

Now hiring public entrepreneurs:
Four steps Australian public sector
leaders need to take

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Foreword

Public sector leaders are under pressure to develop new approaches to service design and delivery in response to shrinking budgets and increased demand for more and better services.

At Accenture, we believe Australia's federal, state and local governments should make a fundamental shift from public management to public entrepreneurship if they are to deliver public service for the future. This would require enhancing procurement, improving access to government data, making greater use of technology and increasing the diversity of new public service models.

To achieve these changes, public sector organisations should focus on their core missions and encourage contestability for all other services. This means adopting leading practices from—and looking for opportunities to collaborate with—the private and not-for-profit sectors. It means being innovative, willing to take risks and prepared to experiment with unorthodox solutions. In many cases, it would involve changing an organisation's culture so it encourages and accepts trial and error.

We call this 'living large'—having the conviction to try new approaches in a live setting rather than in static and controlled environments. We also recognise that public entrepreneurship would require leaders and workforces to be fearless when it comes to implementing change.

In this report, which draws on original research completed with *The Australian Financial Review*, we describe the steps that Australian public sector executives need to take to become more enterprising leaders. We hope it provides an impetus to drive change in your organisation.



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Executive positions available

Seismic economic and demographic shifts are forcing governments around the world to re-imagine the way they design and deliver public services.

The cost to Australia of meeting public services at current levels of demand will grow to an additional \$54 billion per year by 2025



Australia, in particular, must look for alternative ways to deliver services so it can address a widening gap between revenue and expenditure and cater for a rapidly ageing population. According to Accenture research,¹ the cost to Australia of meeting future need for public services at current levels of demand will grow to an additional A\$54 billion per year by 2025.

The efficiency dividend—asking agencies to do more with less—has run its course. As Melissa Waldron, Accenture's Health & Public Service Management Consulting Lead, says, "It's gone past skin and is down to bone... and you can't cut bone."

Accenture believes the Australian public sector needs to be fundamentally revamped—a transformation that would require public service leaders to make a step change and adopt a more entrepreneurial mindset.

This shift to public entrepreneurship would require leaders to change their thinking to create empowered, innovative and risk-taking workforces that are willing and able to challenge the status quo and drive sustained change for the future. It would require political fortitude, a willingness to experiment and a long-term strategic outlook.

A new survey of Australian business executives, citizens and government experts—undertaken by The Financial Review Group on behalf of Accenture and featured in this report²—supports the need for a new approach to traditional models of public and private enterprise, especially where there is an emphasis on entrepreneurial qualities such as agility, experimentation and risk-taking.

The public sector is already evolving core functions, seeking more opportunities to work with the private and not-for-profit sectors, and introducing new models such as social benefit bonds as an alternative way to fund public projects. Through these initiatives, public service leaders are showing it is possible to reduce the gap between revenue and expenditure, optimise service delivery, drive innovation and fulfil their charter of providing citizens with a safe, secure and flourishing social and economic environment.

Entrepreneurial mindset needed

The Australian government needs public entrepreneurship to transform the public sector and meet critical future demands. This would provide the cultural and structural focus needed to develop, understand and use every available delivery and operating model to improve the sector's ability to serve citizens.

What are the qualities of public entrepreneurs? First and foremost, they embrace experimentation, creating 'living labs' to test and model new ideas, approaches and even policies. They have a detailed knowledge of governance structures, and the skills to deliver against policy expectations.

Public entrepreneurs use all available means to multiply the effects of their inventions by forging new relationships and collaborating with the private and social sectors in critical growth areas, such as infrastructure or human capital. They take and support calculated risks, learn from their mistakes and rigorously measure performance at all levels of their organisation.

In addition, they intelligently direct the economic resources in their care, and stimulate positive outcomes. They spot wider trends in the global economy and local opportunities for growth, then bring together often disconnected stakeholders to facilitate and achieve more effective public service outcomes.

Entrepreneurship in practice

On behalf of Accenture, The Financial Review Group surveyed a national panel of senior private sector executives, citizens and government experts to inform real-life case studies, and gauge their perspectives on where and how entrepreneurship could be deployed in Australian public sector organisations.

The results show that the fundamental issues facing the public sector—including inefficiency, duplicated services, lack of transparency, and misaligned expectations between the public and private sectors—can no longer be addressed by piecemeal responses. The public sector has to make significant strategic changes before it can improve the quality and delivery of services, and enhance public sector leadership.

The majority of survey respondents see very few areas where the public sector should be solely responsible for providing services. Most citizens believe areas such as specialist healthcare and transport could be better delivered by other service models.

The survey shows that in most areas there is opportunity to create more granular service models where individual elements can be subcontracted and contested, such as in prisons, security services and surveillance. There is also support among respondents for outsourcing administrative functions such as payroll services and welfare payments, and co-sourcing these functions where possible.

Drive change and make a difference

Change is emerging in the Australian and international public sector in the form of new structural frameworks and partnerships between the public and private sectors. However, there is a need for more immediate action to revitalise the skills, culture, contestability and structure of the Australian public sector.

1. Pilot new ideas

The root of the public sector's issues can be found in outmoded legacy systems and operational models. This is compounded by an overly prescriptive approach that allows government to set policy and decree process. There is an urgent need to review public service value chains, where in many cases alternative delivery mechanisms could be deployed without the risk of failing to achieve outcomes.

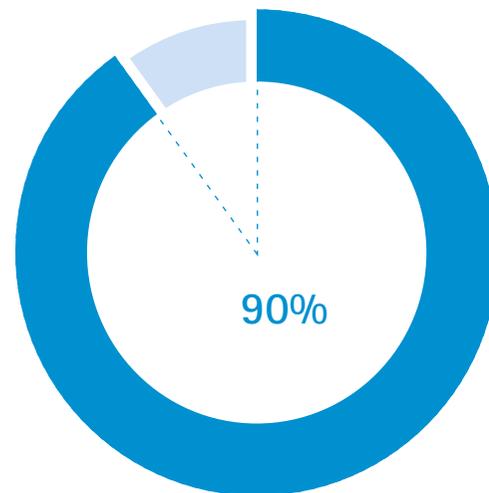
Public sector executives who want to be effective agents of change should constantly strive to have their organisations perform faster, better and more cost-effectively. One way to do this is to create living labs—pilot programs to test and experiment with new, more effective ways of delivering outcomes. This could include a 'hothouse' for testing new leadership approaches and incubating innovation and business acumen.

Citizens are open to the idea of live trials; according to survey results, 90 per cent of respondents say the government should trial new services before launching them on a wider scale.

The British³ and Dutch⁴ governments have both benefited from trialling new technologies and processes in live settings to improve border security at airports while keeping costs to a minimum.

It may also be necessary to restructure public organisations so they are designed around entrepreneurship and risk management. This would allow employees to embrace ambiguity, be comfortable to challenge ideas and take a flexible approach to outcomes while ensuring transparency.

Percentage of Australians who think the government should trial new services before launching them on a wider scale



2. Explore contestability

Contestability involves determining how services can best be delivered, whether by government agencies or through co-sourcing or outsourcing. Accenture believes the Australian public service should focus on its core mission and encourage contestability for all services.

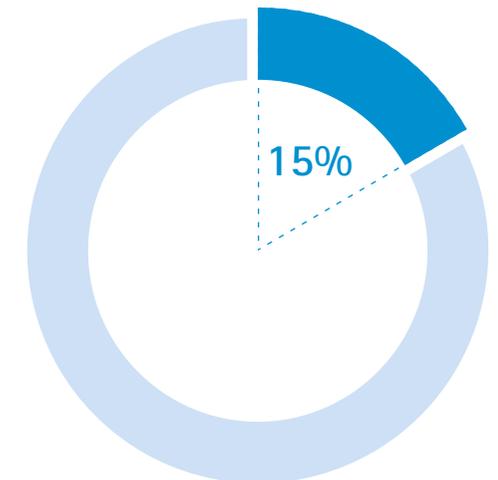
Greater contestability encourages the public service to improve productivity and efficiency to ensure its departments remain competitive. It also creates an environment where innovation, entrepreneurship and collaborative leadership can be developed and valued. However, only 15 per cent of the business executives surveyed believe contestability has been successful, suggesting there is plenty of room for improvement to ensure the success of initiatives that encourage contestability and co-sourcing in the public sector.

"Instead of having to justify why it makes sense to introduce competition as we are now doing with schools and in the National Health Service, the state will have to justify why it makes sense to run a monopoly."

David Cameron

United Kingdom Prime Minister, speech on 'Open Public Services', July 2011.

Number of business executives surveyed by Accenture who believe public sector contestability has been successful.



Common obstacles

Barriers to contestability include a perceived lack of commercial expertise in the public sector and the need for greater transparency about all aspects of the government-run enterprise. Cultural factors—such as too much reliance on bureaucracy and limited skill sets in the public service—were also identified as barriers, particularly around contracting to and procuring from the private sector.

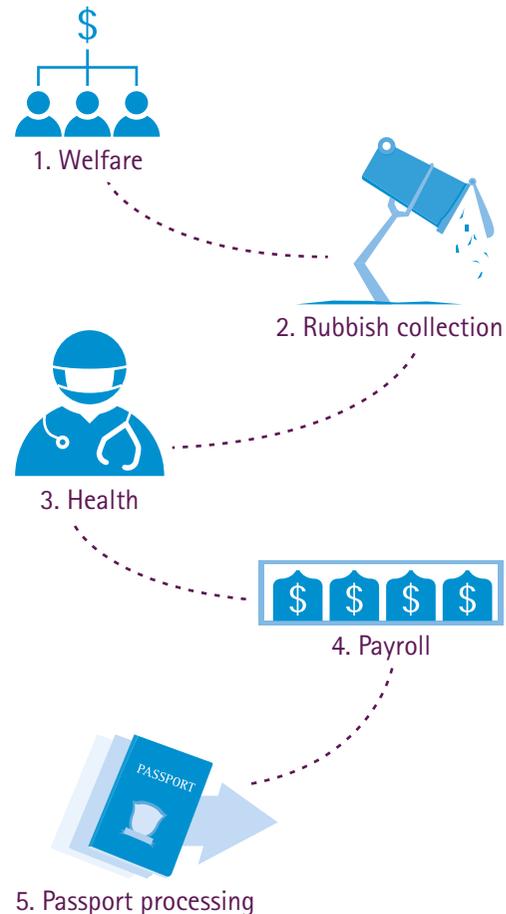
According to survey respondents, co-sourcing arrangements would work best in the health, welfare, infrastructure, law and order, and transport industries. They indicated the top five functions that could be co-sourced include welfare, rubbish collection, health, payroll and passport processing.

Paul McClintock,⁵ one of three government experts interviewed for this report, believes there is an opportunity and increasing appetite for reform through contestability and co-sourcing.

"Most people are attracted to the idea of contestability because it motivates people to be more flexible and innovative, and also provides a yardstick against which public organisations can be measured," McClintock says. He adds that the welfare reforms of recent years—which introduced a range of not-for-profit organisations to the public sector—also successfully introduced the benefits of contestability to citizens.

However, contestability would not affect productivity, service delivery or citizen outcomes unless public sector leaders can take and work with calculated risks, recognising that while some of their efforts may fail, others would not.

Top five functions that the Australian public believes could be delivered through co-sourced arrangements:



Enabling innovation

While there are examples of governments using the not-for-profit sector to provide healthcare, disability and aged-care services, another government expert, Peter Shergold,⁶ cautions that an overly rigid approach to partnerships can stifle innovation and inhibit the ability to create choice and diversity for citizens.

"There's an advantage to having a range of different contestable providers and letting people choose," he says. "That's where I think we should be heading—giving individual citizens choice."

It is also essential to understand the changes taking place on a global scale. Public-private partnerships operating on the international stage would soon consider Australia as one of a series of global business opportunities—and the country must be able to compete effectively.

3. Investigate new business and service delivery models

Acute funding pressures, economic change and demographic shifts mean the public sector must act now to overhaul outdated business and service delivery models.

According to Marie Johnson,⁷ Managing Director and Chief Digital Officer for the Centre for Digital Business, the three levels of government delivering public services in Australia are using models that are 50 to 100 years old. She says public entrepreneurship is needed, where the aim is not just about business improvement or making the 'as is' slightly better. Rather, the approach should be about doing things fundamentally differently or doing things that have not been done before to achieve clear, observable and measurable outcomes.

For leaders concerned about the risks involved in making significant change, Johnson says good governance is not at odds with public entrepreneurialism.

"You can say government needs to be more cautious and that's true, but it's not an excuse for failing to be more agile and operate in a different way," she says. "It's a 'what' and 'how' question as well as a design question. You have to ask 'what would government services look like if Apple or Google delivered them?' and you get a different answer to what we see in the public service."

There is also growing interest in the potential for alternative financing models such as harnessing social finance from the philanthropic or private sectors to help fund some public initiatives.

The New South Wales Government, for instance, is introducing social benefit bonds⁸ that allow social service organisations to boost their funds with input from the private sector. These new financial instruments would allow social enterprises to pay a return to investors because they share in any reduction in public costs with government.

This approach is particularly valuable when testing interventions that can prevent the need for later crisis management, such as lowering the likelihood of released prisoners re-offending or reducing the need for out-of-home care for vulnerable children by helping parents cope more effectively.

4. Drive cultural change

Based on the findings of our research, delivering a new, sustainable public economy would require a substantial cultural change. Transformation hinges on building:

- An appetite and ability to handle risk rather than avoid it, along with the ability to experiment with and adapt business models to new circumstances while acknowledging failure, and providing latitude to try again
- A shift in the outlook of public servants from that of gatekeepers or compliance stewards to that of facilitators and partners, with continuing responsibility for governance and accountability in public spending
- A recognition that this transformation is not about diminishing the public sector—it's about transforming the sector's skills and efforts to produce greater diversity and choice.

There needs to be a proper analysis of the shifting risk equation. While public servants still face a range of systemic barriers to accepting additional risk, the private sector needs to be convinced it would not bear a disproportionate element of risk if these barriers were dismantled. Both sectors should have clear and realistic expectations of hybrid arrangements.

Citizen tolerance must also be tested. At what point are citizens going to balk at the new models? Would the public be comfortable with their passport applications being processed in India, for instance, even if it's cheaper and faster?

5. Introduce new core competencies

"I do lots of speeches to public sector leaders and say the point is you still need public service leadership but it's no longer about situational authority leadership—it's about the leadership of facilitation."

Peter Shergold,
Australian academic and former public servant.

Leaders in government must have the appropriate skill sets for public entrepreneurship to be successful. In some public sector organisations, the skills needed to establish and manage a more agile service model including business and financial acumen are absent or not as strong as they could be.

As highlighted in our survey, it is important for organisations to refocus expectations about what skills are necessary. For example, they might seek out people with an aptitude for innovation, rationalising and balancing risk, or managing capital expenditure.

Leaders should create an environment—including by providing incentives—that draws people with industry experience into the public sector. In the area of technology, for example, the public sector would never become a leader if it lacks skilled employees with recent industry experience.

The research also indicates that it's important to ensure public sector practices are on par with those in the private sector, to attract more workers to the public service. For example, many employees are likely to be happier and more productive if they work in an open, collaborative environment, or are offered flexible working arrangements and performance incentives.

Additionally, the survey suggests public sector leaders should collaborate with the private sector or other economies to bridge skill and ideas gaps. This would entail actively seeking out and working with innovators in the private, academic and non-profit sectors to gain insights about successful entrepreneurial practices and models, not just in the core business but in human resources, financial management and innovation.

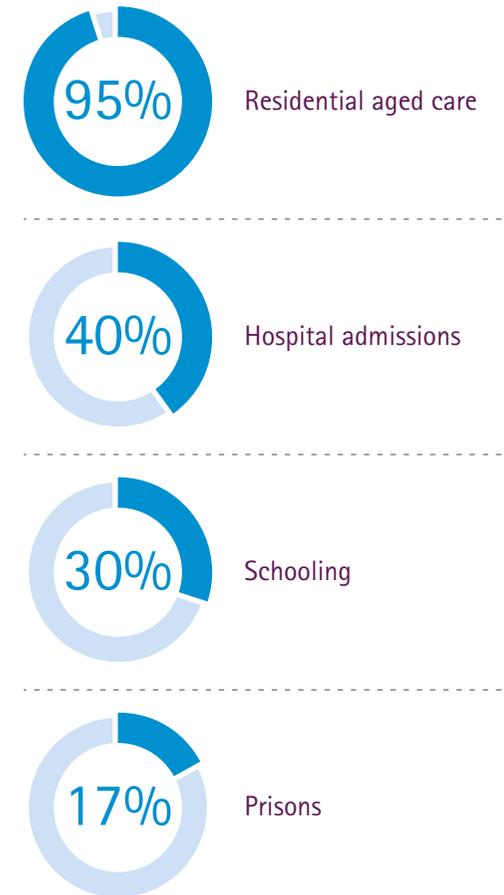
6. Investigate public-private partnerships in service delivery

Public-private partnerships have changed the way public services are delivered. On average, some 30 to 40 per cent of all public services in Australia are now delivered by private and not-for-profit providers.

For example, around 95 per cent of residential aged care is provided by private and not-for-profit providers; around 40 per cent of hospital admissions in any one year occur in private hospitals; around one-third of Australian children attend private schools; and around 17 per cent of prisoners are held in privately managed correctional institutions.⁹ We have also seen the growth of private sector service provision in building approvals, rubbish removal and other areas of local government responsibility.

Australia can also look overseas for examples of public entrepreneurship that have led to successful public-private partnerships. Evidence suggests that these new models of delivering public services—such as social enterprises, employee-owned mutuals and cooperatives—are not only more effective and efficient at delivering public services, they can also generate wider economic benefits.

Percentage of services provided by private and not-for-profit providers:





International leading practice

In Northern Ireland, 26 local councils are being consolidated into 11 larger councils¹⁰ to strengthen and streamline operations. Working in partnership with national agencies, these new expanded councils would be responsible for planning, roads, urban regeneration, community development, housing, local economic development and local tourism. They would also have the opportunity to work more closely with the private sector, within a specified governance framework. The reforms are expected to improve services and deliver long-term savings.

In mid-2012, the UK government unveiled an Innovation Fund to pioneer new family separation support services.¹¹ These services direct separated parents to community-based support initiatives if government-managed services are deemed necessary. Where families need to access government schemes to manage maintenance payments, users of the service (both the parent paying maintenance and the parent receiving the payment) are expected to pay an application fee and ongoing administrative costs. This acts as an incentive to encourage cooperation and reduce reliance on government-provided services.

Across the Atlantic, US health insurer WellPoint launched home-based healthcare programs that have in some cases reduced hospital admissions by 18 per cent.¹² Doctors who participate in the programs are rewarded with higher fees for specific services, can be paid for consultations delivered online or over the phone, and share in the overall cost savings the programs deliver. WellPoint aims to cut costs by 20 per cent by 2015. The programs also ease the drain on the public purse by reducing hospital admissions.

The US Defense Logistics Agency (DLA) has also cut costs and improved efficiency by adopting private sector practices. Over the past decade, the DLA has re-engineered business processes, introduced leading-edge technology, streamlined job functions and deployed comprehensive change programs that resulted in value delivered to the American warfighter and taxpayers. During this time, DLA reduced its cost recovery rate from 22.1 per cent to 14.4 per cent and achieved US\$72M in cost savings over legacy systems, while improving productivity, increasing customer service and reducing inventory investment.¹³

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"There is no upside without risk. However, there is a distinct risk–return equation in public entrepreneurialism—the public good is a very significant upside."

Marie Johnson,
Managing Director and Chief Digital
Officer for the Centre for Digital Business.

The Australian public sector is undergoing significant demographic and economic upheavals that would require new ways of managing, working and thinking. Business and service delivery models that were effective five or 10 years ago are no longer adequate to meet the challenges of the 21st century. Change is underway, but entrepreneurship in government has yet to reach critical

mass in Australia. Public sector leaders need to adopt entrepreneurial perspectives on innovation and risk management. They need to be bold and experimental if they want to see results quickly.

There are many ways leaders can breathe new life into public service delivery, from trialling new services in live environments to increasing collaboration with the private sector and seeking funding from left-field sources. This paper has highlighted some practices governments can use as a starting point to instil entrepreneurial qualities in their leaders and workforces—which would at least put in place the vision and skills needed to make the significant structural shifts to achieve effective and sustainable public services.



Against this backdrop, Accenture believes tomorrow's public sector leaders need to adopt the following four key capabilities:

1. An ability to change organisational culture

The transition to an entrepreneurial mindset means government departments need to change their cultures. Leaders must foster an innovation-friendly culture that encourages and accepts trial and error; allows controlled experimentation with potentially more efficient new processes; and create structures that help departments learn from failures when and if they happen.



2. A deeper understanding of risk

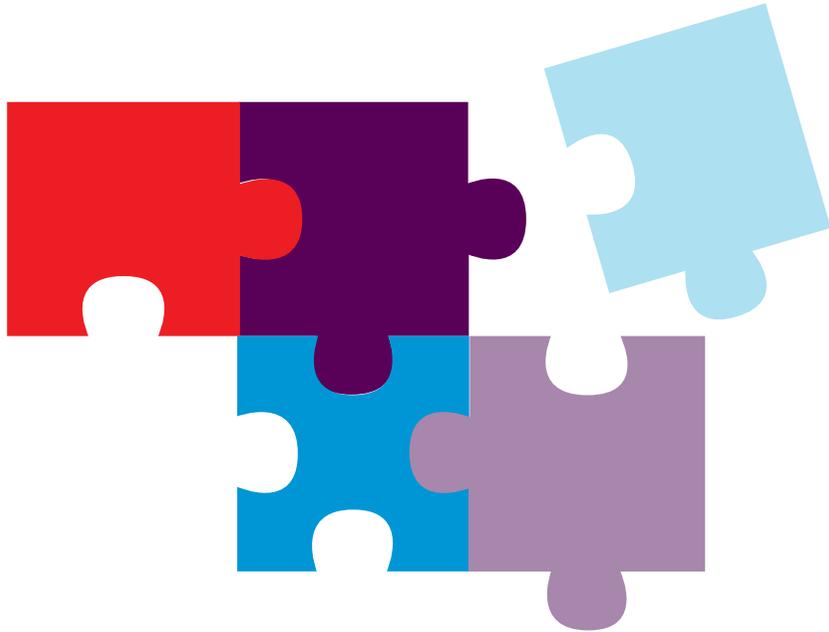
New models of funding and private sector collaboration would not resolve the problem of inertia or lead to innovation if public sector leaders are unwilling or unable to take and support calculated risks and manage the risk challenge faced by the private sector.

The key to success is for leaders to accept that risk management is core to innovation. Public sector leaders need to embrace and manage risk when they adapt business models to new circumstances, and use failures to inform better decisions in future.



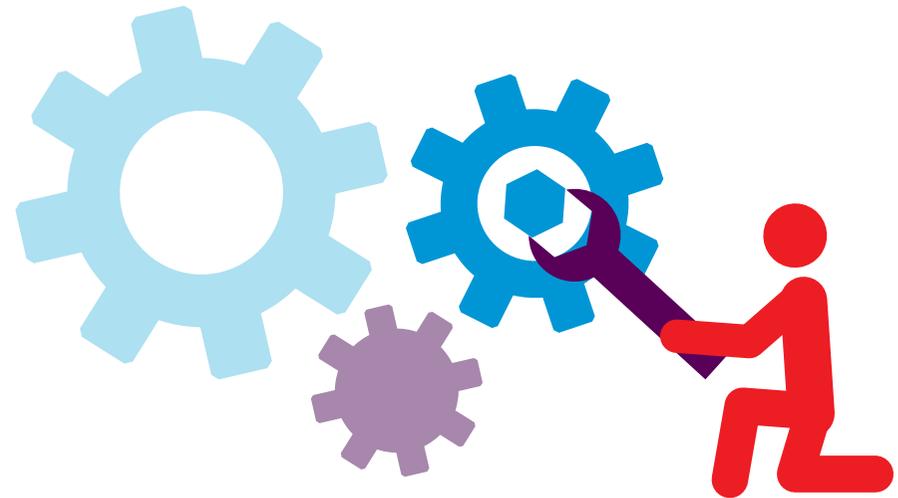
3. Openness to collaborating with other sectors

Innovative approaches may not come naturally to all government departments. For this reason, leaders should look to the private sector and internationally for ideas they can use to inform their own leading practices.



4. Experience in fine-tuning performance measurement

Organisations should introduce key performance indicators that measure people on how well they manage risk (and not on whether they succeed or fail). They should also gauge other desirable skills such as the ability to innovate. Not everyone should get a bonus for avoiding risk altogether, and innovators should be rewarded.



References

- ¹ Delivering Public Service for the Future: Australia Government Profile (2012)
<http://www.accenture.com/au-en/Pages/insight-australia-government-profile.aspx>
- ² The survey panel comprised 152 executives, 633 citizens, and three leaders with deep experience in government.
- ³ http://www.accenture.com/SiteCollectionDocuments/PDF/UK_heathrow_abc_credential_final.pdf
- ⁴ http://www.accenture.com/SiteCollectionDocuments/Local_UK/Accenture-Amsterdam-Schiphol-Airport.pdf
- ⁵ Paul McClintock is a former Secretary to Cabinet and Head of the Cabinet Policy Unit reporting directly to the Prime Minister. He is chairman of organisations such as Myer Holdings, Thales Australia and NSW Ports.
- ⁶ Peter Shergold is a former Secretary of the Department of the Prime Minister and Cabinet. He is now Chancellor of the University of Western Sydney, and chair of the Commonwealth Government's Aged Care Reform Implementation Council, the NSW Public Service Commission Advisory Board and the Social Investment Expert Advisory Group. He is leading a Victorian Government project on reforming the community services system.
- ⁷ Marie Johnson was formerly First Assistant Secretary in the Department of Immigration and Citizenship. Before this role, Johnson was the Chief Technology Architect for the Australian Government Department of Human Services and was the World Wide Executive Director, Public Services and eGovernment for Microsoft Corporation. Before joining Microsoft, Johnson was the Chief Information Officer of the Australian Government Department of Industry, Tourism and Resources.
- ⁸ http://www.treasury.nsw.gov.au/site_plan/social_benefit_bonds
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Further information

For more information on becoming a public entrepreneur, please email aus.industry.trends@accenture.com

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About our research

This research is released in partnership with Accenture Strategy and *The Australian Financial Review*, and is the second in a series of reports examining future trends for key industries in Australia.

The survey panel comprised 152 executives, 633 citizens, and three leaders with deep experience in government. Respondents were asked what services the public sector should provide, and what services would be more sensibly delivered through public–private partnerships, co-sourcing, outsourcing or other means. They were also asked to outline the enablers and barriers to contestability and co-sourcing in the sector.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 289,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is www.accenture.com.au

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