



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU



# Innovation

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Tools, policy and guidance

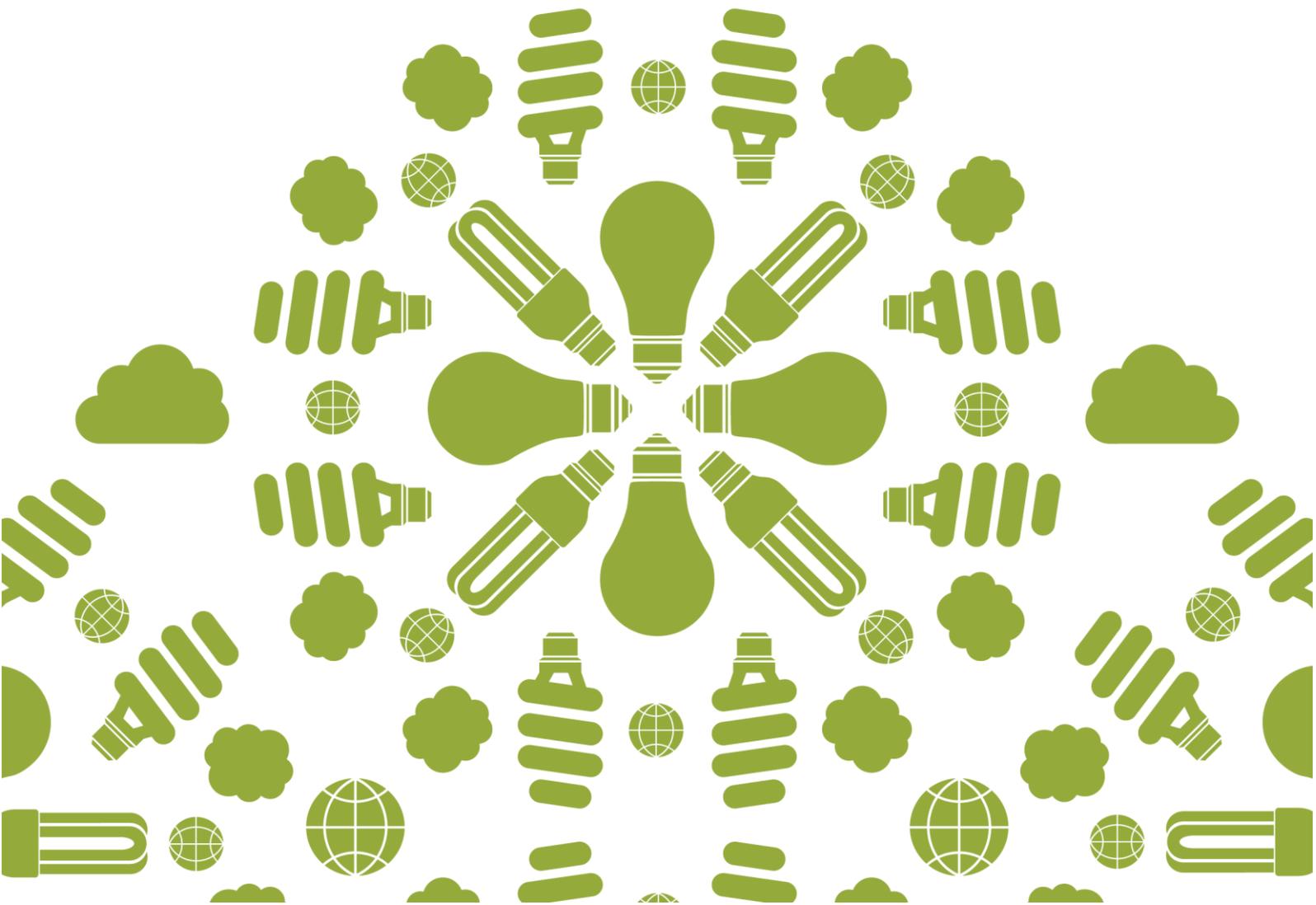
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# What is innovation?



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## Defining innovation

There are many definitions of innovation. The basic nature of innovation is the introduction of something new whether a product (in a manufacturing context) or new ways of producing or delivering a service. Well-known examples of innovation include:

- the Sony Walkman transforming the way people listen to music;
- the mobile phone meaning that people can stay in touch while they are on the move;
- internet shopping enabling people to buy food without visiting a supermarket; or
- in a sporting context, the American athlete Dick Fosbury finding a new technique that enabled him to jump higher and win an Olympic gold medal for the high jump.

We like the definition of innovation set out by Mulgan and Albury (2003): 'Successful innovation is the creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in outcomes efficiency, effectiveness or quality'.

Innovation is often seen as a commercial driver in a manufacturing or research and development context. However, innovation also matters in the service sector, including public services. Public sector organisations are likely to face significant reductions in their resources in the coming years. Consequently, further developing innovation will be a critical corporate capacity for public sector bodies seeking to reconcile rising demand, falling resources and a drive to maintain or improve service quality. These web pages provide further information about the effective management of innovation.

It is also important to recognise that innovation does not necessarily require the generation of brand new ideas: many highly successful innovations involve combining two existing ideas to create value or provide service in a completely new and innovative way.

## Types of Innovation

There are various types of innovation, of which the main types are:

- **Products**, for example changes in features and the design of products, or the generation of entirely new products.
- **Service delivery**, for example new or altered ways of delivering services or otherwise interacting with clients.
- **Process**, for example developing new business processes either in a service or manufacturing context.

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## Degrees of innovation

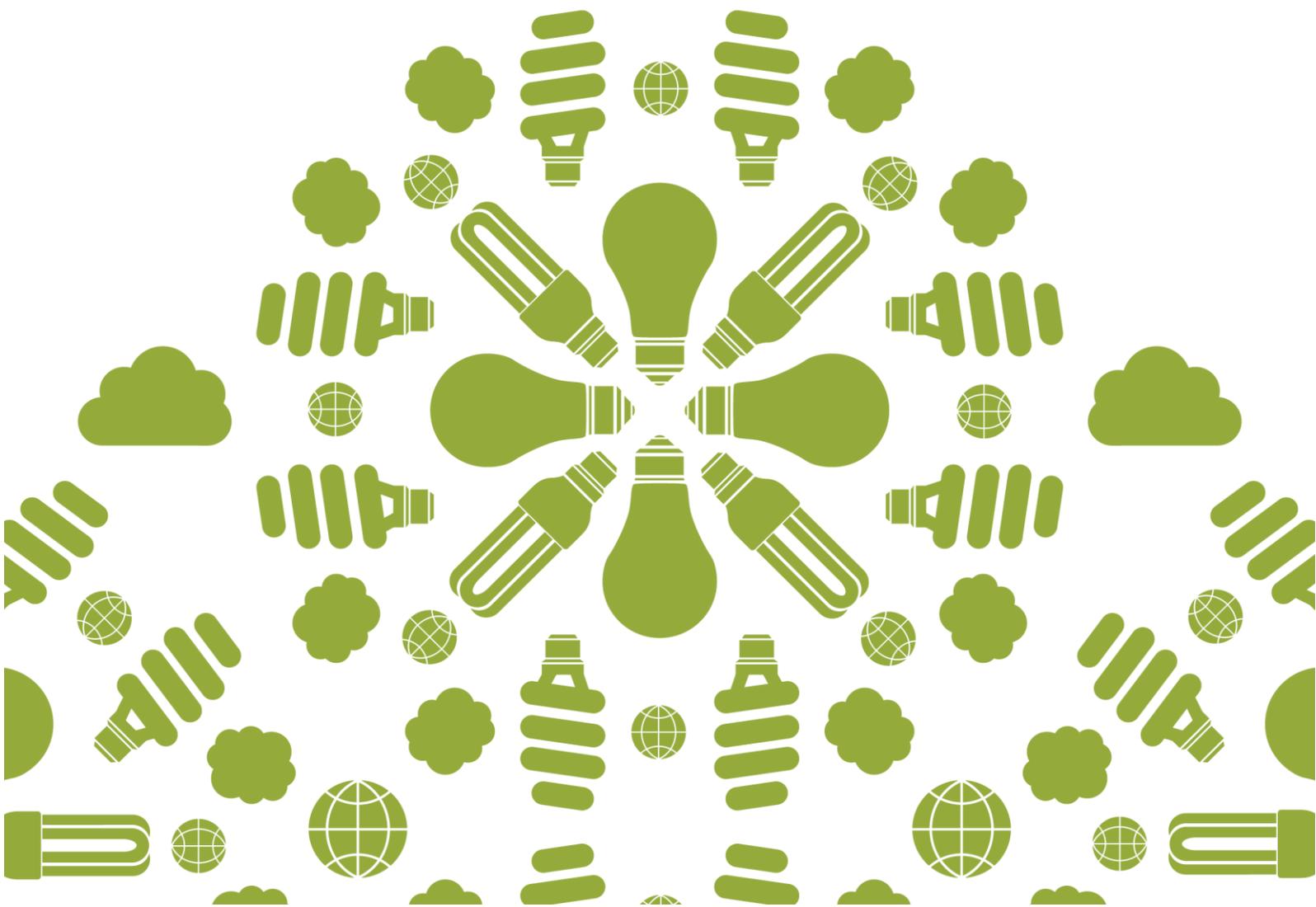
There are various degrees of innovation:

- **Incremental** – Incremental innovations are often relatively minor changes to existing services, systems or processes. Incremental innovations are critical to the pursuit of continuous improvement in service delivery, value for money, systems and process.
- **Radical** – These innovations either involve the development of new services or introduce fundamentally new processes or service delivery. Radical innovation changes the nature of a service offering or market.
- **Transformative/systemic** – Most rare are transformative innovations that give rise to completely new workforce structures and new types of organisation. Such innovations transform entire sectors, and dramatically change relationships between organisations. Typically such innovations take decades to have their full effect, requiring fundamental changes in organisational, social and cultural arrangements.

## A model of innovation

Developing innovation capacity requires much more than developing a process. Innovation is a social activity in itself and so depends on corporate capacity, culture, leadership and people.

# How to encourage innovation?



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## Generating ideas and possibilities

Generating ideas and possibilities is the first stage of innovation. Public sector bodies should have systems that allow staff and wider stakeholders to submit their ideas about public service improvement. Often it is a combination of ideas which leads to an effective innovation, but a culture where ideas for improvement, innovation and opportunities to reduce costs will be of central importance as public bodies deal with the tightening financial climate.

There is no right way to do this and a combination of factors is important:

- There should be systems through which staff can submit ideas in writing, usually through effective suggestion schemes or a web-based tool. Such systems need to contribute to an organisational culture which is supportive of the process of generating ideas.
- Top management should encourage a culture in which innovation is everyone's responsibility. Staff should be encouraged, rewarded and recognised for submitting ideas for innovation, improvement and better use of resources. It is particularly useful for managers at all levels to study and understand the work that takes place within any system for which they have responsibility.
- Operational managers working at the front line should be aware of the importance of innovation and should encourage staff to submit ideas and proposals.
- When ideas are submitted, there should be a process through which the organisation can provide the originator with time or other resources to develop an idea further with a view to formal piloting.
- The organisation should engage effectively with its internal and external stakeholders to generate possibilities and ideas. Private sector innovation is characterised by significant efforts to understand their customers' needs – public sector innovation would also benefit from active research about customers' stated and latent needs.
- The organisation should pursue open innovation, particularly learning from and sharing experiences with other organisations. It should also look to other sectors and public sector bodies for ideas about innovation, not limiting the search for ideas to Wales or even the UK.

Specific techniques to generate ideas include:

- Innovation centres or clusters providing time and space for staff to generate ideas for innovation.
- Working with key stakeholders (for example, service users, citizens, suppliers, and staff) to understand their experiences of services with a view to thinking radically about how to change and improve the experience of end-users. Studying the experience of individual citizens can enable frontline staff, senior managers, politicians or board members to generate new ideas and possibilities to improve the service and citizen experience.
- Staff suggestion schemes.
- Using specific structured creativity or problem-solving techniques to generate possibilities and ideas. Approaches such as ideas storming, use of the Six Thinking Hats<sup>TM</sup> and scenario development can help structure thinking and generate possibilities.
- Using surveys, focus groups, reference groups or lead users to assess customer needs and ideas for innovation.

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## Prioritising and piloting ideas

Organisations need to have systems that enable them to prioritise ideas and to test them out through pilots before deciding whether or not to scale up.

The key things public sector bodies should do are:

- Develop a specific system to enable them to screen and evaluate new ideas within the organisation, both within every appropriate sub-unit (for example directorates or departments and at a corporate level). It is important that ideas from one part of the organisation are accessible to others, as they may stimulate another innovation in that part of the organisation.
- The organisation should have an innovation strategy, to which the prioritisation process is linked, so that the organisation focuses its innovation projects on its key priorities. For example, in the current and projected future fiscal climate many public bodies will have innovation strategies that prioritise:
  - innovations that release cash savings and maintain or improve effectiveness; or
  - deliver efficiencies that release cash savings.
- The prioritisation process should include a small number of clear strategic criteria, qualitative as well as quantitative, against which potential innovation projects are assessed. Analysis of risks and prospects of impact should also inform the prioritisation process.
- There should be effective programme and portfolio management across the organisation's innovation projects. It is especially important to:
  - align the content of the portfolio with key strategic priorities, for example through an activity allocation matrix;
  - share the learning from generic issues emerging across the programme;
  - avoid running too many projects with resources stretched and bottlenecks constraining the achievement of impact;
  - stop projects promptly when it is clear that they are unlikely to work;
  - ensure there is rapid decision making so that inertia does not lead to drift or lack of engagement from staff frustrated by slow internal processes; and
  - ensure the portfolio is balanced in terms of:
    - both ambitious and potentially high-impact projects even if they carry higher risks and lower-risk projects more likely to deliver change; and
    - short- and longer-term innovations.
- Public sector bodies should consider funding and resources to support the most promising pilots. Progressing from ideas to prototypes or pilots requires funding or staff time. Specific budgets or human resources to support innovation can be established as catalysts for innovation, either within a department, organisation, or across a partnership.

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## Implementation

The next stage of the innovation process involves assessing the results of pilots and determining whether, and how, to scale up an innovation pilot. Essentially, this is the implementation stage. Basic project management disciplines are vital at this stage and in public sector bodies, the critical element is that of service development.

Key considerations for public sector bodies include:

- Project management and change management are crucial:
  - Project management procedures, responsibilities and review mechanisms, including gateway review (or similar) and sign-off processes need to be established to enable projects to proceed to the next phase. There should also be robust arrangements to manage variation and changes to the scope of the project.
  - Wider change management skills are important in replicating and scaling up innovative projects. In particular, there is a need to communicate the need for change, manage the risks and opportunities of implementation, and to deal skilfully with consequential issues for the organisation, service users and wider stakeholders.
- Clear and well-understood measures of progress, based on the ultimate purpose of the project, and reflecting value from the end-user's perspective.
- The model for delivery, including whether to establish a multidisciplinary service or product development team to take the innovation through from concept to full implementation; and whether there is merit in appointing a senior champion for the innovation to help overcome obstacles and make progress.
- The need for effective communication and teamwork within and outside the organisation:
  - within the organisation, key considerations include team development opportunities, leadership and the rewards and recognition available for effective team working; while
  - external stakeholders need to understand new or changed service models and their own role in embedding their successful implementation.
- The need to engage with key stakeholders of the innovation project and ensure that their feedback informs design and implementation changes. Implementation processes for innovations should draw on customer feedback and end-user input throughout.
- The need for incentives for staff and organisations to innovate. For public sector staff, there is a particular need to provide peer recognition which tends to be a more powerful motivator for staff than financial reward. Organisations need incentives for introducing, adopting or adapting successful innovations. Financial reward is more appropriate at the level of organisations and can provide a tangible driver for innovative activity.
- Organisations should also be wary of adopting 'best practice' wholesale. Context is crucial and organisations should share learning and consider the good practice of other organisations but ensure they adopt, rather than uncritically adapt, to ensure their innovation or change project fits the specific context and conditions of their organisation. Learning within the organisation and shared learning with other organisations is the core competency which can facilitate effective innovation.

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## Analysing and learning

Any organisation pursuing a strategy of innovation needs good systems to evaluate the impact of innovation projects, the wider innovation programme, and the capacity to learn from its approach to innovation. Public sector organisations need to set up:

- Clear systems that set out the nature of the problem innovation projects or programmes are seeking to address, with good baseline data on the current position.
- Clear measures of success are needed for individual projects and also for the wider programme, which should relate to the overall purpose of the innovation project. Metrics might include:
  - improved outcomes;
  - improvements in the responsiveness of services; and
  - efficiency gains – reductions in inputs compared to outputs or increased productivity.
- The organisation should establish an effective system for post-project evaluation and learning to draw out specific lessons learned from a project or wider lessons to apply to future innovation projects:
  - Innovation should be a learning process, and capturing and disseminating lessons is a vital part of developing an organisation's innovative capacity.
- It is important to capture learning in 'real time', as a project goes along, not just at its conclusion. Organisations might consider keeping learning logs during projects to enable stakeholders to record lessons and ideas as the project progresses, which can inform the final post-project learning exercise.
- Communication, governance and documentation of innovation projects and programmes are essential building blocks.

## Strategy

### ***Why innovation strategy matters***

Establishing a clear strategic approach for innovation helps integrate innovation into the wider corporate strategy. The innovation strategy should include clear links with wider corporate strategy as well as highlighting that innovation is important to the organisation.

Developing an innovation strategy should not be a fixed, rigid process: it must have sufficient flexibility to keep the strategic approach to innovation current. The development of an innovation strategy should be more focused on high-quality analysis and thought than producing large documents. An innovation strategy should consider services delivered as well as internal processes.

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## ***What an innovation strategy should contain***

The innovation strategy should establish how an organisation's innovation activity links with its corporate strategy. The strategy should set out:

- the importance of innovation to the organisation in achieving its strategic objectives;
- what kind of innovation the organisation will pursue, for example:
  - the strategic areas of focus for the organisation's innovation efforts;
  - the types of innovation required; and
  - priorities and supporting resources.
- how to pursue the innovation priorities, with references to process, resource and partnerships.

## ***Developing an innovation strategy***

The strategy should draw on a robust **analysis** of the organisation's current position. This might draw on analysis of:

- stakeholder needs;
- wider environmental and strategic monitoring to identify drivers, threats and opportunities; Political, Economic, Sociological, Technological analysis (PEST) is a well-known technique in this context; some organisations also include Legal and Environmental issues in a PESTEL analysis;
- current Strengths, Weaknesses, Opportunities and Threats (SWOT analysis) within the organisation corporately or within a department; this could focus specifically on innovation or might also consider specific services or business areas which the strategy identified as priorities for innovation; and
- the current position (where the organisation is now), where the organisation wants to go (future position) and how it can get there.

The strategy then influences **strategic choices** about the organisation's activities, such as the types of services to be provided, resource allocation, approach to partnership, collaboration, joint ventures and wider priorities. The strategic analysis and strategic choices then influence the delivery of the strategy through the deployment of the organisation's resources and processes.

## **Leadership**

Leadership is an important element of developing effective innovation within an organisation, department or across a partnership. The key role of leaders at all levels is to create an environment conducive to effective innovation. This requires them to communicate the vision for innovation, the strategy and key priorities. Top-level support for a culture of innovation is crucial in demonstrating corporate commitment. Staff need to know that innovation is a priority that the organisation will support even if there are failures, and will promote learning at all levels. Effective leadership of innovation requires commitment both at political and managerial levels.

The key elements of leadership for innovation include:

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- Effective environmental scanning to identify opportunities and threats, to understand stakeholder needs and the wider system in which an organisation or partnership is operating.
  - Governance and performance management can be very effective in supporting innovation but will also need to evolve to provide sufficient commitment and flexibility for effective local and national innovation in service delivery, performance and partnership.
  - Committing resources to support innovation and shaping the organisation in a way that will support and facilitate effective innovation.
  - Development of a culture of learning, that is not afraid of taking well-managed risks, is tolerant of reasonable failure and which develops and recognises champions for innovation at all levels. Innovative leaders engage their staff, energise their organisation and demonstrate an ability to value the diversity, talents and ideas of all of their people. Leadership can inspire staff to act and think differently.
  - Recognising the importance of agile leadership, a move beyond command and control and rigid planning to leadership which is more responsive to a rapidly changing and turbulent environment.
  - Designing the corporate architecture through structures and processes for innovation. In particular, this may require consideration of the wider system within the organisation, particularly the extent to which its approaches to risk management, HR management, budgeting, risk management and corporate performance management foster longer-term innovation.
  - Effective collaborative leadership to identify opportunities to innovate in partnership, especially around the complex, cross-cutting issues and desired outcomes which public sector bodies need to deliver collaboratively with other public and non-public bodies and citizens. Leaders will need the ability to make horizontal connections with other organisations, to recognise the power of networking and take a whole-systems approach.

## Systems and process

In particular, public sector bodies should consider **Staff suggestion schemes** which exist in many public and private sector bodies but are often less effective than they were intended to be. When staff suggestion schemes work well, they can make a real difference to performance. And even weak ideas, when combined with other ideas or refined, can sometimes contribute to improved services and outcomes.

There are a number of key points to bear in mind in developing an effective staff suggestion scheme. The most important success factor is employee engagement and a focus on improvement rather than cost savings:

- Ideas schemes should not be managerially driven. It works more effectively if ideas go to a central person who then refers to the appropriate manager/s with a requirement for a substantive response within a particular timeframe, for example 28 days.
- Programmes should reflect the culture of the organisation to some extent, but this can be taken to excess, for example it is not a good idea to run anonymous

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schemes, even in organisations where trust is an issue, as suggestions schemes can quickly become complaints schemes.

- Suggestion schemes should be very easy to use; public sector bodies need to cut out all bureaucracy and red tape despite the temptation to default to a more bureaucratic approach.
- Although it is widely used, schemes based on the 'Dragon's Den' television programme can be problematic. Although managers are often attracted to such an approach, it is usually more popular with them than with front line staff. It can be an appropriate approach in very technical companies making new products but is not so effective for process and service improvement.

Innovative organisations need to be **learning organisations**, able to develop and grow from innovations or pilots which do not work as well as those that are effective. Organisations need systems and processes to evaluate innovation pilots, learn lessons specific to the idea itself and more generic lessons for innovation which arise from the process of innovating.

Key factors to consider in terms of developing systems and processes to learn from innovation include:

- capturing on-going learning during the process of piloting/innovating as well as evaluation at the end of the pilot phase or project;
- learning about how to innovate effectively as well as whether the innovation or pilot was a success in its own terms;
- encouraging double-loop learning that challenges fundamental norms or tenets, as well as single-loop learning which learns lessons and corrects issues relevant to the specific pilot or innovation; these lessons may well have more general relevance to other public sector bodies, partners or other parts of the organisation;
- the need to work backwards from intended outcomes; at the outset of an innovation project or pilot, it is important to achieve clarity about the outcomes it is intended to deliver, and measures of success against which to evaluate, including interim measures if the outcomes are long-term in nature; it is also a good idea to consider at the outset the nature of the innovation and the corporate or organisational lessons which the pilot or innovation could support;
- the need to share learning about innovation within the organisation, particularly to understand and disseminate lessons about what works and what does not work, as well as why and when certain approaches to innovation might be effective; and
- the need to record the results of the outcomes of evaluation, either of pilot projects or other innovations, and to analyse these results systematically, with clear communication of the results and firm action to embed the lessons learned within wider corporate systems and processes.

Public sector organisations should, as a matter of course, have sound systems to discuss and understand the **views of citizens and service users** about service provision and wider performance; such market research should be an invaluable source of intelligence to support innovation and new ways of working.

As well as sound processes to identify the lessons learned from innovation, innovative organisations need to have effective systems to **scan the external environment** for ideas, good practice and shared learning. The Internet provides a ready mechanism for free-flowing exchange of ideas and co-production, but there are also significant opportunities to learn through peer review, visits and other types of shared learning event or publication. In

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particular, Mulgan and Albury (2003) suggest organisations should consider scanning, networking, benchmarking and being open to challenge from:

- Inspection and audit
- Research findings
- New technologies
- Other organisations
- Other sectors
- Other countries

**Risk management** processes are an important element of innovation in public sector bodies; there are political, media and public risks involved in innovation, particularly where scrutiny and criticism of perceived failures arises; more radical innovation carries higher potential benefits but a greater risk of failure; all of these factors make effective risk management a key competence for public sector innovation; some of the key risk management factors to consider include:

- capacity to handle complexity and uncertainty;
- identifying and analysing risks in a systematic way, including arrangements
- to update risk assessments; the likelihood of a risk arising, and its potential impact are important elements of risk assessment;
- it is important to remember that risk assessment is not an end in itself but needs to support action, either in taking mitigating steps or stopping a project; in the context of innovation, it is really important to have a clear approach to how and when to end an innovation project;
- testing, piloting and making sure that risks will be effectively managed in scaling up a pilot;
- as well as managing project-level risks, organisations should have effective risk management across the broader innovation portfolio; and
- the risk of not pursuing innovation, with a focus on the risk of lost opportunities as well as the risk of project failure.

## People and culture

Staff engagement is required to mobilise commitment and develop a truly innovative public sector organisation: there is little chance of innovation being imposed top-down without the active participation of staff. While leaders and managers can and should set the direction, commitment to innovation and design the organisation in such a way as to promote innovation, the end results will depend on harnessing the engagement, commitment and creativity of staff. Innovation is therefore intimately linked with wider change management approaches. Some staff will find innovation threatening, and may be accustomed to a traditional, risk-averse approach to public service delivery. Effective leadership and change management, and a supportive culture, will be important in changing such attitudes.

In developing a culture of innovation, public sector organisations should consider:

- **Communicating a vision and climate supportive of innovation.** Staff need to understand how significant innovation is to the success of the organisation, particularly in delivering better outcomes for citizens. It is important to develop

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effective communication of the vision for innovation and its significance to the organisation and the people it serves.

The organisation's vision, mission, strategy, objectives and values should reflect its commitment to innovation and creativity. This commitment needs to be communicated effectively both internally and externally. The approach of leaders, both political and managerial, can really help create and sustain a climate of innovation, learning and creativity.

- **Their approach to human resource management.** Organisations' approaches to human resource management can significantly influence innovation. Initially, the organisation needs to understand its current capacity and skills mix. Recruitment should focus on innovation and creativity, where increasing the skill mix and capacity is a corporate priority.

In terms of setting objectives and performance management, organisations aspiring to innovation need to consider how they reward, recognise and celebrate innovation. Cultural factors, for example displaying innovation, symbols and stories of innovation, statements of corporate values, recognition and rewards and routines within the organisation can all support a culture of innovation. For example, it can be a good idea to highlight positive examples of innovation and creativity in corporate communications such as newsletters, blogs and circulars. Competency frameworks should include innovation, creativity and the ability to handle uncertainty, complexity and risk effectively. Performance management systems should emphasise and reward the ability to learn.

It is also important that corporate and individual performance management systems reflect the corporate commitment to innovation. It is important to recognise the potential to expose staff to innovative projects or pilots and participation in cross-functional teams. Using these opportunities as a reward for good performance or as a development opportunity can reward and develop staff by exposing them to new ideas and ways of working. It is important that organisations aspiring to innovation use their training and development strategies to develop skills relevant to innovation, and also focus on the development of effective project managers to deliver innovative projects effectively.

- **Team building.** Innovation is often delivered through pilots or specific projects. Ideally, teams are built on a cross-functional basis but the time-limited, task-focused nature of a project team means that investing in team building is important in achieving success and creating a culture of well-managed innovation, risk taking and innovation. Teams need to be well led and empowered to develop the pilot or innovation project. It is important not to underestimate the real value and benefits of investing in team development when running an innovative project. Focusing on the softer elements of innovation in this way is likely to improve the outcomes of the specific project and wider organisational learning.
- **Sharing, learning and knowledge management within and outside the organisation.** Knowledge management and sharing are key components of innovation. Innovations often reflect research, consideration of alternatives and the combination of ideas. Managing an organisation's knowledge of innovation and lessons learned is also crucial. It is also important to learn **from innovative projects or pilots, whether or not they are successful.**

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A campaigning approach can be very effective in engaging staff and as a catalyst for sharing ideas and knowledge. Within NHS Wales, the 1,000 Lives Campaign is a good example of the use of a campaigning approach. By engaging staff around the ultimate outcome for healthcare services – saving lives – there has been a strong focus on innovation in clinical quality and safety.

Organisations should also seek to identify and learn from organisations with a strong track record of innovation. **Communities of Practice**, either internally or with external partners, can be a strong mechanism to promote innovation. A Community of Practice is a network of individuals with common problems or interests who get together to explore ways of working, identify common solutions and share good practice and ideas. Communities of practice pool resources related to a specific area of knowledge. Informal communities exist in some form in every organisation. Communities of Practice can be used and supported proactively to promote learning and innovation.

## Capacity

It is important for organisations to develop capacity to support innovation. Creating capacity can range from setting budgets and directly committing financial resources to providing time or space for innovation. Some of the key considerations in terms of capacity include:

- the need to identify and support long-term champions for innovation projects or pilots;
- creating time and space for senior staff to act as innovators through a combination of training and creating slack within their work programmes; and
- identifying a budget to support innovation projects and pilots, and the development of a corporate approach to innovation; this needs to be supported by effective processes to allocate and manage funding decisions, including evaluation of progress and decisions about how long to support a specific project.

## Collaboration

Public sector bodies should look at innovation in the broadest possible context. As well as delivering innovation within their own organisation, they should build on Wales' track record of innovation through partnership and collaboration on crosscutting innovation. Local Service Boards were established with a view to promoting such innovation and provide a potential platform to support radical innovation in local public service delivery.

Co-production, for example through the use of open source technology to understand citizen, staff and stakeholder insights, can help identify opportunities and ideas.

Collaboration also reflects opportunities to work with other organisations in designing and delivering public services. For example, public organisations can deliver innovative approaches through effective commissioning from the public, third or private sector organisations to design or deliver services.