Public sector innovation

From ideas to actions

EY

Building a better
working world

Introduction

Innovation is no longer just a buzzword. It is now seen as a potential solution to all problems and has become ubiquitous in both the private and public sectors. In the private sector, the need to be innovative has an obvious driver: staying ahead of the competition and delivering products and services that will increase market share and drive shareholder value. The case for innovation in the public sector, however, is less well defined but has many similarities.

As governments strive to balance priorities – including the effective allocation of resources and meeting public expectations – it is becoming increasingly clear that new approaches are needed. Governments will have to innovate and find ways to make difficult things easy in the areas of service delivery, process improvement, regulation and policy implementation.

Many private sector organizations struggle to define what innovation means and to effectively implement an operating model to enable it. This can be caused by many reasons, but some include:

▸ Lack of a defined innovation strategy

▸ No specific innovation process or framework

▸ Limited budget or leadership capacity

▸ The sheer size of an organization, with larger businesses tending to be bureaucratic and slow moving

On top of this, the public sector must deal with public scrutiny, and the traditionally risk-averse approach of governments. So how can the public sector effectively innovate to serve citizens better and more efficiently?

The first step is clearly understanding what is driving the need to innovate – whether it's better allocating resources, keeping up with citizens' expectations, working with the private sector to ensure a competitive economy, or attracting the next generation of public sector leaders. Second, public sector organizations need to clearly understand what it is they're trying to innovate – services, processes, regulatory models or policy design and implementation. And last but most important, public sector leaders need to clearly understand what operating model they intend to use to enable innovation given their specific needs, circumstances and talents.

In innovation, as it has in some other areas, government can learn from the approaches taken in the private sector, but ultimately has to chart its own course.

What is innovation?

Many organizations struggle to define innovation and lack a strategic approach for generating, capturing and implementing innovative ideas.

Innovation is the art of making hard things easy. It is a collaborative, structured process that involves different parts of the organization and outside partners creating and exploiting new opportunities and finding new ways to solve complex problems.

The sole action of generating ideas is not innovating. An idea only becomes an innovation when it has been implemented in a form that generates value.

Why should the public sector want to innovate?

While the need to innovate in the private sector seems quite obvious, the case for innovation in the public sector has not always been so clear. However, recent trends ranging from changing demographics to new economic pressures have been a strong catalyst for governments to think differently about how regulations and policies are developed and services are provided to Canadians.

Optimal resource allocation

A significant portion of the public sector's budget is funded by citizens through tax dollars. As a result, there is a government duty to be prudent and put every dollar to its most effective and efficient use. At the same time, demographics are driving increased usage of public services – especially in high-cost areas like health care and education – leading to increased costs to governments.

Many governments rely on more traditional approaches to ration services among citizens, such as means testing and other similar processes. The current state of the budget and growing populace, however, mean these more traditional approaches alone are no longer adequate for governments that are seeking to determine the optimal allocation of resources in the face of competing needs and increased demand for services.

Governments need to reinvent themselves to meet higher expectations with scarce public dollars. Innovation can enable this. Specifically, innovation in internal processes, policy design and implementation, service delivery and regulatory approaches will be critical if government is to simultaneously and successfully deliver services and meet budgets.

Five key reasons governments need to innovate

Optimal resource allocation
Innovation can enable governments to fulfil their duty to citizens while using each dollar prudently.

Competitive advantage
Through smart regulation and by being an early customer, the public sector has a role to play in enabling innovation in the real economy. Jurisdictions that embrace this role will take the lead in attracting Foreign Direct Investment (FDI).

Credibility
Knowledge is being created and put to use faster than ever before and the public's expectation is that government should keep pace.

Talent retention and attraction
Engaging work and leading-edge opportunities will be the biggest attractor of millennial talent; the public sector has an opportunity to compete for the best talent in a way they can't when compensation is the only driver.

Enabling the private sector
Stretch targets embedded in legislation or regulation can push industry to innovate and meet goals that it might not otherwise have aimed for.

Only 45% of Canadians are satisfied with government services.

CBC News, 8 March 2016

77% of federal government services cannot be obtained online, lagging behind both private sector offerings and Canadians' expectations.

Toronto Star, 15 March 2016

Competitive advantage

Increasingly, the competition between provinces – and indeed nations – for private investment will be based on intangibles like access to health care, presence of knowledge workers and a regulatory environment that enables innovation, rather than tax rates alone. A public sector that is able to keep up with industry innovation and be early adopters of new products and technologies will support the competitive edge of jurisdictions.

Many jurisdictions around the globe are struggling with the regulation of new technologies and companies that are restructuring the economy and redefining the "rules." The sharing economy and firms like Uber and Airbnb are top-of-mind examples, but are far from the only cases. The possibilities created by cryptocurrencies, nanotechnology and drones are just three quick examples of recent innovations that could fundamentally change the economy and have significant impacts on how government functions and regulates. The firms that are driving innovation in these spaces will be looking to locate in jurisdictions that are willing to take innovative approaches to regulation and implement policies to support and enable innovation in the real economy.

Credibility

Knowledge is being created and put to use faster than ever and new waves of technology are constantly changing the way things are done. In the private sector, it is competition and the drive for growing profit that push businesses to stay ahead of the innovation curve. While the competition incentive does not exist in the public sector, there is a very real need to keep pace with private sector innovation. Citizens will increasingly judge governments based on the gap between the ease of doing business with the private sector versus the public sector.

In addition, with the advent of social media, improved data and better measurement and legislation requiring transparency and scrutiny, public commentary on the performance of the public sector is increasing. Citizens are more than ever connected and engaged in monitoring and reporting on the effectiveness, appropriateness and efficiency of government programs, and the public sector will have to improve on those measures or face an increasing challenge to its competence and credibility.

Finally, with information from around the globe at their fingertips, citizens are increasingly aware of government innovations happening around the world, and will press their local governments to keep pace.

Talent retention and attraction

As millennials become a larger part of the workforce, attracting and retaining them becomes increasingly important. Studies show that providing engaging work and leading-edge opportunities are key drivers for millennials when they're looking for work, ranking even higher than compensation.

Compounded with millennials' search for careers that provide them with a sense of making a difference – which public sector work offers – this presents a significant opportunity to the public sector to compete for top talent in a way they haven't been able to before.

Enable economic growth and private sector innovation

Public sector organizations – especially regulators – play a key role in setting the boundaries, targets and framework for the private sector to innovate, which in itself is innovation. In the context of highly regulated sectors like oil and gas, mining, power and utilities, and pharmaceuticals, legislation and regulation can set what might seem like stretch or unrealistic targets that force private sector organizations to rethink how they do things and ultimately innovate to meet those targets. Current approaches to climate change policy are following this model. The challenge is finding the right balance in terms of keeping the pressure on, while still remaining competitive in a global economy and supporting economic growth.

Millennials are strongly drawn to the "anything is possible" spirit of entrepreneurship... companies that embrace a risk-tolerant culture and promote learning and experimentation will benefit from the heightened energy around innovation.

Harvard Business Review, 11 February 2016

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What types of innovation can be found in the public sector?

The prior section highlighted some of the catalysts for government innovation. While the need to innovate is clear, the question remains: what does innovation in government look like in practical terms?

While most would agree that innovation has a role to play in how government develops policy and delivers programs and services, it's a broad concept that can envelop a wide range of improvement concepts.

Though no hard and fast definition for innovation exists, we believe it should be thought of in the following four groupings.
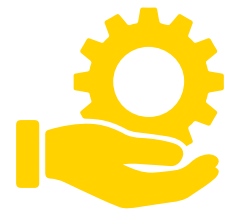
Service innovation

Service innovation is about developing a new service concept or doing a step change improvement to an existing service. In the context of government, the primary goal of service innovation is to find creative new ways to offer and deliver services to Canadians quickly in a manner that is easy to access, use and understand – and to do so in a cost-effective manner.
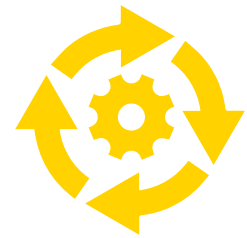
Process innovation

While many are familiar with process improvement concepts such as lean six sigma or continuous improvement programs, process innovation has to do with rethinking an entire end-to-end process or with bringing a dramatic improvement to a valuable process segment. The primary goal of process innovation is to generate a notable increase in productivity or to drive down costs significantly.

In the UK, Carer's Allowance (CA) is a weekly sum paid to eligible people who look after others. Anyone who is over 16 and spends more than 35 hours per week caring for someone else can make a claim. Previously, the application form for CA took about 45 minutes to fill out, and didn't provide enough information in plain language about who is and isn't eligible.

Approaching the issue with design thinking, the CA application form was redesigned – stripping out one-third of the questions that turned out to be unnecessary, rewriting the remaining questions in plain language, and redesigning the online application. As a result, the average application now takes 20 minutes to fill out and the number of applications submitted online (vs. paper) have gone from 53.2% to 70.5%.

Service

Process

Regulatory

Policy

[1] https://gds.blog.gov.uk/2014/07/03/what-we-mean-when-we-say-service-transformation/

Regulatory innovation

Regulations stem from the need to balance multiple interests. They maintain adequate balance of social, environmental and economic values, while allowing for economic development. Regulators develop and enforce regulations to protect the public and the environment, ensure industry does not waste resources, and ensure government receives any entitled royalties. Regulatory innovation is about balancing the objectives of achieving regulatory effectiveness while not simply creating unnecessary burdens. Regulations must be synchronized with changes in the economic and social environment in order to stimulate the economy and economic growth and enable the private sector while adhering to Canadian policy.

Policy innovation

Policy innovation is about identifying the needs of constituents and shortening the time required to develop, test, implement and diffuse a policy.

For instance, we are living in an environment where solutions for socio-economic issues are required at a faster pace, and shortening the time to develop and implement solutions is an imperative. The primary goal of policy innovation is to make timely – but still right – decisions regarding policies that affect government employees and Canadian citizens.

Like many others, the Australian Government opened up government data with the assumption that many startups would access open datasets to "generate new business, develop new products and services, and create social value." When that didn't happen, the government decided to actively engage startups and potential founders in a two-way dialogue about why that was the case and what could be done differently. They then solicited ideas of what could be done with government data, chose 20 finalists to participate in a five-day workshop to build and test their ideas, and brought investors and incubators to hear presentations and choose winners to get mentoring and seed investment.

[2] https://innovation.govspace.gov.au/2016/01/15/aps-innovation-snapshot-2015/
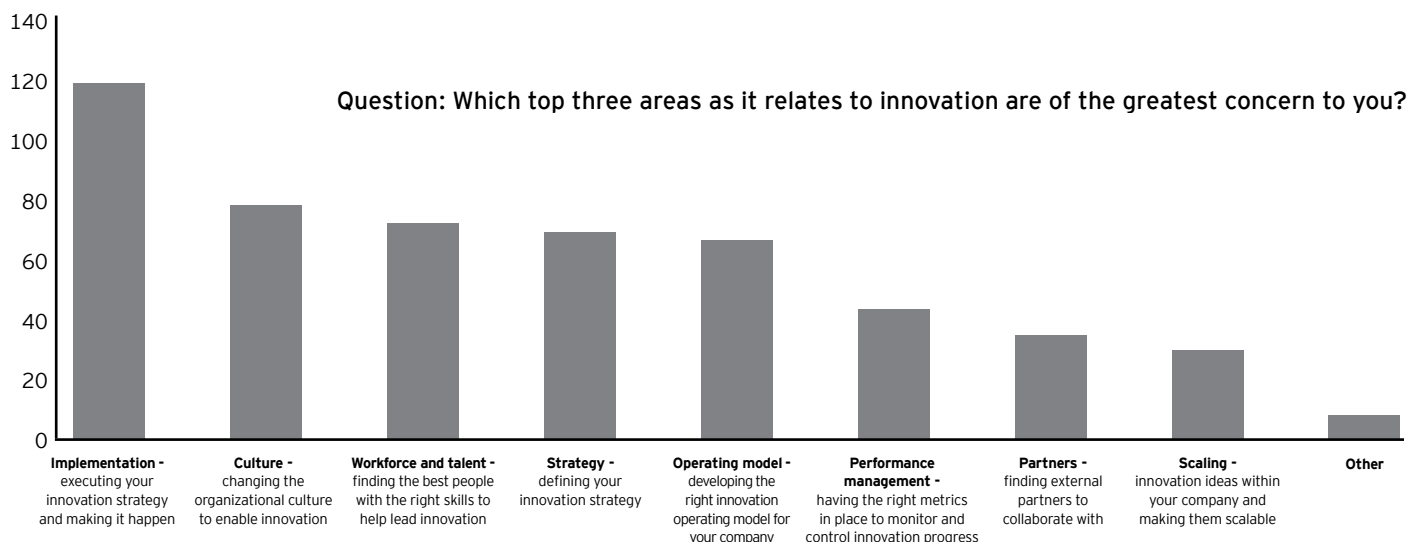
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How can governments execute innovation in the public sector?

In a recent Canadian cross-industry market study[3] conducted by EY, we found that 93% of executive-level leaders surveyed believe innovation is important to driving growth. Government and public sector organizations led all industries as citing innovation as *very important* to driving the growth agenda.

Despite a clear need to innovate, government and public sector organizations, like their peers, struggle to implement their innovation strategy within their departments, agencies and corporations. This is highlighted in the figure below.

Generally speaking, while public sector organizations have well-defined strategies that flow from elected officials, they are not able to be flexible and fast-responding to human resources issues. They don't suffer from a lack of ideas, but rather face challenges when it comes to implementing those good ideas. As a result, we will focus on Governance, Culture, and Process in public sector contexts below. More details on the other three dimensions can be found in the EY report referenced below.

Strategy

Governance   **Culture**

Process   **People**   **Ideas**

Question: Which top three areas as it relates to innovation are of the greatest concern to you?

Implementation - executing your innovation strategy and making it happen	
Culture - changing the organizational culture to enable innovation	
Workforce and talent - finding the best people with the right skills to help lead innovation	
Strategy - defining your innovation strategy	
Operating model - developing the right innovation operating model for your company	
Performance management - having the right metrics in place to monitor and control innovation progress	
Partners - finding external partners to collaborate with	
Scaling - innovation ideas within your company and making them scalable	
Other	

[3] Innovation: from ideation to activation – a Canadian cross-sector market study, EY, 2015.

Develop an organizational culture that fosters risk taking, encourages experimentation and incentivizes creativity.

The reality is that the corporate culture required to embrace and exploit innovation is not universally fostered in government and public sector organizations, which are designed to be reliable, predictable and hierarchically structured. On top of this, the public service must deal with intense outside scrutiny and the traditionally risk-averse approach of governments.

As every leader knows, organizational culture is not something that can be changed overnight. It is a long, slow process that is rarely a straight line from point A to point B. So how can public sector organizations begin the process of developing an organization that fosters risk taking, encourages learning and incentivizes creativity?

The cultural change must begin with leadership clearly articulating the target culture, and enabling innovation champions at all levels of the organization.

After this initial step of communication and change management, employees will be looking for tangible examples of the new culture. Two relatively easy steps that most organizations can take are to express a willingness to accept ideas from all sources and to increase sharing information with all levels. For more examples, see the box on the right.

Creating an innovative culture

The key pillars of a culture of innovation

Innovation starts with people
- Identify unmet needs and market trends
- Foster a culture of experimentation
- Encourage conversations that inspire customers, partners and employees
- Develop mechanisms for sharing thoughts and ideas

Ideate and prioritize
- Leverage your ecosystem to identify ideas
- Crowdsource opportunities where appropriate
- Develop partnerships with start-ups
- Curate, prioritize and filter ideas

Incubate
- Fail fast and fall forward
- Co-create and collaborate across organizational silos
- Cultivate a transparent environment
- Identify investment through the piloting of ideas

Activate
- Identify partners and new technologies
- Actively monitor successes and failures
- Incorporate lessons learned from failures
- Scale successes to the enterprise
- Identify continuous opportunities for improvement

Governance

Establish an innovation operating model for recruiting, sponsorship, ownership and resource allocation.

Broadly speaking, there are two related considerations when it comes to creating the right governance structure: finding the balance between current performance and exploring innovative ideas and choosing the right innovation model for your organization.

Ambidextrous capabilities

Organizations that are equally adept at exploiting existing capabilities while exploring new growth opportunities are called "ambidextrous." Our survey of Canadian organizations shows that high-performing organizations that innovate tend to successfully exploit the present by rapidly operationalizing ideas, driving operational excellence and embracing standardization, while they simultaneously explore future opportunities to drive more radical changes to how things are done.

However, the majority of government and public sector organizations report they do not have the innovation capabilities to both explore and exploit innovative ideas. To build these ambidextrous capabilities, government and public sector organizations must actively manage innovation rather than rely on project champions distributed across the organization. They must distinguish exploratory capabilities from their traditional exploitative ones, allowing for different processes, structures and cultures. They must also manage the organizational structure between the current, high-performing organization and the disruptive innovation team, through a tightly integrated senior team, recognizing the need to nurture what are essentially different types of businesses.
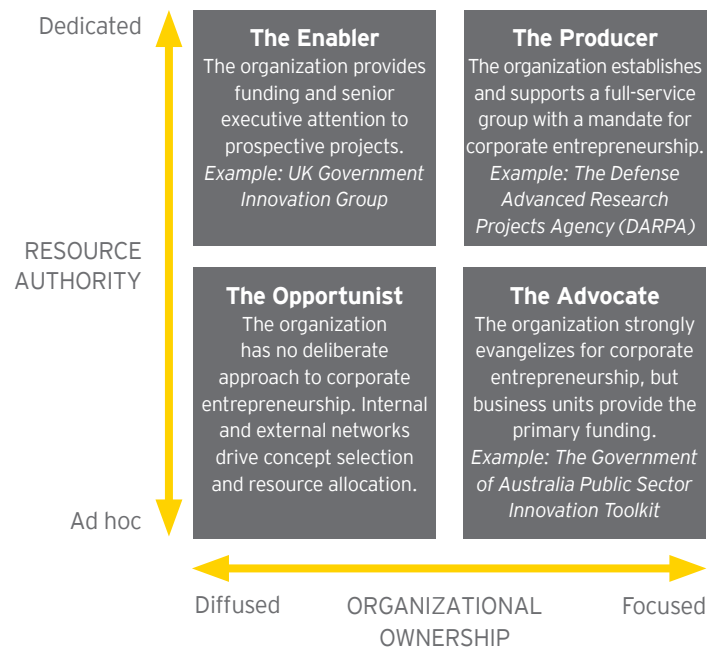
Four models

Generally, four primary models for innovation are observed in government and public sector organizations, each with its own advantages and disadvantages.

These four fundamental models of corporate entrepreneurship were defined through an MIT Sloan study of nearly 30 global companies and are based on two dimensions under direct control of management:

‣ Organizational ownership
‣ Resource authority

This framework of corporate entrepreneurship should help public service departments avoid costly trial-and-error mistakes in selecting and constructing the best program for their objectives.

To be successful, government and public sector organizations must adopt a target model for innovation appropriate for their environment and define the funding, accountability and measures of success required to demonstrate ambidextrous innovation capabilities.

RESOURCE AUTHORITY (Dedicated → Ad hoc)

ORGANIZATIONAL OWNERSHIP (Diffused → Focused)

The Enabler
The organization provides funding and senior executive attention to prospective projects. *Example: UK Government Innovation Group*

The Producer
The organization establishes and supports a full-service group with a mandate for corporate entrepreneurship. *Example: The Defense Advanced Research Projects Agency (DARPA)*

The Opportunist
The organization has no deliberate approach to corporate entrepreneurship. Internal and external networks drive concept selection and resource allocation.

The Advocate
The organization strongly evangelizes for corporate entrepreneurship, but business units provide the primary funding. *Example: The Government of Australia Public Sector Innovation Toolkit*

4 Wolcott and Lippitz, "The Four Models of Corporate Entrepreneurship", MIT Sloan Management Review, Fall 2007.

Three deliberate approaches to innovation in government and the public sector

In the opportunist model, innovation proceeds based on the efforts of project champions who toil against the odds, often working against the organization's standard operating model. Because of their risk-averse nature, the culture of most public sector organizations leads them to this model. In the enabler, advocate and producer models, internal entrepreneurship is actively managed, but in different ways, and is thus more deliberate in nature.[5] The table below expands on these three models, the goals they aim to achieve, their requirements and success factors.

	Enabler Model	**Advocate Model**	**Producer Model**
Strategic goal	Facilitate entrepreneurial employees and teams	Reinvigorate or transform business units; support corporate entrepreneurship teams	Exploit crosscutting or disruptive opportunities
Requirements	Dedicated money, executive engagement, recruiting and personnel development	Well-connected corporate veterans with a small staff of business-building coaches and executive leader approval	Well-connected corporate veteran leadership with full-time staff and significant, independent funding
Success factors	‣ Culture of innovation ‣ Structural flexibility for teams to pursue projects ‣ Well-defined executive involvement in milestone funding decisions ‣ Effectively communicated selection process and criteria	‣ Expertise in building new businesses ‣ Significant team facilitation capabilities ‣ Skill in coalition building and internal and external networking ‣ Senior executive visibility and support	‣ Respected leadership with significant internal decision authority ‣ Expertise in building new businesses ‣ Explicit attention to corporate entrepreneurship executive career incentives
When to use	Funding is available, ideas to pursue have not yet been identified	Limited central funding, but central leadership is pushing for innovation	Clear goals, funding requirements, and ideas to pursue
Government and public sector examples	The UK Government Innovation group was created within the UK Cabinet Office to bring new innovative tools and techniques to government and drive social change	The Government of Australia launched the Public Sector Innovation Toolkit to assist individual public servants, public sector teams and agencies that want to increase the extent and effectiveness of their innovation efforts	The Defense Advanced Research Projects Agency (DARPA), an agency of the US Department of Defense, has played a central role in leading breakthrough innovations

[5] Wolcott and Lippitz, "The Four Models of Corporate Entrepreneurship," MIT Sloan Management Review, Fall 2007.

Process

Create clear processes for knowledge gathering and dissemination, idea generation, prototyping and development, and implementation.

While a structured innovation process can help organizations focus and manage ideas from creation through incubation to activation, in our survey, most organizations indicated that they don't have a structured innovation process or framework in place.
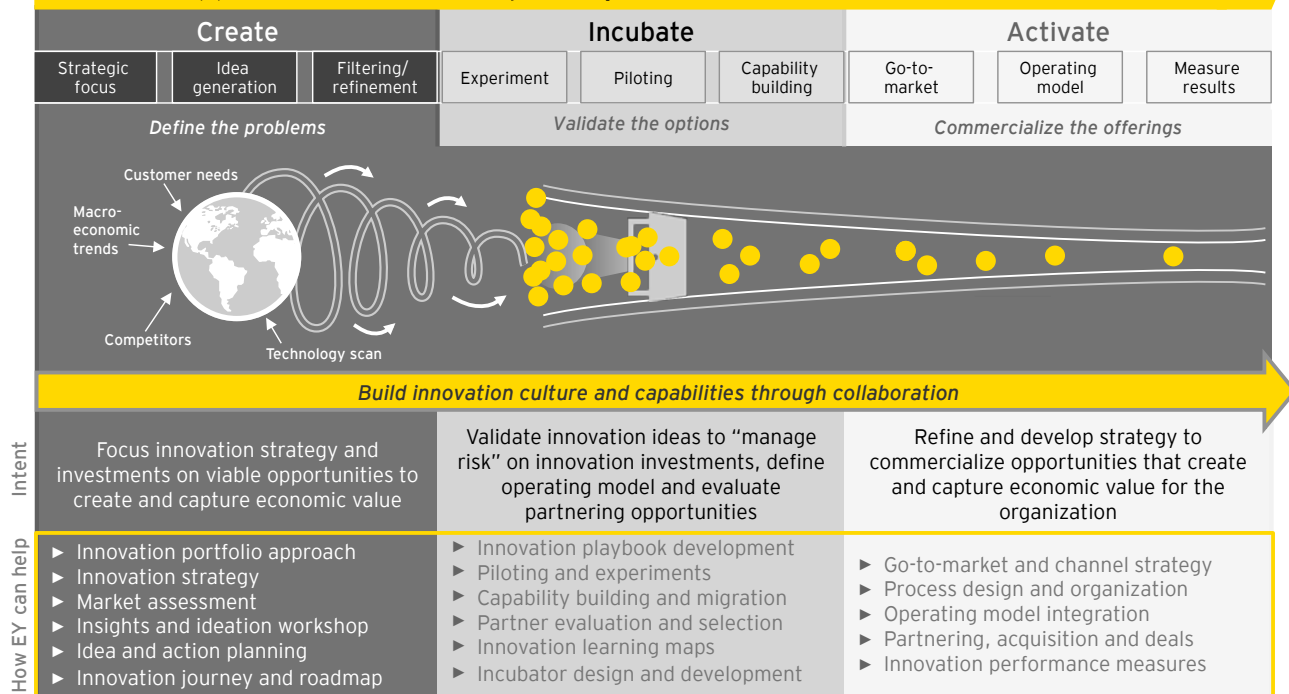
The challenge that public sector organizations face is that even the best-intentioned efforts quickly become overtaken by process and rigidity, due to the risk-averse nature of government. As a result, it is incumbent on public sector leaders to focus on finding a balance between implementing a structured process and ensuring that the structure doesn't become so rigid as to defeat its purpose.

EY's process and innovation framework, pictured below, can be customized to your organization and used to find that elusive balance between allowing innovation to flourish and respecting traditional governance and taxpayer dollars.
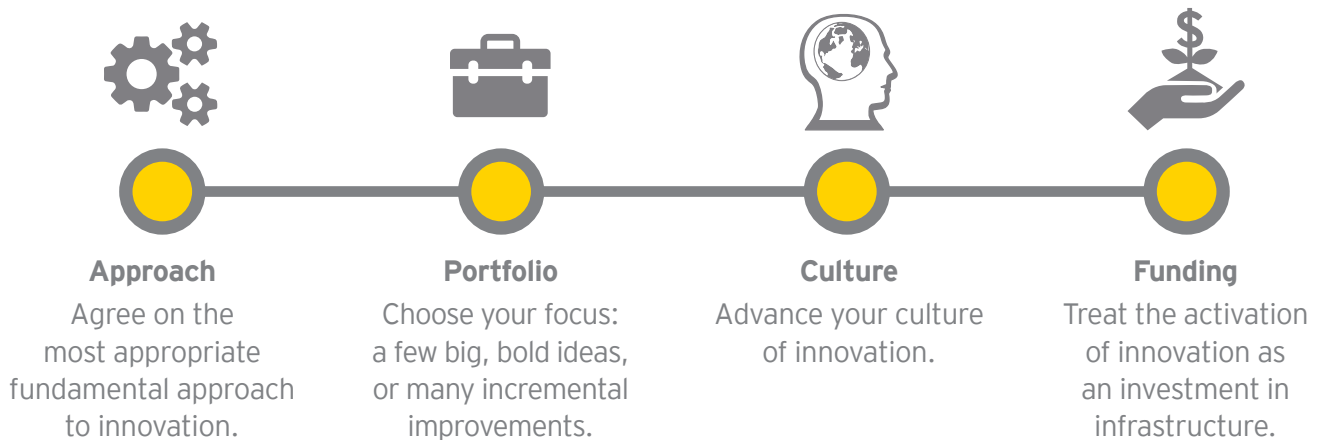
63%

of organizations surveyed either have no defined decision-making process and framework or one that is partially defined but not implemented.

How EY supports the innovation journey

Create			Incubate			Activate		
Strategic focus	Idea generation	Filtering/ refinement	Experiment	Piloting	Capability building	Go-to-market	Operating model	Measure results
Define the problems			*Validate the options*			*Commercialize the offerings*		

Customer needs • Macro-economic trends • Competitors • Technology scan

Build innovation culture and capabilities through collaboration

Intent	Focus innovation strategy and investments on viable opportunities to create and capture economic value	Validate innovation ideas to "manage risk" on innovation investments, define operating model and evaluate partnering opportunities	Refine and develop strategy to commercialize opportunities that create and capture economic value for the organization
How EY can help	▶ Innovation portfolio approach ▶ Innovation strategy ▶ Market assessment ▶ Insights and ideation workshop ▶ Idea and action planning ▶ Innovation journey and roadmap	▶ Innovation playbook development ▶ Piloting and experiments ▶ Capability building and migration ▶ Partner evaluation and selection ▶ Innovation learning maps ▶ Incubator design and development	▶ Go-to-market and channel strategy ▶ Process design and organization ▶ Operating model integration ▶ Partnering, acquisition and deals ▶ Innovation performance measures

How to get started

Four steps organizations can take to accelerate and innovate

Approach
Agree on the most appropriate fundamental approach to innovation.

Portfolio
Choose your focus: a few big, bold ideas, or many incremental improvements.

Culture
Advance your culture of innovation.

Funding
Treat the activation of innovation as an investment in infrastructure.

Approach: Define an approach and methodology that best aligns to your overall strategy. The chart on page 14 can help you decide whether the enabler, advocate or producer model is right for your organization. The approach you choose will dictate your operating model.

Portfolio: Innovative ideas come in various shapes and sizes. The majority are small, incremental ideas that are easily identified, developed, and distributed throughout the organization. Other innovations include big bets that could revolutionize the way you work or deliver services. It is important that a portfolio strategy exists to ensure a pipeline of ideas is consistently maintained, ensuring an organization does not become stagnant or complacent. It is equally important to establish a prioritization process that matches resources to ideas, so good ideas have a real chance of being acted on.

Culture: As with any change program, there may be pockets of resistance to the adoption of an innovative culture. This will likely come from those who do not understand innovation, do not believe they can contribute to innovation, or see it as "just another initiative." Clear articulation of the innovation strategy and a well-structured and executed change management program can reduce this resistance. This begins with communication from the top, but requires champions throughout the organization, and quick-win actions that demonstrate the new culture in action.

Funding: Treat the adoption of an innovation approach as an investment in infrastructure that is important to measure and monitor. Establish and communicate a clear set of innovation goals against which investment decisions and evaluation criteria can be established.

Innovation Maturity Assessment

To help you get started, assess your organization's innovation maturity to determine the strength of your innovation agenda.

Level 1:
Basic
Only beginning to explore

Level 2:
Developing
Some departmental successes seen

Level 3:
Established
Implementation at enterprise level

Level 4:
Advanced
Innovation vision articulated and lived by leadership

Level 5:
Leading
Innovation embedded in culture

Innovation maturity assessment (1 of 2)

The following assessment provides an indication of the level of an organization's innovation maturity. It centres around the six building blocks of creating innovation previously discussed to help organizations understand their areas of innovation strength and weakness by asking key questions that are often left unanswered or, indeed, never asked.

Building block	Element	Potential key question areas
Strategy	**Purpose**	‣ Does innovation tie to the organization's purpose? ‣ Do you treat innovation as a long-term strategy or short-term fix?
	Strategy	‣ Do you have a defined innovation strategy integrated into the corporate strategy? ‣ Is your innovation strategy well understood throughout the organization and referred to regularly?
	Open	‣ Is open innovation actively pursued in the organization?
	Risk tolerance	‣ Is there a risk appetite for innovation in the organization and a willingness to fail?
Governance	**Resources**	‣ Do you give people dedicated time to pursue new ideas?
	Budget	‣ Do you have dedicated and adequate finances to fund new ideas?
	Metrics	‣ Do you have the right measures (benefit tracking) to monitor progress of your innovation initiatives? ‣ Do you have clearly defined measures of success, goals, objectives and timeframes?
Culture	**Entrepreneurial**	‣ Do you have a burning desire in your organization to explore and create new things? ‣ Do you have a healthy appetite for ambiguity? ‣ Do you avoid analysis paralysis and have a bias for action?
	Learning and creativity	‣ Do you encourage new ways of thinking from diverse perspectives and people? ‣ Are you good at asking questions in pursuit of the unknown (the better the question, the better the answer)? ‣ Are you constantly experimenting with innovation efforts? ‣ Are you afraid to fail and to treat failure as a learning opportunity?
	Behaviors	‣ Do leaders challenge the organization to think creatively? ‣ Do leaders model the right innovation behaviours? ‣ Do leaders devote time to coach and provide feedback on innovation initiatives? ‣ Are people at all levels incentivized to take time to innovate? ‣ Do leaders provide support to project team members on both successes and failures as they occur?

Innovation maturity assessment (2 of 2)

Building block	Element	Potential key question areas
Process	Shape	‣ Do you advance promising ideas quickly? ‣ Do you quickly stop projects based on defined failure criteria?
	Capture	‣ Are your innovation processes tailored to be flexible and context based rather than control or bureaucratic based?
People	Skills and capabilities	‣ Do you have individuals who are creative thinkers, have the right mindset and orientation to test and try new ideas on an ongoing basis? ‣ Do you have a diverse team from an experience, seniority and background perspective?
	Collaboration	‣ Do you create a network of individuals and teams from within and external to the organization who are skilled in key elements of innovation? ‣ Do you have a community that speaks a common language about innovation? ‣ Do you work well together in teams in capturing innovation opportunities?
Ideas	Generation	‣ Do you systematically capture ideas from many sources? ‣ Does co-creation of ideas and support for internal and external ideation processes exist? ‣ Does a method for capturing ideas from front-line employees exist?
	Management	‣ Do you have adequate processes and tools to manage innovation activities and coordinate efforts? ‣ Do you methodically filter and refine ideas to identify the most promising ones? ‣ Do you select ideas based on clearly articulated filters?
	Execution	‣ Do you have a well-defined project execution structure that is simple and effective for executing innovation ideas?
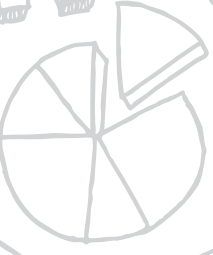
Case studies

The Public Health Agency of Canada Carrot Rewards App

The Carrot Rewards app looks to provide users with behaviour-changing (increasing physical activity, eating well and stopping smoking) incentives to understand and work to prevent chronic diseases.

The Public Health Agency of Canada (PHAC) was looking to better engage Canadians and change their behaviours to improve health outcomes. To achieve this, PHAC partnered with Social Change Rewards (SCR) in the creation of a mobile app that rewarded behaviours in real time. A key feature of the app is that it is reward-agnostic, to reach the largest number of Canadians. PHAC realized that because most health spending is done by provinces, and desired outcomes will be different across jurisdictions, provincial participation would be crucial. Therefore, SCR proposed a platform that would be entirely customizable, to help achieve different outcomes in different provinces.

PHAC provided initial funding to SCR of CDN$5 million to develop the Carrot Rewards app and purchase rewards. Funding flowed as milestones were met: developing a working prototype of the app, developing a final working app, and getting the first province to sign on to use Carrot Rewards.

To ensure the highest standards of health content, SCR partnered with leading health charities to co-found the program, including The Heart and Stroke Foundation, The Canadian Diabetes Association and YMCA Canada. These charity partners review all app content and must approve all health offers before they are received by the public.

In March 2016, British Columbia became the first province to sign on, providing SCR with an additional CDN$2.5 million. In an effort to quickly grow Carrot's user base across the country, PHAC has funded an acquisition budget to reward the first 2 million Canadians who download the app, making this among the most significant government engagement platforms in the world.

In the first three months since its launch, Carrot has over 70,000 users in British Columbia, with nearly 1 million health offers completed. During this period, Carrot exceeded all model expectations of a 10% conversion rate, achieving a remarkable 83% conversion rate – an engagement level unprecedented across similar health promotion campaigns.

In April 2016, SCR announced that Newfoundland and Labrador would be the second province to join the platform, with the official launch taking place on 14 June 2016.

The SCR-PHAC partnership has received the support of the Privy Council Office Central Innovation Hub, which recognized it as a novel approach that encompassed service, process and policy innovation. They have since coordinated conversations for other departments to leverage the program for their own policy uses.

Carrot's success has been the result of PHAC's willingness to try a novel approach to long-standing challenges (public engagement and changing behaviour), the setup of a new process that allows innovation to flourish (leaving app development to an outside firm and focusing on setting up a contract that would reward milestones and outcomes) and the ability to make rapid changes as new information became available (iterating the app as user data is generated).

At the intersection of private, non-profit and government collaboration, Carrot Rewards represents a unique approach to building a cross-sector wellness coalition in the interest of furthering Canada's health agenda.

Regulatory innovation case study

Play based regulation

Play Based Regulation (PBR) is an innovative approach to regulating Alberta's oil and gas industry being undertaken by the Alberta Energy Regulator (AER). PBR has the potential to create numerous benefits for multiple stakeholders, including industry, Albertans and environmental organizations.

When undertaking the PBR initiative, the AER identified an opportunity to drive efficiency for the industry while providing greater visibility to stakeholders and increased risk mitigation by conducting the evaluation of the project in consideration of the cumulative impacts. Under the existing approach, each energy development activity, such as building a road, diverting water, drilling a well and constructing a pipeline or facility requires a separate regulatory approval. These additional activities result in added costs that could be mitigated with a different approach.

In order to execute on PBR, the AER set up a team of high-performing individuals with a deep understanding of the current regulatory framework, and provided them with the required funding and support. This team assessed the current regulatory framework, established a new governance model, developed new business processes, and piloted an operational model to test the viability and expected monetary benefits of PBR on a larger scale.

The resulting solution combined the existing multitude of separate regulatory activities into a single application and review process for energy development activities associated with a specific geographic area or development zone "play" in Alberta.

It is expected that moving from separate activity-based regulatory approvals to a single application, single review and single approval around a specific "play" could result in significant improvements, including: increased stakeholder visibility; the ability to conduct risk-based, cumulative impact assessments and approval of development plans; and encourage orderly and environmentally responsible development in the best interests of the community.

Service, process and policy innovation case study

Innovation procurement in Sweden

In an example of service, process and policy innovation, EY worked with Nya Karolinska Solna (NKS), a new state-of-the-art hospital in Solna, Sweden, to procure equipment and services in innovative ways. To begin with, select major procurements were done through a unique model that included potential vendors in each step as contracts were developed. As a result, vendors developed a sense of ownership over the process, and procurement was focused on achieving outcomes based on mutual long-term interests and technical feasibility, not the structure of the procurement vehicle.

In addition, since NKS was built with the intention of meeting the demands of the future of health and medical care, they had to be ready to take advantage of an as-yet-unknown future state of medical technology. But how would that be possible when procurement of major equipment is a rare occurrence?

In the medical imaging function, EY worked with NKS to develop a procurement process and pricing model that built innovation in at the front end. When NKS procures medical imaging equipment, the contract has been designed so that as future innovations are developed by the vendor and NKS, any savings generated are shared between both parties.

In addition to financial incentives, the innovations that will be implemented at NKS are selected by a joint steering committee, which is also responsible for agreeing on a project plan and contract, and for setting the baseline cost and quality parameters by which success will be judged. This type of "innovation procurement" incentivizes continuous innovation in a long-term partnership while future-proofing the procured technology.

By changing procurement, NKS is incentivizing the private sector to innovate, and if suitable innovations are developed, is positioned to implement them to drive down costs and improve services to the public.

Contact us

For more information on innovation in the public sector and how it may apply within your organization, contact a member of EY's Canadian team.

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