COMMISSION ON SERVICE INNOVATION

Meeting Minutes/Monthly Report

Governance Team:	Commission on Service Innovation		
Date of Meeting:	October 21, 2010	**Location:**	Centennial Office Building, Blazing Star Room
Minutes Prepared By:	Taylor Joseph	**Time:**	9:30 a.m. – 3:00 p.m.

Attendance

Member:	Representing:
Steve Dahl	Minnesota Chamber of Commerce
Mike Kirst	Minnesota Business Partnership
Dave Bentrud	League of Minnesota Cities
Darrel Huish	Minnesota State Colleges and Universities
Al Lehrke	AFSCME Council 5
Steve Giorgi	AFSCME Council 65
Chet Jorgenson	MAPE
Carol Nieters	SEIU
Kent Sulem	Minnesota Association of Townships
Bernard Gulachek	University of Minnesota
Peter Hutchinson	Bush Foundation
Gopal Khanna	State Chief Information Officer
Special Guest Members (non-voting)	
Sen. Terri Bonoff	State Senator, District 43
Rep. Phyllis Kahn	State Representative, District 59B
Other Attendees/Staff:	
Stacy Becker	Meeting Facilitator
Mike Muilenburg	Office of Enterprise Technology
Taylor Joseph	Office of Enterprise Technology

Decisions Made

Decision
1. Adopted minutes/monthly report from the September 16 meeting.
2. Members decided the final report should include long-term ideas on how to fund innovation, as well as specific suggestions for near-term investment.
3. The next meeting will be held on November 18, in the same location.

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Action Items

Action	Assigned to	Due date
1. Draft a preliminary final report.	Commission Staff	November meeting
2. Contact other Commissions.	Gopal Khanna	Prior to November Meeting

Agenda

Topic	Presenter	Time	Decision Item
Welcome; Recap of Third Meeting & Adoption of Minutes; Overview of Agenda	Gopal Khanna	9:30	Yes
Summary of Highlights of Member Conversations with Stacy Becker	Stacy Becker	9:45	No
Member Discussion: Identify Areas of Agreement to Date	Stacy Becker, All	10:00	No
Member Discussion: Options for Commission Direction	Stacy Becker, All	10:30	No
Lunch Break	All	12:00	
Advisory Workgroup Breakout Sessions	All	12:45	No
Advisory Workgroup Reports/Updates	All	1:45	No
Next Meeting Agenda Ideas	Gopal Khanna/ All	2:45	Yes
Adjourn		3:00	

Next Meeting

Date:	November 18, 2010
Time:	9:30 a.m. – 3:00 p.m.
Location:	Centennial Office Building Blazing Star Room, Ground Floor 658 Cedar Street St. Paul, MN
Agenda items:	Submit proposed agenda items to Mike Muilenburg.

Minutes

[Note: Members comments are summaries, not direct quotes.]

Welcome; Minutes Adoption; Agenda Overview

Gopal Khanna, the State Chief Information Officer and lead co-chair of the Commission on Service Innovation, welcomed commission members at 9:37 am. A quorum was not yet present. He introduced

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Stacy Becker as the commission's new meeting facilitator and told members it was time to start putting together the final report.

Ms. Becker thanked Mr. Khanna for the introduction and told commission members about her background. She said she was excited to be part of the commission and felt passionate about the hard work ahead.

Since a quorum was not yet present, Ms. Becker began summarizing her conversations with members. At 9:45, another member arrived to give the commission a quorum. The September meeting minutes/monthly report was unanimously adopted my members.

Summary Highlights of Member Conversations with Stacy Becker

- Everyone was very positive about the commission's work.
    - Felt it was important
    - Wanted to make sure the commission had something meaningful to say to make a difference in Minnesota
- Everyone appreciated/respected the commission's diversity.
    - Different backgrounds and perspectives can be challenging but are important
- Everyone said the commission's task was broad and could feel overwhelming.
    - Wanted to be clear about focus and direction
- Everyone was pleased with the work of the subgroups.
    - Some groups are charging ahead
    - Some groups need more direction
- Most were supportive of LEAN.

Ms. Becker then gave members a rundown of the meeting agenda.

Ms. Becker: We want to really start thinking about the report. We want to pull together all you have been doing. Generally, we are going to work on three things:
1. Agreements
2. Framework Direction (Commission role)
3. Recommendations

Today we are going to decide what we have agreed on so far and determine what else we should be agreeing on. We will determine some options for the role of the commission and break into small groups to try to develop some recommendations.

Member Discussion: Identify Areas of Agreement to Date

Ms. Becker asked members to jot down things they thought were agreements at this point.

The following is a list of the proposed agreements:
- We can't cut our way out of the problem, but we can't tax our way out of it either. Fundamental reform is required.
- The challenges are big enough that evolutionary change is not enough. Transformative change is needed.
- Shared services and consolidation are part of the answer, but more expertise and funding is needed to enable them.
- We need to empower government workers to be part of the solution, not force things upon them.
- The task is way too big. The commission is the first step on the path.
- We need to have buy-in from the top (leadership).

- The problem is not the recession. The problem is much more permanent – change in demographics and economics.
- Politics will play a major role.
- We need to better understand value from a citizen perspective, so it will guide our decision making and help us prioritize.
- The timing for change is right/ripe.
- The role of government is changing, and the citizen plays a larger (and different) part than they have traditionally.
- We need an agreement across all units of government as a process for continual change.
- The current structure of government cannot meet citizen demand. We need to take a horizontal view of government, not vertical silos.
- The commission needs to make recommendations for all units of government.
- There will be a huge number of retirements out of government service. This creates a challenge but also an opportunity.

Ms. Becker: Are there some of these that members don't feel there is agreement on? Is there anything we should amend?

Member Comments:

Dave Bentrud: I'm not sure the citizen role is changing. The biggest stakeholder is the taxpayer.

Peter Hutchinson: Maybe the idea is that we need to find out what they want.

Sen. Terri Bonoff: We had a clause in the legislation that there would be a social media component, but it seems the commission has not had the resources to do that. We wanted to get real-time input.

Mr. Khanna: I thought we were going to look at how to better improve the operations of government, not worry about the politics and the policy—what citizens want or will do without. I thought that was the original intent.

Sen. Bonoff: I don't disagree with that. I just think it's important to keep the door open to citizens.

Mr. Hutchinson: I can agree with most of what's up there, but my agreement gets stronger if we get citizens engaged, empower workers and get buy-in from the top. I don't agree with the operations idea. It's too narrow.

Ms. Becker: Are there things we might want to drive to that we think we should agree on?

Mr. Hutchinson: This work of innovation will be filled with conflict and trying to avoid that is not a good strategy. We need to embrace the conflict. Avoiding it won't get us anywhere.

Rep. Phyllis Kahn: Outsourcing is one of the most controversial things to ever come up, but outsourcing to other public entities might have more buy-in. It's better than the concept of outsourcing to private companies.

Mike Kirst: Back to Peter's point about embracing conflicts, do we feel strongly we have the processes in place for that?

Mr. Hutchinson: There are conflicting values that are important to get on the table.

Ms. Becker: Anyone else have anything they want to get on the table?

Mr. Hutchinson: If we are going to say we can't cut our way out of the problem, I think we need to ask if we can tax our way out of it.

Steve Dahl: Significant investments in technology and training are crucial to the environment of the future.

Al Lehrke: I think we should be looking at where we are and what we can do with what we have.

Ms. Becker: What I hear is that this is a really big problem, and we can't solve it by just making cuts.

Rep. Kahn: I think there would be real value if we had both a minority and a majority position. We don't have to all agree.

Mr. Hutchinson: I agree with Steve's point. You can't make change without investment.

Ms. Becker: Do you agree with Peter's idea that there will be conflict, and that the commission should recognize it as part of democracy?

Steve Giorgi: I don't think in reality we are talking about operational change. We are talking about structural change, and that's where the threats come in.

Mr. Khanna: It might be better to say operational structure.

Mr. Bentrud: If change was left up to government employees alone, self-preservation comes into play, but government mandating change presents problems too.

Mr. Dahl: I think we need to think about how to align incentives to get the outcomes we desire.

Darrel Huish: I believe we have a dilemma. We know that transformative change is needed, but the commission is more structured for incremental change…We prefer change to happen somewhere else. No one owns holistic change. To divvy it up is problematic.

Mr. Hutchinson: I think there is a corollary to that. You can't get the system to change by consulting it as it is. You can only get the system to change if you expose it to forces outside itself (economic, demographic, etc.).

Bernard Gulachek: The real key is to assemble the right folks—the commission—and take off our stakeholder hats and put on our architectural hats.

Sen. Bonoff: When we had the shared services legislation there was a mandate to work with a consultant to determine how to use shared services, and there was incredible resistance. Should we look into the Collaborative Governance Council?

Mike Muilenburg: The CGC is meeting and looking at barriers. They have been looking into shared services, broadband, etc. I haven't seen a lot of barriers identified at this point.

Mr. Hutchinson discussed how Target revamped their operational structure and used an insourcing rather than an outsourcing model.

Chet Jorgenson: I think the model that would be a better approach is the New Deal. When you start making huge changes, you don't know the consequences. If Target would have failed with the risks they took they might have gone out of business, but if government fails, it is still there and needs deliver services.

 MEMBERS TOOK A BREAK FROM 10:50 – 11:00 a.m.

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Member Discussion: Options for Commission Direction

Ms. Becker discussed potential approaches the commission could take.

   A. Option A: Illuminate the Path
   - Focus on the tool box
   - Measures – service redesign
   - Setting the structure for what needs to be done
   B. Option B: Lead the Way
   - Recommend specific initiatives
   - Measures- progress on initiatives
   C. Option C – Just Do It
   - Point out various paths
   - Set goals for redesign
   - Measure – number of redesigns completed

Ms. Becker asked Mr. Hutchinson to discuss the work of the final report subgroup.

Mr. Hutchinson discussed a document the final report subgroup put together.
[Note: See appendix for document.]

Mr. Hutchinson: We've tried to pull together the work of the other subgroups…Bureaucracy has solved a lot of problems and was a great idea when it was invented 100 years ago, but if you don't like the ideas your are getting from yesterday's solution, you need a new one. The goal is not to give up our principles – the important things from the past. We need to move from a bureaucratic approach to an innovative one.

Ms. Becker: What do you think about the path we want to set?

Mr. Huish: Are we trying to reach a core group of change agents or a larger audience?

Mr. Bentrud: I don't think it's realistic for us to come up with a cookie cutter approach, but we should come up with something that encourages innovation.

Mr. Dahl: I feel like option B is what we've generally talked about as a group. I see organizations transform all the time. You have to transform every few years or you die. A common thread in successful transformations is the heavy use of pilots and using those successes to drive approach.

Sen. Bonoff: I like that approach, and I also like the idea of using money as an incentive. I like the use of geographical equity using money and pilots. Every region is different, so you have to look at them differently.

Mr. Hutchinson: I want to speak against the idea of pilots. In my experience, if you have ten pilots in 1000 organizations, the rest of the organizations don't think they have to change. They just wait for the pilots to fail. We create the necessity for everyone to change and learn from that. Everyone is going to be experimenting. We have to give them the structure/framework to do more. Help them push beyond the limits of their own models.

Mr. Khanna: We have to create a climate that is friendly to innovation. Not everything is going to be a success.

Mr. Hutchinson discussed the potential benefits of budgeting for outcomes. Government would develop a clear idea of the desired outcomes. Solicit proposal ideas, rank them, and fund the best ones with the money available.

Mr. Jorgenson asked to bring the conversation back to determining the reports audience.

Mr. Huish: I think we need to articulate the case for action and guiding principles, and present a targeted report to a group of change agents.

Carol Nieters: I feel like we are still looking at things in silos. We need to get out of that and look at the whole pie.

Mr. Dahl: It is my assumption that this is a report to the legislature and will serve as a call to action.

Mr. Khanna: This report is for the legislature, but it's also for the greater Minnesota audience.

Sen. Bonoff: We want to make sure there is a lot of outside pressure on legislators and the governor. We want constituents to see there are other options.

Ms. Becker: Let's go around the table, and let me know if there is anything you want to hold onto.

Mr. Dahl: I think performance/outcome-based budgeting is key.

Mr. Bentrud: I am a little averse to seeding or pilots. We need action now. Minnesota LEAN is about changing internal process to streamline operations, but I think we are looking outside of that. We need to look at ways to incentivize significant change. We need to create a change agent and get the ball rolling now.

Mr. Hutchinson: The last part of this conversation got me nervous. Schools are under plenty of pressure. They are changing (cutting), but they aren't innovating. What can we do to get them innovating? I think the real audience for this stuff is the people who have to execute. This work can give them the courage they need to move forward.

Sen. Bonoff: I've shifted from the pilot mentality to the idea that this is a crisis and we need both deep and broad change.

Mr. Lehrke talked about the need for upfront investments to see long-term savings and innovation.

Mr. Khanna: I believe the mega opportunity is to create a new sort of rules to do things differently and move from the structures of the past. Coming up with a definition of what the new environment will be is huge.

MEMBERS BROKE FOR LUNCH FROM 12:15 – 12:45

Advisory Workgroup Breakout Sessions

Ms. Becker: The report is going to be due faster than you think. We need something preliminary in writing next meeting. I want us to spend a little time in small groups thinking about the rules that need to change for success. What are the incentives? What are the processes and tools that can support the work and help it succeed?

Things groups should think about:
- Thoughts on approach
- Recommendation
- Further guidance needed from the whole group…are the subgroups still appropriate?
- Identify clear obstacles the commission should address

Ms. Becker: The more concrete we can get the better.

At 1:00 members broke into small groups.

Advisory Workgroup Reports/Updates

At 1:53 p.m., Ms. Becker reconvened the full commission.

Summary of group discussions:

Group 1: Mr. Kirst, Kent Sulem, Mr. Huish, Ms. Nieters

- Call out areas that would be "certain wins" that all of government could recognize and associate with.
- Very little tolerance for failure.
- The Commission's role: How do we empower change with enough specificity on where to build from?
- Educate certain stakeholders to the whole – there could be winners and losers, but we will be collectively better off.
- Job loss gets in the way, but we should redirect the labor force – make it easier for them to move to higher value work.
- Constant evaluation is need.

Group 2: Mr. Dahl, Mr. Bentrud, Mr. Jorgenson, Mr. Gulachek

- The group started by looking at transportation.
- In terms of the budget, look at what outcomes are desired, who we are serving and how best to deliver those outcomes.
- There is no one-size-fits-all approach. State regions have different needs/realities.
- Looked at approach outline. The group wants to provide the roadmap and tools but also help.
- Provide a clearing house for ideas. Provide education on this type of thinking and help with business development and implementation.
- States have created governor's offices of innovation.
- Funding – budgets are getting reduced and funding is lacking. Look at grants or bonding. A significant amount of money is needed to drive meaningful change.
- Discussed government leaders and how they interact with citizens. They should take the lead but get affirmation that citizens would support the ideas. Lay it out for them. Explain that citizens can serve as a significant catalyst for change.

Ms. Becker: The on-size-fits-all approach is what bureaucracy is all about. We are moving to a world where customization is expected.

Group 3: Mr. Giorgi, Rep. Kahn, Mr. Lehrke, Mr. Khanna

- Talked about the existing barriers to initiating and implementing successful change.
- Barriers:
    - Costs
    - Legalities
    - Labor contracts
    - Funding issues
    - Threats to incumbents
- What would enhance change?
    - Workplace flexibility
    - Tools to work from anywhere

- o Collaborative approach
- o Management commitment to work with unions/employees
- o Training
- o Incentives
- o Attractive workplace environment
- o Supportive environment for the agents of change
- o A la carte flexible spending rewards system – some people maybe incentivized by having more time off, flex schedule or educational opportunities
- Equity vs. Equality

Mr. Gulachek: We need disciplined innovation. We must set aside the capacity to do innovation, but we need to make it transparent. Structure, to the extent that it's disciplined, is good, but there must be room for flexibility.

Ms. Becker: How do we get to a place of disciplined innovation? Everyone has talked about the need for funding.

Rep Kahn: Traditional bonding can only be done for Capitol projects, but there are some states that are doing it for non-profit projects. It's something that should be looked at to fund innovation.

Mr. Kirst: I still think we should talk more about the different options we can take…point to long-term ideas for innovation, but also give near-term specific examples (certain wins) that can be used.

Ms. Becker reviewed options A through C again.

Mr. Khanna: I would love for us to agree on the approach. It takes care of the charter for the short and long-term, and it gives the legislature recommendations for both as well.

Ms. Becker: I think we all agree on the need to determine how to fuel innovation in the long-term and want to figure out specific (certain win) near-term investments.

Next Steps

Kent Sulem suggested reaching out to the Collaborative Governance Council and getting a detailed update from them.

Rep Kahn suggested hearing from the lead of the old Commission on Innovation.

Mr. Khanna said he would touch base with the other commissions/councils.

There was a motion to adjourn. It was seconded, and the meeting adjourned at 3:00 p.m.

Appendix

Early Thoughts on Vision
10/20/10
The Vision Work Group – made up of members from each of the other work groups – met last week. Out of that conversation I have drafted the following. It is an attempt to tie together the work of the teams and add some additional ideas for making innovation more a way of life for state and local governments. It is only a draft. It is by no means complete. It will benefit from your feedback.

Thanks,

Peter Hutchinson

Minnesota's state and local public institutions face the problem of reconciling ever rising expectations for service with diminished prospects for the resources to support them. The tough problems we face today are not temporary, will not solve themselves if we just wait them out and cannot be solved with business-as-usual approaches. Even when this recession ends, we will still be faced with daunting challenges that arise from our changing demographic and economic realities—an aging and changing population increasingly expecting to rely on public resources, growing demands and costs for health care, rising expectations for education and other services, and diminished prospects for economic growth. Reconciling increasing demands with lagging resources is the central problem facing our state and local governments and, more importantly the people they serve. Moreover, these governments must do so in an environment in which people are more mistrustful of government than they have been in decades.

Innovation in the design and delivery of public services is essential to reconciling the growing demands and limited resources. Current designs and delivery methods were developed in an era of vigorous growth in population and productivity. The pace of population growth and especially of the number of workers has slowed. In the public sector the rate of retirements can be expected to skyrocket just as the resources to replace them will shrink. The future of our economy, the availability of resources to support public services, and the ability to deliver public services effectively will increasingly be dependent on growing the productivity of every worker – public, private and not for profit. The key to productivity growth is innovation.

There are many, many specific examples of innovative designs and delivery mechanisms for public services. These examples should be examined, improved, implemented and expanded if they can delivery the quantity and quality of services the public expects within the limits of our resources. Finding and implementing specific innovations is important work. Among our work group recommendations are these:

1. Workforce/ Culture
When given the opportunity to actively participate with key management personnel who have the authority to implement and act on innovative changes developed via labor/management teams, employees will embrace changes in service delivery systems. Employees do take pride in quality of services and as proven in Ohio with OCSEA and state employee management efficiencies and improved services can be developed and implemented without the threat of job losses or a compromise on quality services. When the parties (labor & management) can commit to a process that allows for innovation such as the Lean and Kaizen principles being utilized in Ohio for the past 18 years, and more recently in Minnesota, positive outcomes are attainable and proven.

In order to maximize opportunities for innovation, the State of Minnesota will need to restore public citizens' faith in government. A recent Pew Research Center survey revealed that by almost all indicators, the general public is less positive and more critical of government than they have been in decades. Our group's report will include recommendations to increase a "public understanding of the purpose and possibilities of government action – an approach that emphasizes problem-solving, long-

term thinking, and a genuine concern for the common good." (Michael Lipsky)

Recommendations
- We must understand and plan for the needs of major portions of our state where the dependency ratio is growing, and resources may be declining.
- We must meet the challenge of having a very high proportion of state employees reaching retirement age during the next few years. How can we preserve and improve a competent workforce?
- Implement LEAN through labor-management cooperation.
- A communications plan that would include a public education campaign to coincide with other internal attempts to maximize efficiency and relevancy in government.

2. Citizen/ Customer Engagement

We need a new type of state government that serves the changes in society and all other institutions.

With these changes, the roles of government and citizens have changed substantially. Government is less about the delivery of services and regulation, and more about ensuring that governance outcomes are met in many institutions and sectors (more 'steering' and less 'rowing' to quote David Osborne). Citizen expectations are less about good customer service from government (although this should be assumed to improve), and more about seeing citizens as 'producers' – partners in governance and producing outcomes that are good for Minnesota. Two conditions for these changes are the availability of data that is useful to the public (information), and the ability of citizen expectations and demands to have an influence on government.

Recommendations
- All state data that is public in nature should be made available in a format that can be used and manipulated by citizens. Example: Raw data on water quality for a particular waterway should be accessible regardless of its location within state government.
- Within government, information on particular outcomes and particular citizens should be accessible across programmatic and organizational boundaries (respecting the need to protect privacy). Example: Information on students that are accessing services through DHS should be accessible to Dept of Education staff working to close the achievement gap.
- To build demand and political support for these changes, and "good government user group" should be created to
  o Help coordinate and facilitate these types of demand-expectations and changes;
  o Make best-practice information across government available to citizens and leaders in all sectors that work with the government; and
  o Coordinate this work with other types of government and leadership from other sectors.

3. Process/ Governance

Key Themes that need to be addressed include . . .
- Common Process /Tools /Training, Why?
  o No over-arching governing body to lead/sustain an 'innovations management' Process across all Governing Levels
  o Cost of a Common Process Unclear, including Training and Who Funds
  o Benefits of a Common Process Unclear, including Who Benefits

- Benefits / Metrics / Evaluation Funding, How ?
  o Benefits Analysis Lacks Consistency, Promotes Prolonged Funding Debate
  o Misaligned Incentives
  o Performance Measures Lacking – and/or Not Timely, Broadly Visible
  o No evidence of Funding Agility, i.e., Funding one-time Resources to implement 'highest return' Changes

- Agency 'Silos' / Overlapping-Conflicting Agendas
  o Service Ownership, 'Turf Battles'

- o An Agency belief that it alone will not Make a Difference the Change is for some Other to explore/implement
  - o Too many 'Innovation Groups' trying to meet similar Objectives

- Workforce Culture / Rewards
  - o Employees not Valued, not Empowered to Innovate/Change
  - o Employee perception that 'Must Innovate' implies 'Currently Failing', not 'Good to Great'
  - o Lack of Trust and Rapport, Successes (and Failures) not Visibly Celebrated
  - o Fear of Change
  - o Leadership Turnover Leads to Loss in Focus, Commitment

- Leadership Alignment
  - o Coalition (across Party Lines) that shows Commitment to Fueling Innovations does not Exist
  - o Political Agendas derail Service Innovation Agenda

- Statutory
  - o Balanced State budget (2-Year Horizon) 'Constraint'
  - o Lack of Enforcement of 'whistle-blower' Laws
  - o Outdated Part-time Legislative Schedule Rules
  - o Rigid Work Rules

4. Shared Services
Recommendations

Overall

- Most of the shared services/consolidation should be done with state and local government staff, outsourcing should be limited.
- Outsourcing is a needed option for select specialized or otherwise unique areas.
- Investment in training of staff is critical to success in any change to shared services or consolidations.
- Investment dollars are needed up front to fund these activities to make them successful so some type of innovation funding needs to be provided through bonding or dedicated funds of some type.
- Grants from the State are needed that don't have extensive state regulatory requirements.

What do we need to have to better enable Counties, Cities, Townships, Schools, Higher Education, Special Entities and the State to work better together in Shared Services and Consolidation?
- Website that consolidates available contracts, service center offerings, tools – an information clearing house for Minnesota Government.
- Specialized staff/entity to assist entities in developing ideas in these areas – many entities lack the time or expertise to identify and define ideas.
- Specialized staff/entity to assist in evaluating options and determining an action plan – there are many contracts, technologies and options available for Minnesota State and local government to utilize, evaluation of those ideas and developing value on investment business cases along with implementation plans/roadmaps is often not something that can be done without specialized help.
- Specialized staff/entity to assist in implementing shared services and consolidation – Reorganization, process design, technology standardization and implementation, information security, change management and training along with strong project management are needed for larger scale efforts and often not available to units of government in today's environment.

What do we need to enable Consolidation and Shared Services when local and state entities do not act on their own?
- Create an entity that has a mandate to drive consolidation and shared services within certain agreed upon value on investment parameters.

- Develop a process to follow to gain the mandate, such as placing items on the ballot, creating incentives based on moving forward or penalties (like loss of LGA) for not proceeding.

- Provide for reviews of every entity in the State on a routine rotational basis to determine if they should be consolidated, moved to shared services in select areas or left untouched.

How can the budget be reconfigured to be statewide and enable views to the opportunities while not creating shifts that harm trust and services without a plan?

- Develop a single committee in the Senate and House to oversee funding in shared services areas for state and local funding.

- Define a leader for the shared services areas for the entire state (state and local) with a level of control over those resources and related budgeting processes.

- Example Services –
    - Information technology
        » Utility Services
        » Shared Services
        » Specialized Applications
    - Fleet and Dispatch (Transportation)
    - Procurement and Food Service
    - Facilities and Real Property
    - Developing/Providing Analytics and Reporting
    - Basic Services such as: Law Enforcement, Firefighting, Snow Removal, Parks, Libraries
    - Finance, Human Resources and Administration
    - Specialized Knowledge Positions and Teaching/Training
    - Leadership/Management Positions.

- Develop and implement an outcome based process for defining budgeting priorities and expectations along with consideration for some type of zero based budgeting where programs need to rejustify their existence every few years.

- Develop and implement-ability checkpoint in the legislative process whereby the implications of new legislation is evaluated prior to votes. This would help with the challenge of lack of standards and with rules constantly changing in legislation without being fully vetted prior to acting on.

Systems Change – Changing the DNA
In addition to specific service innovations that can and should be implemented within our public systems, the Commission should also recommend innovations to the systems themselves in order to make service innovation the norm – to make innovation a part of the DNA of state and local government.

Systems produce the results they do by design not by accident. While those in the system may not be conscious of its design they are governed by it. Most public systems are governed by a design called bureaucracy. Bureaucracy was developed to solve the problem of corruption. The core assumption was that people were not very smart and could not be trusted to do the right thing. To overcome this problem bureaucracy relied on controlling the process of government as its principle design element. Today we call this red tape. When bureaucracy was invented over 100 years ago it was a new idea. That it has worked so well to end corruption and assure fairness is a testament to the work of the designers.

Now we are faced with a different challenge. We need innovation. Bureaucratic mechanisms of control don't encourage innovation (i.e. people in bureaucracies are rewarded for following the rules not changing them) and can actually frustrate good ideas. But change is hard. After all, bureaucracy worked – it virtually ended corruption. People will rightly not want to sacrifice honesty and fairness or accept change for change sake. What we need are designs that assure honesty and fairness while also encouraging innovation. The following chart suggests how this can be done. The major tool to

achieve this is to emphasize accountability for delivering specified results rather than only accountability for following specified procedures or rules.

FROM	TO
Bureaucracy	**Innovative government**
Statute & rule directed	**Mission & results directed**
Hierarchy driven	**Team & network driven**
Control centralized	**Decentralization & empowerment**
Primarily accountable for conformance to rules	**Primarily accountable for results**
Manage costs	**Manage value**
Assume people cheat; control them	**Assume people perform; empower them**
Quality defined as adherence to standards	**Quality defined as meeting or exceeding expectations of those served**
Exclusive service mandate	**Choice and competition**
Focus on what's best for the organization	**Focus on what's best for those being directly served and for citizens**

Possibilities for changing the system based on this approach

Separate steering (governing) and rowing (managing delivery)

Separate policy making/ regulatory roles (steering) from service delivery/ compliance roles (rowing). When they are separate both can be done better.

Steering organizations set direction, specify results to be delivered, allocate resources and hold those who get resources accountable for delivering the specified results. Key – performance agreements between those who steer and those who row. (See Budgeting for Outcomes below).

Rowing organizations figure out how to deliver the results with the resources available. The separation encourages those who are rowing to find innovative solutions.

COMMISSION ON SERVICE INNOVATION

Here's David Osborne's description
"Steering--setting policy and direction--focuses on doing the right things. Rowing–service delivery and compliance operations–focuses on doing things right. Housed in separate organizations, each can concentrate on its mission.

Steering well is almost impossible if an organization's leaders also have to focus on rowing. Peter Drucker captured this point emphatically 35 years ago, in his book *The Age of Discontinuity*:

Any attempt to combine governing with "doing" on a large scale paralyzes the decision-making capacity. Any attempt to have decision-making organs actually "do," also means very poor "doing." They are not focused on "doing." They are not equipped for it. They are not fundamentally concerned with it.

Once the steering function has been separated out, it can be consolidated to assure that policy is integrated and mutually reinforcing across a government. To use the homeland security example, Congress should have created a relatively small department whose mission was to steer, but kept operational agencies like FEMA independent. The department would set outcome goals and policies, develop strategies and budgets for the operational agencies, develop performance agreements with agencies defining the results they would be expected to produce, evaluate their performance, and hold them accountable. It would continually shift resources away from low-yield strategies and agencies to high-yield strategies and agencies.

This approach may sound radical, but it is common in other countries, from Sweden to New Zealand. It has many advantages. It keeps policy makers from getting sucked into the minutiae of operations. It minimizes the kind of micromanagement that is habitual in large, hierarchical organizations. It makes accountability for performance stronger, because the steering organization can shift resources from ineffective operations to high performers. And it gives policy leaders much more flexibility to change strategies and funding levels, but gives operational managers much more flexibility to manage their agencies.

Consolidating steering and funding but not rowing creates a fundamental—radical—shift in governance. It gives leaders the power to steer more effectively while forcing service providers and compliance agencies to continually improve their efficiency and effectiveness."

"Many models already exist for this fundamental shift. One of the first was created 60 years ago, in Pinellas County, Florida, which comprises the area around Tampa and Saint Petersburg. In 1944, Judge Lincoln C. Bogue of the Pinellas County Juvenile Court confronted a growing problem: children who clearly needed help, showing up in his courtroom time and time again.

… Seeking a solution …the judge drafted a state law authorizing the formation of "an autonomous board of citizens," with taxing authority, to look after child welfare. Known as the Juvenile Welfare Board, it was, according to its current leaders, "the nation's first countywide agency utilizing dedicated property tax revenue to better the lives of children and families."

The Juvenile Welfare Board has 11 members: the superintendent of schools, one county commissioner, one public defender, one state attorney, one juvenile court judge, and six members appointed by the governor. It spends about $46 million a year, mostly from a dedicated property tax voted by the citizens, to improve outcomes for children. Its staff and board identify needs, prioritize them, and develop a budget for each one. The organization does no rowing itself. Instead, it finds the best providers to meet each need, funds them, and measures their success and the county's success in addressing the needs. It funds almost 60 different providers, focusing as much as possible on prevention: neighborhood family centers and teen centers, counseling, domestic violence shelters, residential treatment services, after-school activities, child-care centers, home monitoring, recruitment and training of substitute child-care workers, and a 24-hour resource and referral service.

… "What makes it unique is it has a measurable objective component that can be tailored to each program," long-time JWB executive director James E. Mills told us. "This can be negotiated in the contract. That system has been picked up, and we ended up in the hosting business."

Performance measurement leads to consequences: The best providers grow and the worst lose funding. "Last spring [2003] the board defunded 16 programs," Mills explains. "We cleaned out some marginal performers and some duplication of effort. I think we went from about 80 to 60." Eliminating contracts allows the board to expand high-performing programs and strategies and add new providers."

Separating steering from rowing works because:
- It limits micromanaging by policy makers while strengthening accountability
- It frees leaders from much of their captivity to service provider lobbying
- It increases flexibility

Change administrative systems

Administrative systems (budgeting, HR, purchasing, accounting and auditing) embody and communicate the essence of an organization's assumptions, values and design. Most of today's administrative systems in government are designed to embody the assumptions, values and practices of their bureaucratic design. Design that support innovation include:

Budgeting

> Implement Budgeting for Outcomes – use the budget to purchase outcomes, get the most value for every dollar

> The key steps in Budgeting for Outcomes include:
> **Set the price of government:** Establish up front how much citizens are willing to spend. Get agreement on a revenue forecast and any tax or fee changes.

> **Set the priorities of government**: Define the outcomes or results that matter most to citizens, along with indicators to measure progress.

> **Set the price of each priority**: Divide the price or revenue among the priority outcomes on the basis of their relative value to citizens.

> **Develop a purchasing plan for each priority:** Create "results teams" to act as purchasing agents for the citizens. Ask each one to decide which strategies have the most impact on their desired outcome.

> **Solicit offers to deliver the desired results:** Have the results teams issue "requests for results" to all comers including their own government's agencies or department, other governmental jurisdictions, unions, non-profits and businesses. Invite them to propose how they would deliver the result and at what price. Then choose those proposals that will provide the best results for the money.

> **Negotiate performance agreements with the chosen providers:** These should spell out the expected outputs and outcomes, how they will be measured, the consequences for performance, and the flexibilities granted to help the provider maximize performance.

Human Resources
- Make civil service more flexible – classification, pay, etc.
- Emphasize performance vs. credentials
- Link performance and consequences
- Delegate control but increase accountability

- Invest in building skills and competencies

Purchasing
- Delegate control but increase accountability
- Emphasize best value not low cost
- Enhance competition
- Partner with vendors to share risk

Accounting
- Account for what really counts – money and results
- Balance risk and results

Auditing
- Focus on results not just money
- Emphasize managing risks not just zero tolerance
- ID and spread best and better practices

Create Innovative Organizations
Current organizations were created within the context of bureaucratic design parameters. Many of the recommendations listed above are intended to support change within those organizations. Another alternative would be to create new organizations using innovative design parameters. The creation of charter schools is an example – public schools created without many of the restrictions of traditional schools. Innovative designs would include:

Charter Agencies
Re-charter existing organizations or parts of organizations – provide them with increased flexibility and authority in return for increased accountability for results and a reduced budget.

The State of Iowa did this first. The deal was relatively simple: Agencies volunteered to:
Be accountable for producing measurable results; and
Reduce spending.

In exchange the agency director gets to:
- Exercise all the authority of the state with respect to personnel management, procurement, IT, and building maintenance;
- Be exempt from across-the-board budget cuts and FTE controls; and
- Negotiate a series of other management flexibilities.

Iowa Governor Tom Vilsack dubbed this experiment "Charter Agencies," since it's built on the same principle as charter schools: more flexibility in return for more accountability. Six charter agencies produced impressive results for Iowans, so impressive that they won a prestigious Innovations in American Government award from Harvard's Kennedy School.

Performance Based Organizations
New organizations - public, quasi-public (e.g. public corporation) or non-profit – that have a performance agreement with a steering organization to deliver specific results and a specific cost. This idea was first used by the federal Government in restructuring the Office of federal Student Assistance as a PBO. Here again the results were very impressive – customer (student) satisfaction among the best of any financial services organizations in the country, dramatic increase in staff morale, and dramatic decreases on costs and defaults.

Investing in and getting a Return on Service Innovation (ROSI)
In an era of very limited resources and continued demand for results state and local governments can only succeed by increasing the results they deliver for each dollar spent – by increasing productivity. Increasing productivity requires investment. Every investment should return both better service results (or

at least not worse) and less cost. The state should create an Innovation Investment fund by selling bonds. Funds would be used to invest in innovation. Lower cost should be used to pay back the investment.