

# Performance Excellence Principles – Drivers of Innovation in Public Sector Organisations

By Malcolm Macpherson<sup>1</sup>

## Abstract

By their nature risk-averse and process-constrained, with diverse and sometimes conflicting accountabilities, public sector organisations may struggle to focus clearly on innovation – finding new ways to perform better. Used as a test, not a template, the widely applied performance excellence principles that underpin national award schemes like the Performance Excellence Study Awards and the Business Excellence Award provide an architecture for improvement that can, and does, drive innovative behaviour, even in the public sector: Examples, analysis and fast-start process map.

## Part I

### What is innovation, and why innovate?

The Comptroller General of the US General Accounting Office, the federal government's equivalent of New Zealand's Auditor General, submitted to a US Senate committee last year that the management reforms of the 1990s, with their focus on accountability and results-oriented management, allow the federal government to go beyond a zero tolerance for waste, fraud and abuse, to a system better equipped to deliver efficient, cost-effective government; to deliver on its promises to the people of America. Good management, and systems that work, allow public agencies to demonstrate the real-world effect of their activities, and allow taxpayers to judge the agencies' accomplishments across a range of measures, and to decide whether they are getting an acceptable return for their tax dollars.

What does that have to do with innovation? If innovation in public sector organisations (PSOs) is defined as 'finding new ways to perform better', then the Comptroller General is saying, in effect, that innovation is not only good business, it is a key to accountability and continued public confidence.

### The environment for innovation in public sector organisations

Saying it doesn't make it so. Accepting the case for innovation, and being genuinely innovative, are two quite different states. In the writer's experience, innovation in PSOs is difficult to achieve, and rarely articulated as a high-level organisational goal.

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### **Innovation in the *private* sector**

The traditional path to sustainable competitive advantage in the *private sector* depended on barriers to entry – economies of scale, patent protection, access to capital and regulated competition. The new economy has given rise to a new source of competitive advantage and has challenged much of the conventional wisdom as globalisation and access to information make innovation, adaptability, speed, and efficiency essential features of the business landscape. In *for-profit* organisations innovation is a survival strategy, risk is accepted as part of the environment, and accountabilities are straightforward – stakeholder interests are usually well-defined. The same can not be said about the public sector.

### **What is ‘different’ about the public sector?**

#### *(i) Customers and markets*

PSOs often struggle with the concept of ‘customer.’ How does a tax collecting agency, or a police force, or a rates-collecting local authority define and measure customer satisfaction? Some try, but it’s not easy.

In a pre-school, for example, customer interests rest with the enrolled children, their families, the state (as co-funder of the service and guardian of some children’s interests), or an employer (as co-funder and service provider). To further confuse matters, the pre-school may be privately owned.

Given the potential for confusion and lack of clear definition, it is unlikely that customer or market interests will drive innovation as effectively in the public sector as they do in the private sector.

#### *(ii) Risk*

Local government illustrates the ‘risk-averse’ issues that face almost all PSOs. There are few rewards – either financial or political – for taking risks and succeeding; there are very severe penalties for taking risks and failing. There’s the need to operate as transparently as possible, in a public gaze which is often unsympathetic and naturally critical – the key word in that context is ‘political’. In any ‘political’ environment, and this applies in the private sector as well, the costs of failure tend to be much higher than the benefits of success.

#### *(iii) Process-constraints*

Most PSOs have their powers to operate delegated from central government, and non-government PSOs often operate in an environment of heavy-handed regulation. Some of New Zealand’s not-quite PSOs are discovering what that means – state-owned enterprise Television New Zealand for example.

Planning, operational and reporting requirements are also often set in legislation and highly specified. There may not be much opportunity to reengineer how work gets done, and little room to experiment. Positive encouragement to innovate is likely to be notable by its absence.

#### *(iv) Accountability*

Like 'customer'; 'owner' may also be a problematic concept, especially when it comes to accountability (and blame). Electors, elected officials, chief executives and the crown may all have (or believe they have) 'ownership' interests.

Different groups may have different goals, and different understandings of what constitutes high performance. There is a continual need to trade-off conflicting stakeholder interests – the environment against development; development against vested interest; the ratepayer's pocket against the public good; and depreciation against a natural tendency to free-ride and pass costs on to future generations, to mention just a few.

If we define innovation as 'finding new ways to do better' then the public sector is clearly not fertile soil.

#### **Is innovation desirable/necessary in the public sector?**

More than that, it's inevitable. As the costs and complexity of public goods increases, the issue of affordability will increasingly pre-occupy the providers of those goods. Health is a good example – a combination of increasingly sophisticated and expensive services and escalating demand means that rationing of services has to occur. It's impossible to fund every demand. Finding new ways to do better is not an option in health, it's the only morally defensible way to operate. To some extent, that applies right across the public sector, and it certainly applies in local government.

#### **How does innovation occur?**

In the private sector there's a common belief that innovation is either customer-driven: 'People ask for stuff, and we make it'; or a spontaneous event: Great ideas just appear out of the blue, and some of them are turned into new products and services. Both of those do occur, but in organisations where a continuous stream of new products and services is necessary for survival, innovation is a deliberate and well-resourced business process.

If finding new ways to do better is important in PSOs, and we've already seen that it's more than just important, then having processes that deliver or enable innovation is also more than just important. It ought to be a deliberate and well-resourced process here as well. Given the environmental constraints outlined above, the question is: How?

#### **Performance excellence as an architecture for innovation**

The main purpose of this paper is to argue that the criteria for performance excellence – the USA's Malcolm Baldrige National Quality Award-based prescription for almost all quality award schemes around the world, including New Zealand's two national schemes – offer an architecture for innovation in the public sector. If 'finding new ways to do better' is on the agenda of PSO leaders and managers, then a well-established, proven way forward is to 'bring in Baldrige'.

### What are 'performance excellence principles'?

This paper assumes an understanding of the Baldrige Quality Program (the web source is [www.baldrige.org](http://www.baldrige.org)). As a reminder, the Baldrige system consists seven elements, or categories (**Figure 1**, below). Leadership, strategy and customers and markets make up the so-called leadership triad, emphasising the importance of a leadership focus on strategy and customers. Human resources, process management and results represent the results triad. Information and analysis, shown separately, underlie and are critical to effective management and performance improvement.



**Figure 1.** The Baldrige seven-category system – a high-level balanced scorecard

It is useful to regard the Baldrige system as a high-level *balanced scorecard* – all of the essentials of an enterprise, whatever its purpose, can be specified within this system. It is complete, it links all of the elements together, and it directs attention towards purpose – why an organisation exists. It focuses on process – what the organisation does and how; and on stakeholders – who are they are; what their interests are.

It is also useful to think of this system as an extended questionnaire.

Disaggregated, it consists of several hundred individual questions. Taking the leadership category as an example; area 1.1 asks respondents to “Describe how senior leaders guide your organisation, including how they review organisational performance. Within that item, area 1.1a (2) asks “ How do senior leaders create an environment for empowerment, innovation, agility, and employee learning?”

Pulled apart (disaggregated) that question becomes: How do senior leaders create an environment for **empowerment**? How do senior leaders create an environment for **innovation**? How do senior leaders create an environment for **organisational agility**? How do senior leaders create an environment for **organisational learning**? How do senior leaders create an environment for **employee learning**? Dealt with that way, the leadership category as a whole consists of 38 individual questions, each of which *requires a process as the answer*.

### **How does this approach lead to innovation?**

There are two primary benefits from a performance excellence diagnosis. The first comes just from asking the questions. As soon as a group of senior leaders attempt to frame an answer to, for example, 'how do we create an environment for empowerment', opportunities for improvement are likely to be revealed. The questions themselves initiate change and improvement. The great majority of private sector users of the Baldrige system use it for that purpose alone – their need is for a rigorous analytical tool, and they have no intention of entering external, public contests.

The writer, for example, acts as external advisor to two large SE Asian groups of companies, both of which have internal private-label award schemes based on the Baldrige criteria which are considerably larger (in number of individual businesses and in staff involvement) than many public national award schemes.

The second benefit comes from formal assessment of the organisation's written responses to the 'how' questions. Using a set of scoring guidelines, administered either internally or by external assessors, responses are graded. What needs to be done to score higher grades is clearly signposted by the template, and will also be specified in assessor's feedback reports.

Recalling that for the purposes of this paper innovation in PSOs has been defined as 'finding new ways to do better,' it seems likely that an organisational initiative aimed at high, or increasing, assessment scores will necessarily drive innovation.

### **But why 'Baldrige'?**

The need to do better is not a novel idea in the public sector. What does the 'Baldrige' approach offer that is different, or better, or more likely to be productive?

Recall the strategic lesson from the private sector – organisations that survive by innovation make it a key business process. But innovation as a process is not common in the public sector. Applying the performance excellence criteria establishes a *de facto* innovation process. Applied with a will, the criteria inevitably generate innovative solutions and better organisational outcomes.

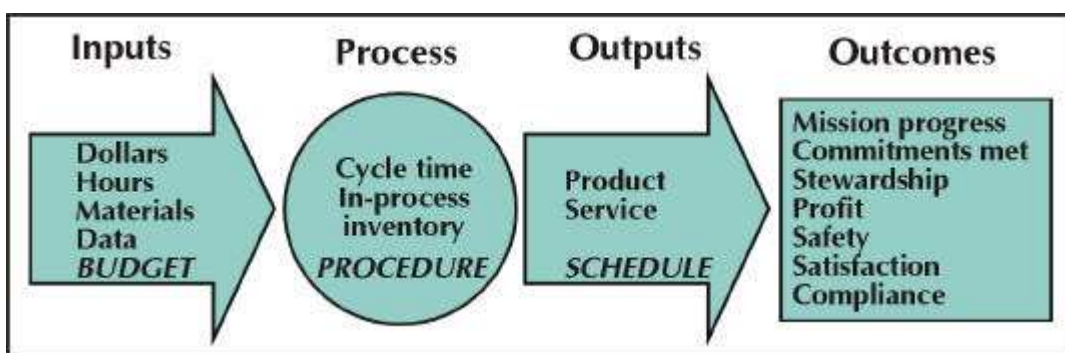
The performance excellence approach provides both the architecture – the structure – for innovation; and the tools to deliver innovation. And because it is an internationally recognised approach, gaining acceptance in the public sector in New Zealand, issues of 'political risk' and palatability are more manageable. When elected councillors, or middle managers, or ratepayers ask 'why Baldrige?' the answer is credible ('because it is international best practice'; 'because \_\_\_ is doing it'; or even 'because the Minister says so'), and politically acceptable.

## Part II

### Process mapping, indicators and outcomes

What does '*requiring a process as an answer*' mean? In its simplest form, a process is a description (or map) of how things occur in an organisation, comprising four elements: Inputs, activities, outputs and outcomes (**Figure 2**).

To construct a process map where none currently exists, ask yourself (and others): what are our products and services, who are our customers? What are our desired outcomes? What are the processes that deliver those outcomes? Use the answers to populate a framework like that in **Figure 2**.



**Figure 2.** A generic process map

### Making the connection from output to outcome

Outcomes are only achieved as a result of a process, and while focusing only on outcomes is a sure path to failure, so is ignoring outcomes altogether. Of your organisation, ask: When we provide a product or a service, what is the connection to our intended outcomes?

Example – a kindergarten provides safe care and early preparation-for-school to a child. The kindergarten's *output* is its daily teaching and training. The *preparation for life and school* that its children graduate with is an *outcome*.

### Making the connection from output to improvement

It is common to see city and district councils measuring customer satisfaction (even if the methodologies are suspect) but much less common to see anything happening as a result. If the purpose of measuring satisfaction is to drive improvement, then most local authorities are wasting their money – the results are not fed back into the planning process, and nothing changes.

It would be interested to discover how many local authorities publish *improved customer satisfaction* as a goal, and have a process for incorporating that goal in their annual planning cycle. It would also be interesting to discover whether any of them (or any other PSOs – local government is not alone in this area) link customer satisfaction (or any other performance indicators) to leadership remuneration or advancement.

## Indicators

A process is only as good as its indicators. Without data it is impossible to tell how a process is performing, and impossible to measure improvement. Indicators include rates (units per time – dollars, hours), efficiency (inputs vs budget, input vs idle time), cycle time (time per intervention, procedure, consultation), backlog (inventory, service delay, work in progress), procedure compliance, completion without stoppage, output rates (units per time of product or service), productivity (output divided by inputs), defect rates (waste plus rework vs output, process appeals) and effectiveness (outcome measures, outcome per patient, percent compliant, output vs schedule).

Where do indicators come from? Some are derived from **bottom-up** analysis; by finding what data currently exists. A review of existing procedures, requirements and processes, a search for compliance standards, and 'reading the contract' will reveal bottom-up data. Some are top-down, and include broad financial measures and other lagging indicators of organisational performance.

Considering the generic process map above, think of indicators as gauges that measure rates of flow between the four components, or storage capacity, or output.

### *Leading and lagging indicators*

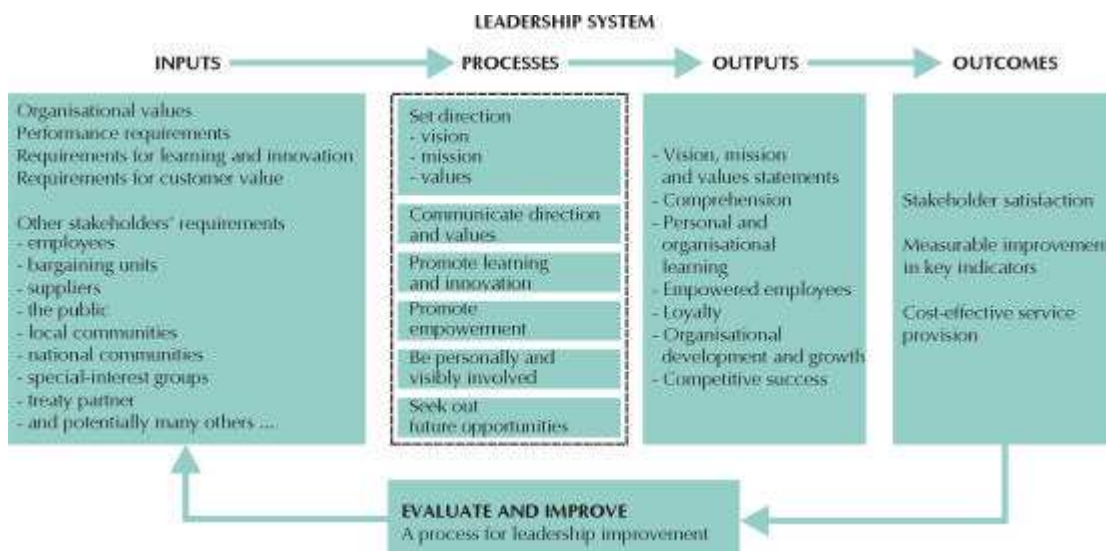
- **Lagging Indicators** show the final result of an action, usually well after it has been completed. Profitability is a lagging indicator of sales and expenses. Lagging indicators dominate at the higher levels in an organisation and they tend to be standardised and dictated from above.
- **Leading Indicators** are those which reliably foretell or indicate a future event. Employee satisfaction is usually recognised as a leading indicator of customer satisfaction. Leading indicators tend to dominate at lower levels, reflecting processes that achieve outcomes, to be customised, and to be bottom-up.

### **Example – a leadership mega-process**

**Figure 3**, below, shows the four-step high-level generic process map populated with leadership information; representing a family of sub-processes which together comprise a leadership mega-process. An organisation with an effective version of this family of processes would be likely to realise the following benefits:

- purpose (vision, mission, values) will be well defined and communicated
- there will be a leadership system – defined, in use and subject to review and improvement
- communication systems will be in place and effective
- direction will be clear – all stakeholders will understand what the organisation is supposed to accomplish now, and in the future
- strategic plans will reflect that direction
- future opportunities will be well defined by the leadership
- performance expectations (goals and objectives) will be well articulated, widely understood and aligned with high-level purpose

- employees will be empowered to make appropriate decisions
- employees will work to enhance organisational performance, see the organisation's success and their personal success as parallel goals
- the organisation and its employees will continuously learn
- customers will feel that the organisation provides enhanced value
- suppliers will be providing high-quality materials and services, and have a commitment to a common destiny
- innovation will be encouraged and performance improvement will a continuous process



**Figure 3.** A mega-process map for organisational leadership. Public sector organisations with well-developed performance excellence capabilities may represent this high-level map as a series of separate processes, measured by a large number of published indicators

### Postscript: But it's another thing to do!

'We've got enough to do without taking on a quality award commitment' is a common, and understandable attitude. To which there are two responses: First, applying the criteria does not necessarily mean applying for an award. Most users of the criteria employ them, sometimes piecemeal, just for home-grown self-improvement. And second, if finding new ways to do better is an agenda item, then the criteria for performance excellence are not something extra to do, they are a proven way of doing what needs to be done – not 'extra'; but effective, and efficient.

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