its potential benefits (see Figure 6).

Along with these and other tangible benefits, business and technology integration can serve as a catalyst for innovation. Better integration sets the stage for organizations to develop new and better ways of doing business – as opposed to merely applying technology to current ways of doing business.

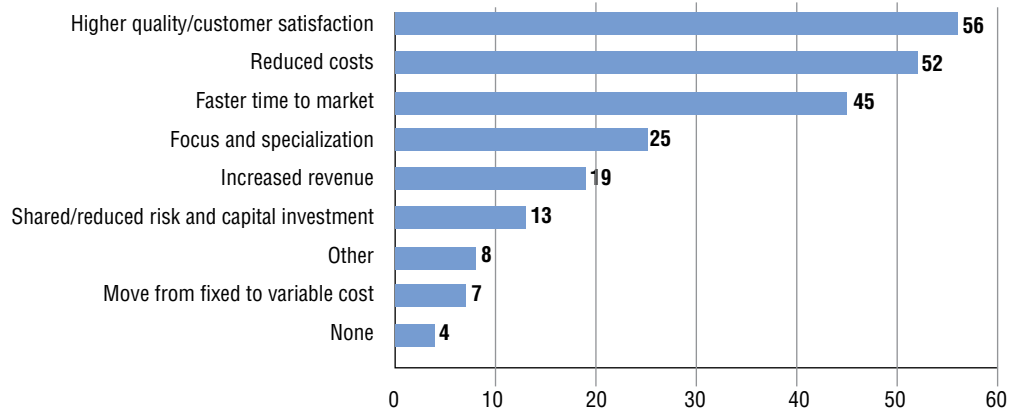
#### Integrating information systems for better patient care greater efficiency: Servicio Extremeño de Salud (SES)<sup>6</sup>

Two years ago, SES, the regional public organization that manages care for more than 1 million citizens in Extremadura, Spain, initiated a project to transform its information systems to implement more efficient processes for doctors, nurses, administrators and patients – increasing the quality of care and reducing bureaucracy at the lowest cost to the public.

From disparate legacy IT solutions in centers with no interoperability among them, the goal was to create a new information system supporting the continuum of care, managing all patient records and related administrative processes. The solution features a unique, centrally located data repository of medical and administrative data. When fully implemented, it will connect more than 13,000 users. As a result, local doctors at any health center in the region will have realtime access to a patient’s complete set of records.

**Figure 6. Benefits realized through integration of business and technology.**

(Percent Public Sector respondents)



Source: *The Global CEO Study 2006.*

## **Challenges**

Multiple hurdles face the public sector as it tries to better integrate business and technology. For example, technology turf wars and legacy systems can limit collaboration – programs are often budgeted for and pursued independently. Also, most entities do not leverage process and operational flexibility. Furthermore, the shortage of experienced project managers tends to make business modernization slow.

## **Steps toward integrating technology more tightly with business**

Ignite innovation through operational and technology integration. Use technology as an enabler of innovation, combining it with process and cultural change.

- How are you using technology to improve daily operations?
- Which manual or redundant processes could be streamlined through improved business processes and technology?
- Which areas of your operations are prone to costly errors? How could improved linkage between business operations and technology reduce errors and error-checking?
- Where are there opportunities to change how things are being done to increase efficiency and effectiveness?
- How can you better coordinate business planning with available technology solutions?

## **Conclusion**

Unrelenting change seems certain for the public sector's future. Like its commercial counterparts, leaders in the public sector are embracing the importance of innovation. Many are beginning the transformation into a market-based agency by working to improve both how they collaborate and how they can better listen to the voice of their customers (citizens and other stakeholders).

However, overcoming pressures from external forces and other obstacles to innovation will require substantial changes in how things are currently being done. Three focus areas can help government entities begin to address these challenges: enhance existing organizational capabilities and business models; increase the depth and scope of collaboration; and integrate business and technology more cohesively. By designing and then enabling innovative approaches in these areas, the public sector can achieve higher levels of collaboration and customer focus to deliver higher quality services and increase customer satisfaction.

To find out more about this study or to speak with the Public Sector Leader from your region, please send an e-mail to [GlobalCEOStudy@us.ibm.com](mailto:GlobalCEOStudy@us.ibm.com). To register to receive a copy of the complete IBM Global CEO Study 2006, please visit:

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