

# **Innovation and Risk Management**

## **– A Recipe for Improving Performance**

**January 2006**

**Cab Off, NSG & ECforBE logos**

Version 2.7

## Executive Summary

This report comprises a description of the findings of an exploratory study into risk management and innovation led by the National School of Government between January and December 2005. Its purpose is to provide a basis for reflection on current practice in this area and to make some suggestions for next steps.

In looking at organisations that excel, we have identified ingredients that appear to be common to those that achieve success through innovation and well judged risk taking. These ingredients are:-

- *An imperative to innovate;*
- *A culture of accountability and responsibility for delivering results;*
- *An environment where organisational learning is systemic and systematic;*
- *Clear and simple risk management processes which are embedded in decision making and in the way the organisation works;*
- *A decision-making culture where the expectation is to challenge and be challenged about assumptions and evidence;*
- *An emphasis on developing the capability and capacity to innovate and take well-managed risks*
- *A systematic and reliable mechanism for delivering change.*

We also include some ideas on developing a recipe and 'mixing instructions', in other words how to select the ingredients most likely to help your organisation.

Our suggestions should help you to take stock of current achievements and challenges and we hope that this overview and the full study report, which includes more detailed information about our findings, will help to develop your own understanding of the subject and give you ideas that you can apply in your own organisation.

We want to learn more, and also develop guidance and diagnostic tools - and we are now looking for organisations to work with us as we develop and pilot these new products. If you think your organisation would benefit from sharing knowledge and testing new thinking, contact Bryan Dennis at the National School of Government to register your interest.

## Foreword

The research team have produced an important exploratory study of two topical managerial themes, risk and innovation. The research aims to understand how, by avoiding the significant obstacles of poor risk management and low levels of innovation, it is possible to achieve extraordinary levels of performance.

The study is based on the development of two datasets drawn each from scholarly literature and empirical data. Using both survey responses and six in depth case studies of outstanding practice, the research helps managers understand risk and innovation management practices in very contrasting contexts. By outlining general dimensions and specific cases, the research addresses both breadth and depth in findings.

The project is insightful and contributes to our understanding of the vital role of risk and innovation processes in the complex endeavour of management of the public sector. The research raises a number of further questions, for example:-

- How might public sector organisations be structured for 'failure free' working?
- What kind of cultural items might best support sustained high performance?
- Which leadership behaviours are required to best initiate and support risk management and innovation practices effectively?

In the meantime, this work is important for managers in that it provides a basis for reflection on current practice. It provides a recipe by offering both a list of 'ingredients' and also some ideas on 'mixing instructions'. These enable managers to take stock of current achievements and challenges and to facilitate performance improvements in the future.

### Professor David Tranfield

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# 1 Introduction

## 1.1 Background

In January 2005, the National School of Government (formerly CMPS) launched an exploratory study *to research, identify and promote outstanding practice in achieving extraordinary performance through innovation and effective risk management*. The work built on the two-year risk improvement programme directed by a subgroup of the Civil Service Management Board and was inspired by the Prime Minister when he said:

*“We need to improve how we identify and address risks to successful delivery. Innovation is essential if we are to continue to improve public services ...*

*We need to take risks with new policies to reap the rewards. But too often in the past, change has been initiated in ignorance of the risks, and of what might be done to deal with them.*

*In future, we need to ensure that risks have been adequately considered.”*

*Tony Blair, October 2004*

Although extensive research has examined both risk and innovation, the idea of considering the two issues in tandem was, at the time, fairly novel. We saw a link and an imperative to develop capability in these two areas because of the need for the public sector to create more flexible and resilient organisations, and to build citizens’ confidence and trust in public services. Public bodies are under great pressure to improve efficiency and effectiveness and to meet stretching targets while also delivering new policies and projects. If the bottom line in the private sector is to ‘survive and prosper’ then, arguably, in the public sector this translates into a ‘public service ethos’, which means taking pride in making things better for the people we are there to serve. Accordingly, our aim was to find out how high-performing organisations:

- establish a supportive environment and culture for innovating and taking risk - while balancing the need to comply with ever more demanding corporate governance rules and guidelines
- motivate and incentivise appropriate behaviours
- learn from past experience and embed good practice
- deliver the goods.

## 1.2 Our approach to the study

The project was the result of a partnership between the National School of Government and the European Centre for Business Excellence (ECforBE), the research and education division of Oakland Consulting plc. A consortium of central and local government organisations sponsored the project, with representatives of the sponsoring bodies participating throughout the project. Details of the study approach can be found in Appendix 3.

## 1.3 Aim and scope of the study

The aim of the study was confirmed by the sponsoring participants and the scope and research questions refined. The aim of the study was:

*To research, identify and promote outstanding practice in achieving extraordinary performance through innovation and effective risk management.*

The scope was agreed as follows:

- Investigating and understanding the drivers of innovation and risk management that lead to extraordinary performance in both private and (wider) public sector organisations
- The management of risks to enable performance through innovation (including relationship between risk management and audit functions)
- The management of the implementation of innovation through to implementation
- Product, service and performance innovations, with and without a technology element
- Management of stakeholder expectations in relationship to risk management
- Communication of risks
- Assessment of an organisation's appetite for risk

The study sought answers to a number of questions within its defined scope. These questions were:

1. How do organisations create the understanding, expectation and desire to innovate and take risks in order to achieve extraordinary performance?
2. How do organisations manage opportunity and associated risk to maximise performance gains effectively?
3. How do organisations actively promote creativity, innovation and risk management to encourage a radical approach to improvement?
4. How do organisations manage transformation projects to achieve step change in performance?
5. How do organisations create an environment/culture that supports and encourages considered risk taking?
6. How do organisations embed the approaches into the day-to-day activities for everyone?
7. What are the key enabling processes that support effective innovation?

## **1.4 How to use this report**

This report summarises the findings of this study and interprets the key learning points identified. Readers of this report should assess their specific needs for improvement in managing innovation and risk, and adapt the key learning where appropriate to meet their improvement objectives. A diagnostic tool will be developed and made available by the National School of Government to assist organisations in self-assessment and prioritising improvement. If readers require assistance in interpreting the findings in the context of their own organisations, they should contact a member of the project team. Contact details are provided in Appendix 1.

## 2. Building a framework for considering innovation and risk management

The first stage of the project was to review existing work in the field of innovation and risk management. This led to an initial framework for the study, which was subsequently reviewed and enhanced over the course of the project. In this section a high level description of the framework is provided. More information on the literature supporting the framework may be found in the insights and additional insights reports available at [www.nationalschool.gov.uk](http://www.nationalschool.gov.uk) under 'publications'.

Each organisation is differently configured, faces different challenges, and will require its own (possibly unique) mix of ingredients. We believe that the framework in the diagram below can be used to develop a recipe for selecting and mixing the right ingredients. The framework is deliberately flexible and the elements overlap. For example, leadership is clearly a component of 'organisation and governance' as well as 'culture', and business planning is as pertinent to 'governance' as it is to 'processes'.

### Insert final framework from the impact report (Figure 1)

#### Organisation & governance

*This perspective is concerned with how the organisation sets strategic direction, how it is organised and structured and about the functions and responsibilities required to facilitate extraordinary performance through innovation and risk management. In addition it looks at issues regarding controls and assurance. In particular, it considers how outstanding organisations:*

- Set a clear strategic direction
- Develop a flexible organisational structure, for example a matrix management approach, but with clear governance arrangements
- Set clear roles, responsibilities and authorities for delivering outcomes; and make people accountable for the consequences of success or failure
- Set standards of governance and acceptable behaviour congruent with organisational values, but allow and encourage flexibility to improvise within these boundaries
- Establish clarity around the decision-making processes
- Have clarity on the scope and context of innovation so that the 'Innovation Ambition' is defined
- Use the business planning process to support the achievement of the vision, mission and targets
- Ensure the provision of appropriate resources
- Develop communication structures and strategies to raise awareness about various initiatives to improve performance so that people know how they can contribute
- Have clear and consistent monitoring, control and assurance systems.

#### Innovation & risk culture

*This perspective deals with aspects about how things are done in organisations. It addresses risk appetite, attitudes, behaviour, personal qualities, impact of leadership involvement and use of HR systems. In particular, it considers how outstanding organisations:*

- Ensure that innovation is a priority of leadership
- Determine an imperative to innovate that is powerful enough to be an effective driver then communicate this so that the message is understood and accepted
- Develop consistent and realistic values for the organisation and expect everyone to adhere to those values
- Focus on successful outcomes to encourage innovation and risk taking
- Supporting openness and transparency, building trust in the organisation for people to identify and escalate risks and opportunities
- Developing a culture that encourages innovation and risk management
- Ensure that learning & development programmes are building the capacity and capability to innovate and handle risk
- Ensure that people core competencies and the performance management system enable and reinforce desired behaviour
- Recruitment and career development supporting innovation and risk management
- Reward and recognise achievement and success not mediocrity
- Encourage (through incentivisation) the desired behaviours described above, and discourage undesired behaviours
- Ensure appetite for risk and approach to innovation are consistent with the organisation's values
- Challenge managers and colleagues (and expect to be challenged) if not adhering to the values.

### **Innovation & risk processes**

*This perspective covers the approaches, techniques and systems that can be employed for managing risk to support innovation and how innovation informs risk management processes. In particular, it considers how outstanding organisations:*

- Embed risk management and innovation
- Ensure there is a mechanism that enables the Board to evaluate its overall risk exposure and determine its appetite for risk
- Define the Innovation Ambition
- Keep the process as simple as possible and articulate risks early on in the decision making process
- Link innovation and risk management to business planning by setting stretching targets
- Challenge proposals as an integral part of the process.



## **Learning and improvement**

*This perspective is about how individuals, teams and the organisation as a whole learn from others and from past experience. In particular, it considers how outstanding organisations:*

- Maximise learning from within the organisation
- Maximise learning from others
- Ensure any lessons learned are systematically disseminated through recommendations to improve (as appropriate) the organisation's values, governance arrangements, policies, strategic plans, business processes and training programmes.

## **Implementation (of an innovative and risk management approach)**

*This perspective covers practices that help with the adoption of good risk management and innovation, and their application to the organisation's processes and decision-making structures to ensure delivery of outstanding performance. In particular, it considers how outstanding organisations:*

- Create a decision making environment where it is expected that assumptions and evidence will be challenged
- Look to embed risk management in the organisation by selling the benefits rather than aspects of control
- Clarify risk appetite in the context of the decision, rather than automatically assuming that all 'high' risks need to be reduced
- Encourage people to think of the problems, and find ways round them. Not to think how to extricate themselves if they fail, but how to ensure they succeed
- Value the contribution of team-working
- Ensure engagement with the stakeholders.

## **Delivery of change**

*This perspective covers the approaches that can be used to deliver significant change. In particular, it considers how outstanding organisations:*

- Ensure that there is a systematic process and sound methodology for delivering change, such as a project approach. Reinforce this focus on outputs and outcomes through budget allocations
- Focus on strong partnering and bring in the stakeholders at the start of the project
- Make full use of the appropriate governance arrangements matrix management approach – particularly with crosscutting schemes
- Conduct OGC type Gateway reviews or health checks to ensure that programmes and projects remain on track
- Ensure effective project control and review
- Manage people through the change process.

### 3Key findings from the initial research

A key part of the study involved the use of a Screening Survey to research performance and practice against the study framework. From a total of 242 invitations to participate issued, 56 responses were received representing a response rate of 23%. Questionnaires were analysed, and the key findings from the analysis were:

- Organisations' have similar definitions of risk management but **innovation is not so well defined**. While some organisations suggested that simply defining an innovation process would stifle innovation, others had clear mechanisms and processes to stimulate innovative thought and action.
- **Governance rules and regulations** do not have a detrimental effect on innovation. On the contrary, they **can help to define the boundaries within which people are free to innovate**.
- **Matrix management** was common and such structures were found to have a neutral or positive effect on both risk taking and innovation. **When combined with effective stakeholder management, it helped to ensure wide support for innovation and considered risk taking**
- Communication of corporate messages was found to be important to staff adopting the defined values. **Leaders must also be seen to live the values in their words and actions**.
- **Organisations that have implemented their values with regards to innovation are more tolerant to failure**. This is not the case for risk values.
- Organisations recognise that **sub-cultures exist** and the resolution of the differences in these sub-cultures is important. In general, organisations are able to resolve these differences with some success. In multinational organisations, differences can be more acute, **but common values allow flexibility within required organisational boundaries**.
- Incorporating risk management in personal objectives was far more common than incorporating the need to innovate – this was a key differentiator amongst the organisations most active in innovation.
- Top **management teams** were reported to take an active role in the risk process, and in many cases management **were found to support and encourage considered risk taking**.
- In considering the support given by HR systems, **Appraisal and Reward and Recognition appeared to have the greatest effect on risk taking and innovation**.
- **Management support** for risk taking and the **creation of a culture for extraordinary performance** were both found to have a positive relationship with tolerance of failure.
- **Organisations tend to develop their approaches** for risk taking and innovation in-house, as opposed to drawing on the experience of other organisations or following a published approach.
- **Risk management** was reported to be **embedded in the core processes** in 87% of organisations and there was a high level of review and improvement. The processes supporting effective innovation were also identified in many cases.

- Organisations that considered themselves to be **world-class** or mature at managing risk, had **higher levels of deployment of risk management** in their core processes
- Risk management and innovation are both critical to the success of organisations, although **innovation is perceived to be less important in the public sector when compared to the private sector.**
- **Risk management** was reported to have a **positive effect on innovation** in 33% of respondents, and only 7% reported a negative effect. Risk management is considered when making the decision to innovate.
- **Most organisations measure the effectiveness of risk management and innovating,** and a number of mechanisms are used for this purpose. These included review of key performance indicators, self-assessment and management review.
- The promotion of risk management through a network of individuals appears to be more common than the promotion of innovation.
- **The seeking and sharing of good practices is very common**
- Organisations reported a **better maturity profile for risk management** than for innovation.
- **Cost reduction and market/ customer pressure** were given as the top two **drivers for change.**
- **Ensuring the delivery of the results/** performance improvements was identified as the **key enabler for ensuring an effective approach to innovation.**

## 4 Developing your recipe for success – A Framework for considering Innovation and Risk Management

### 4.1 Introduction

The main aim of the study was to identify the drivers of extraordinary performance through managing innovation and risk. The literature review produced the Insights Report, and this gave us a theoretical foundation for the study and the first draft of the study framework. The Screening Survey examined some of the relationships within the framework, and to this we have added the information documented during the site visits.

Each of these perspectives has given us a list of common ingredients and in the next section these common ingredients are described. The third section provides more detailed practical guidance, which may be used to build your own list of ingredients. This guidance is structured around the final framework (*insert final figure 1 on Page n*). We have used the approach used by many models where under each category of the framework there are a number of components supported by several enablers. The enablers represent the actions an organisation could take and we have included selected examples to activities that organisations might implement.

We reinforce the term 'guidance' as one of the main findings from the study was that there could never be a prescriptive solution. The context of the organisation must be considered when deciding on action to be taken. Using the cooking metaphor, the ingredients one would select to cook a meal for children are likely to be different from those used to prepare a gourmet or vegan meal. The meals have the same basic purpose, but will vary depended on the context.

Perhaps the biggest learning point was that the approach must be aligned with the organisation's 'Innovation Ambition'. Organisations that have a high ambition to innovate either to grow or to survive will need to develop a culture that is tolerant to the risks associated with step change. Other organisations, on the other hand, may take a safer continuous innovation approach.

It is for this reason that the framework will be transformed into a diagnostic tool that will aid organisations deciding on the right action to be taken to met their specific needs. In the interim, we recommend organisations consider the detail of the framework and apply a simple rating approach to select appropriate actions. Such as rating system could consider suitability of the action, the potential impact and the level of difficulty in taking action.

In developing your own recipe don't just consider performance gaps. Organisations enjoy success due to their strengths and it is just as important to develop and build on strengths as it is to bridge weaknesses. A strength may protect you whereas a weakness my never be exposed.

## **4.2 The common ingredients**

Through the study, a number of recurring factors became apparent. We identified these as the main ingredients for success and these may be used as a basis for a recipe suitable to your own organisation.

### **4.2.1 An imperative to innovate**

Several organisations had used a crisis or external threat as a compelling imperative to drive people to innovate and take well-judged risks. In the absence of this 'burning platform', the need was recognised to create an imperative to stimulate innovative thinking, for example, by setting ambitious long-term goals and stretching targets.

### **4.2.2 A culture of accountability and passion for delivering results**

All the organisations we visited had clarity of purpose and a clear focus on outcomes. In some organisations, there was a passionate belief in the value their products and services had for society as a whole. This encouraged people to think about what could go wrong and to spot opportunities to optimise success. Accountability for decision making at all levels in the organisation, with appropriate authority delegated from the top, was seen as a significant shift away from the 'blame culture'.

### **4.2.3 An environment where organisational learning is systemic and systematic**

Corporate learning was ongoing and part of day-to-day business. It was not due to serendipity or dependence on key individuals. There was recognition that there is always something to learn from failures and successes because if you don't get better, your competitors will. Lessons learned from both internal and external activities (for example, from projects and incidents, benchmarking and networking) are systematically absorbed into processes, policies, business plans, organisational values and training programmes.

### **4.2.4 Clear and simple risk management processes that are embedded in decision making and in the way the organisation works**

Our visit teams saw clear evidence that risk management works best when kept simple and when integrated into the way the business is managed. In this way, it provides a secure foundation and clear boundaries within which people are free to innovate and take courageous decisions and well-judged risks.

### **4.2.5 A decision-making culture where the expectation is to challenge and be challenged about assumptions and evidence**

Organisations encouraged rigorous challenging of proposals and assumptions and thrived on challenge to the status quo. Leaders encouraged their people to question and explore alternatives, balancing opportunity against risk to inform effective decision-making.

### **4.2.6 An emphasis on developing the capability and capacity to innovate and take well-managed risks in line with its innovation ambition**

Organisations were clear about what skills, expertise and behaviour were required for their particular business and they ensured that these were recognised and encouraged through recruitment, incentivisation, personal development and career progression. Key to the

approach was the ability to align the capability with the needs of the organisation in respect to the desired level of innovation. The need to accommodate and harness the potential of the maverick thinker was also recognised.

#### **4.2 7 A systematic and reliable mechanism for delivering change**

Programme and project management techniques were evident in most organisations, with a strong emphasis on managing the delivery of successful outcomes. There was also evidence of clear alignment between programme outcomes, project objectives and the overall corporate strategy.

### **4.3 Developing a recipe for your organisation**

The following tables capture the main learning points from the study. For each of the six perspectives of the framework a number of key components have been identified, and each of these components are supported by one or more enablers that provide an indication of the activities that an organisation should consider when developing their own approach. To bring these enablers to life, examples have been provided from the research.

It is recommended that the tables be used as a checklist to identify potential actions that your organisation could take in order to improve its capability in managing innovation and risks. Some of these actions will overlap. For example, the demand on the leaders to set direction and to be role models features in the majority of perspectives of the framework. But it will be possible to draw up your own list of ingredients, which we suggest are compared against the common list provided in the previous section. This will provide a valuable crosscheck.

### 4.3.1 Organisation & governance

*This perspective is concerned with how the organisation sets strategic direction, how it is organised and structured and about the functions and responsibilities required to facilitate extraordinary performance through innovation and risk management. In addition it looks at issues regarding controls & assurance.*

| <b>Components</b>   | <b>Enablers – The Things Organisations Should Consider</b>  | <b>Examples – How Organisations Could Take Action</b>  |
|---|---|--|
| Set a clear strategic direction   | <p>Achieving clarity of purpose through a clear and powerful vision that drives the business objectives</p> <p>Dynamic leadership giving clear direction</p> <p>Communicating the drivers of innovation</p> | <p>The vision flows down into the strategic objectives; departmental plans &amp; initiatives and also personal work plans.</p> <p>Translating the vision to the work force so that people can see how their job fits in with the vision.</p> <p>CEO acting as the champion of innovation and well-managed risk taking</p> <p>Ensure there is a high level sponsor for proposed innovations.</p> <p>Innovation was found to be driven by both customer requirements and the organisations' objectives. For example, having a clear stretch goal to double the organisation's value within a certain time.</p> |
| Develop a flexible organisational structure - for example a matrix management approach - but with clear governance arrangements | Build cross-functional teams to foster buy-in from everyone.  | <p>Being able to manage mavericks.</p> <p>Include on the selection and implementation teams individuals from groups that will affect or will be affected by the change.</p> <p>Bring in stakeholders to test assumptions and concepts – right at the start (where this has been done real value has been found, also aids development of delivery partnerships)</p>  |

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|  | <p>Adopt matrix management or a flattened management structure</p> <p>Innovation as a corporate level function</p> | <p>Such structures were common and often found to have a positive effect on the ability to innovate and take managed risks.</p> <p>Have a small core team of qualified, motivated, and rewarded within a core management structure. Such teams may be located in dedicated location.</p>  |
| <p>Set clear roles, responsibilities and authorities for delivering outcomes; and make people accountable for the consequences of success or failure</p> | <p>Have well defined accountabilities for delivery and risk</p>  | <p>Incorporate responsibility for both innovation and risk management into personal objectives. Many organisations were found to include responsibility for risk in personal objectives, but incorporating responsibility to innovate was less common.</p> <p>Simplifying the governance and accountabilities and processes frees the mind!</p> |
|  | <p>Appropriate and aligned processes and well-defined control framework</p>  | <p><b>Build flexible governance structures; develop audit strategy and organise the audit teams to reflect the governance structure.</b></p> <p><b>But to get things done remember it is sometimes easier to apologise than ask for permission!</b></p>   |
|  | <p>Risk management integrated into the business model</p>  | <p><b>Risk is managed at all levels from the Board to team level.</b></p>   |
| <p>Set clear standards of governance and acceptable behaviour congruent with</p>   | <p>Establish and communicate clear governance boundaries.</p>  | <p>Ensure that employees understand the boundaries of what they can and can't do</p>  |



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| organisational values, but allow and encourage flexibility to improvise within these boundaries  | Consider corporate governance as an enabler rather than a constraint for innovation and risk | Many organisations reported that governance rules did not have to have a detrimental effect on the ability to innovate and manage risks. This was achieved by ensuring employees understood the common need for governance.   |
| Establish clarity around the decision-making processes   | Adopt risk based decision-making   | Gear towards making speedy but sound decisions. Focus on 'big ticket' risks.<br><br>Use the RACI approach (ie determine who is Responsible, Accountable, Consulted, Informed)   |
|  | Structured decision making at all levels of organisation                                     | Board involvement in risk management only when the need calls for it  |
| Have clarity on the scope and context of innovation so that the 'Innovation Ambition' is defined | Chose an innovation ambition consistent with the needs of the organisation                   | Several factors were identified that need to be considered. These include:<br><br><b>Scope:</b> Radical versus continuous innovation, Strategic versus operational<br><br><b>Timing:</b> Medium versus longer-term<br><br><b>Source:</b> Customer-pull versus technology-push innovation<br><br><b>Speed:</b> Volume and pace |
| Use the business planning process to support the achievement of the vision, mission and targets  | Systematic long and short term business planning to achieve mission and vision               | 'Out of the box thinking integrated into business plans so every department is forced to innovate.<br><br>Alternatively, set up special teams to consider long term options   |

|   |  |   |
|---|--|---|
|   | Engagement in the business planning process to ensure common understanding of aims and targets and to gain commitment to the plans | Use a structured planning process, engaging with managers at all levels with the opportunity for all managers to challenge and offer ideas. Systematically communicate agreed plans to employees and check to ensure that key messages received and understood  |
| Ensure the provision of appropriate resources   | Provision of support for new ventures  | Access to venture capital for innovation. Venture capitalists were used to support spin—out businesses.<br><br>Recognise that many seeds will be sown but only a few will grow.   |
|   | Provision of appropriate resources (budget and people)   | Project budgets allocated to Project Managers and not Line Managers to ensure that project are completed.<br><br>Also deploying resources for innovation to the 'pinch points' (e.g. using skunk works, hot house type approaches). Risk support provided by a dedicated group (usually transient rather than permanent). |
| Develop communication structures and strategies to raise awareness about various initiatives to improve performance so that people know how they can contribute | Use a community of practice to increase knowledge of innovation risk management in the organization as a whole.                    | Let the communities set their own discussion agenda, compare notes and learn from one another. Website and workshops may also be used to support communication  |
|   | Clearly communicate the organisation's messages to promote adoption by staff   | Communicating corporate messages such as the vision and values clearly led to higher adoption by staff. Such communication was through presentations, posters and written documents.  |

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|   | Clear communication strategy including stakeholder engagement                    | Proactive stakeholder management to understand their needs and concerns and building relationships to enable success   |
| Have clear and consistent monitoring, control and assurance systems | Provide assurance of effective risk management through risk and audit committees | Use of audit teams and committees to verify proposed changes and provide assurance to the Board.<br><br>Introducing short notice spot checks to reinforce desired behaviour was also found to be effective.  |
|   | High level management of risk through performance indicators                     | Establish and (internally) publish performance league tables for each business division. This encourages healthy competition.<br><br>Use leading data, even if it's only anecdotal information, to identify what's working and what's not working. |

### 4.3.2 Innovation & risk culture

This perspective deals with aspects about how things are done in organisations. It addresses risk appetite, attitudes, behaviour, personal qualities, impact of leadership involvement and use of HR systems.

| <b>Components</b>   | <b>Enablers – The Things Organisations Should Consider</b>                 | <b>Examples – How Organisations Could Take Action</b>  |
|---|--|--|
| Ensure that innovation is a priority of leadership  | Leaders communicating the importance of innovation                         | Fewer public sector organisations considered innovation to be critical to their success than private sector organisations. At site visit the organisations powerful communication from the leadership was a common observation. For example, the CEO ‘Bangs the drum’.   |
|   | Leadership shaping a supportive culture                                    | Developing the culture was a deliberate act of leadership. Actions included symbols such as new facilities to communicate a new culture and job grades being replaced by job roles.<br><br>Chief Executive leads from the front.   |
|   | Leadership behaviour providing cultural role model                         | Introducing a ‘Leadership charter’ to provide an umbrella for competences. Entrepreneurship defined a required behaviour of leaders and innovation defined and set as one of the core values   |
| Determine an appropriate imperative to innovate that is powerful enough to be an effective driver then communicate this so that this message is understood and accepted | Crisis or organisational change as a driver for innovating and risk taking | Cost reduction and market/customer pressure were given as the top two drivers for change.<br><br>Using the opportunity of a crisis and significant turnover of staff to change the culture very quickly.<br><br>A “burning platform” can be a powerful change driver – even if it means creating one artificially. |

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|  | Innovation key to the business  | <p>Willingness of people in the organisation to stop and think about the outcome from the customer perspective.</p> <p>Mission &amp; values demonstrate commitment to innovate</p>   |
| Develop consistent and realistic values for the organisation and expect <u>everyone</u> to adhere to those values                    | Values lived throughout organisation  | Make the values easy to remember and embed.  |
|  | Effective communication and continuous reinforcement of the values                  | Communicating with strong symbolism and visual impact. Consistent story, response and language from everyone, at all levels. With risks, these were communicated in a positive way. Staff surveys regularly conducted and acted on to reinforce values   |
| Focus on successful outcomes to encourage innovation and risk taking   | Continually striving, stretching in terms of long term targets provoking innovation | <p>Ensuring that teams and individuals are made accountable for achieving stretch targets.</p> <p>Have metrics that are outcome-based.</p>   |
|  | Focusing on the delivery of outcomes  | <p>Ensuring the delivery of the results/ performance improvements was identified as the key enabler for ensuring an effective approach to innovation.</p> <p>Enthusiasm and acceptance to be able to ask (difficult) questions related to outcome.</p> <p>Focus on outcomes provokes innovation (asking the question “What’s the world going to think about that?”) gets people thinking about particular blockages.</p> |
|  | Linking innovation to the strategic objectives                                      | Customer focus driving innovation and ensuring that ideas are anchored and evaluated against the strategic objectives.   |
| Supporting openness and transparency, building trust in the organisation for people to identify and escalate risks and opportunities | An environment that encourages considered risk identification                       | Risk management permeates through the entire organization, which is achieved by embedding risk management as part of day-to-day activities.  |

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|  | Empowering staff to manage risks   | Ownership of risk is designated and the owner is obliged to enunciate the risk.   |
| Developing a culture that encourages innovation and risk management  | A learning, no blame culture subject to boundaries of integrity and reputation | Permitting failure as long as lessons are learnt but low tolerance of failure if outside the boundaries of integrity and reputation.<br><br>Not only tolerate failure but plan for and expect that things will go wrong.                                    |
|  | Developing a blame free culture by making staff accountable                    | People individually responsible and accountable for results. People not punished for failure but no reward if objectives not achieved. Failure is tolerated but remembered, i.e. in the individuals personnel record  |
|  | Building the framework to ground employee's attitudes and ethics               | An innovative culture driven by doing things differently (improvement) and doing different things (innovation)  |
|  | Valuing people's contribution  | Getting a mix of people who are prepared to work outside their comfort zone – and for those who like to stay inside their zone – help and support them to move outside it.<br><br>Encouraging people to have ideas and allowing them to pursue those ideas. |
| Ensure that learning and development programmes are building the capacity and capability to innovate and handle risk | Support innovation and risk through personal development                       | Induction programme includes risk management and learning from innovation and risk taking is incorporated into development programmes. Can also use risk workshops to educate staff.  |
| Ensure that people core competencies and the performance management system enable and reinforce desired behaviour    | Use appraisals to support innovating and risk taking.                          | This was particularly the case with 'world class' and 'mature' organisations.   |
|  | Integration of performance and risk management                                 | When managing risks, tools are not the whole solution – behaviour is key.   |

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| Recruitment and career development supporting innovation and risk management                                     | Use the induction process to get across key messages as soon as possible   | Include risk management in the induction process.   |
|  | Transparent succession planning used to sustain the values and the culture | Succession planning assesses people annually to see if they are: ready now; ready in 3-5 years; ready beyond that timeframe.  |
|  | Aptitude to innovate considered as part recruitment process                | CEO sits in on interviews to challenge applicant's ability to be innovative.  |
| Reward & recognise achievement and success not mediocrity  | Use reward and recognition to support innovating and risk taking.          | This was particularly the case with 'world class' and 'mature ' organisations. Recognition can come in the form of involvement in change projects to give the individual the opportunity to shine. Reward may also be given through an incentive, such as share ownership or reward linked to company growth. |
|  | Ensure the reward system is consistent with the values                     | People are given scope to be as innovative, and take as many risks as they feel able to manage – to achieve the desired result – provided they are in compliance with the company's values.   |
| Encourage (through incentivisation) the desired behaviours described above, and discourage undesired behaviours. | Awareness of token of contribution, paying lip service                     | Ask the question: "What keeps you awake at night?"  |
| Ensure appetite for risk and approach to innovation are consistent with the organisation's values                | Clearly define the risk appetite   | Challenging cost effectiveness of mitigation actions using the ALARP approach (As Low As Reasonably Practicable)  |
|  | Quantify the risk in financial terms                                       | Encouraging managers to assess risk in financial terms to improve understanding of the real risk and the cost of instigation actions.   |

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| <p>Challenge managers and colleagues (and expect to be challenged) if not adhering to the values</p> | <p>Awareness of the need to challenge assumptions</p> | <p>One organisation has an independent committee to monitor the leaders' adherence to the corporate values, and challenge them if they are not</p> <p>Effective challenge, through peer review, is fundamental to the identification and mitigation of risk. Create a body of (experienced) peers to do this.</p> <p>Challenge is part of the culture of innovation – people must not be frightened to challenge peers, seniors or juniors; and they must be prepared to be challenged by others.</p> |
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### 4.3.3 Innovation & risk processes

*This perspective covers the approaches, techniques and systems that can be employed for managing risk to support innovation and how innovation informs risk management processes.*

| <b>Components</b>                        | <b>Enablers – The Things Organisations Should Consider</b>  | <b>Examples – How Organisations Could Take Action</b>  |
|--|---|--|
| Embedding risk management and innovation | Institutionalised innovation and risk management - making it part of everyone's day to day activities | <p>Team dynamics are very important – a combination of challenge, scepticism with the ability to gel and spike where appropriate.</p> <p>Link innovation and risk management to process performance metrics.</p> <p>Develop “drop-in centres” or “tea rooms” to encourage people to come together and talk. The talking can lead to ideas, innovation and potential areas for discussion.</p> <p>Recognise that it is difficult to proceduralise innovation in the same way as risk management – but taking ideas forward has to be done in a systematic way.</p> <p>Understand that risk and innovation are complementary (two sides of the same coin).</p> |
|  | Fully embedding risk management (Enterprise Risk Management)  | <p>Processes were designed so that managing risks was fully integrated, with the minimum use of standards. Getting buy-in from all levels of the organisation was also common.</p> <p>Top-level buy-in is key to implementing effective risk management. It reinforces the importance of following a risk-based approach.</p>  |

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|   | <p>Use the progress monitoring system to communicate achievement and direction and to identify risks, blockages and opportunities</p> | <p>Recognise that it is not only important to identify individual risks, but also to see how they combine and interact to cause major threats.</p> <p>Performance metrics are the key to identifying improvement opportunities and learning from what has been done before.</p> <p>Turn risk mitigation into action and ensure actions are taken.</p> <p>Risk Registers need to be live documents linking action to personal objectives and project plans.</p> |
| <p>Ensure there is a mechanism that enables the Board to evaluate its overall risk exposure and determine its appetite for risk</p> | <p>Introduce process ownership</p>  | <p>Have the clear engagement of the CEO in the innovation and risk processes. It was also common to have dedicated risk owners that described the level of risk.</p> <p>Clarify the difference between “managing” a risk and “owning” a risk.</p>  |
|   | <p>Develop, apply and communicate the risk appetite</p>   | <p>Although risk taken is reported upwards, action is only taken if the risk owner requested it. Otherwise it is the risk owner’s responsibility to manage, even if the risk is red.</p> <p>Non-financial risk is quantified using clear acceptance levels to determine risk appetite.</p>   |
|   | <p>Use internal and external audits to provide feedback to the Board</p>  | <p>The audit committee uses the corporate risk register to consider how well the organisation is managing risk and advises the Board accordingly.</p> <p>The Board considers high level risks, and those requiring escalation, on a quarterly basis.</p>   |
| <p>Apply a process for estimating the risk exposure and use the result as part of decision-making.</p>                              | <p>Consider the overall risk portfolio and identify the gap between inherent risk and company equity.</p>                             |  |

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| Define the Innovation Ambition   | Chose an innovation ambition consistent with the needs of the organisation  | Innovation defined on a scale ranging from continuous improvement to radical step change.  |
| Keep the process as simple as possible and articulate risks early on in the decision-making process. | Adaptation of standard or generic processes   | Develop your own approaches based on good practices.<br><br>In addition to a risk process also have a clear process for managing blockages (issues). |
|  | Clarity and simplicity of processes   | Using simple concepts integrated well, for example pestle and five-forces.<br><br>Use software tools to support the risk management process.         |
| Link innovation and risk management to business planning by setting stretching targets.              | Link to business planning by setting stretching targets.  | Business planning includes a “stretch agenda” to close the value gap between the goal of the organisation and the company’s committed business.      |
|  | An understanding of how innovation informs risk management  | Risk management provides the framework and bases for people to innovate.   |
| Challenging proposals as an integral part of the process   | Use the annual planning process as an opportunity to test assumptions through effective challenge, identify opportunities and risks, and also to communicate intentions and clarify purpose | Effective mentoring support or challenge through peer review – to tease out real risks   |
|  | Challenging supporting innovation   | Use of a steering group to challenge proposals and by testing assumptions externally. Can also use   |
|  | Use of storyboarding to facilitate challenge  | Storyboarding prior to approvals process to identify risks & benefits and facilitate external scrutiny of project proposals                          |

#### 4.3.4 Learning and improvement

This perspective is about how individuals, teams and the organisation as a whole learn from others and from past experience.

| Components                                     | Enablers – The Things Organisations Should Consider | Examples – How Organisations Could Take Action  |
|--|---|---|
| Maximise learning from within the organisation | Use of techniques to promote learning               | Use of post project and business case reviews as well as having documented cases of good practice.<br><br>Continuous professional development is strongly encouraged and supported.   |
|  | Processes that deliver learning                     | Audits, post-completion reviews and performance measurement can all be used to deliver learning.<br><br>An Amazon-type star rating and expiry dates on the lessons learned database helps to expunge unwanted or unhelpful content. |
|  | Learning promotion by internal functions            | Use of facilitators to push learning out into the organisation. Consider the use of risks champions and innovation coaches.   |
|  | Systematically learn from successes and failures    | Review successful projects and not just the failures. Also learn from 'near misses'.<br><br>To be the best – it is necessary to learn. Never assume that you know everything there is to know (about a particular topic).           |
| Maximise learning from others                  | Learning from external organisations                | Use internal and external performance and process benchmarking. Join external networks and special interest groups  |

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| <p>Ensure any lessons learned are systematically disseminated through recommendations to improve (as appropriate) the organisation's values, governance arrangements, policies, strategic plans, business processes and training programmes.</p> | <p>Sharing learning across the organisation</p>                     | <p>Use networking to promote ideas and learning for example, by promoting interaction in coffee lounges to encourage networking/talking. Can also use databases and intranets to capture and disseminate good practice. Develop communities of interest</p>  |
|  | <p>Integrating learning into day to day activities</p>              | <p>Be willing to unlearn.</p> <p>Embed post-project reviews by incorporating them into a certificated quality management system (e.g. ISO 9000).</p> <p>Mechanisms for capturing learning include: post-project reviews, risk committee feedback, audit committee feedback.</p> <p>Teams are asked to go back to various management committees to explain lessons learned.</p> |
|  | <p>Maintaining a positive attitude to learning</p>                  | <p>Implement a specific management process for applying lessons learned.</p> <p>Learning is integrated and embedded with key management processes (for example: planning, risk assessments, reviewing new proposals).</p> <p>Performance metrics are the key to identifying improvement opportunities and learning from what has been done before.</p>                         |
|  | <p>Learning through personal development and involvement</p>        | <p>Do, Learn, Do is part of the culture.</p>   |
|  | <p>Encourage learning through reward and recognition mechanisms</p> | <p>Formal project de-briefs are actively managed with a carrot and stick approach.</p>   |

### 4.3.5 Implementation (of an innovative and risk management approach)

This perspective covers practices that help with the adoption of good risk management and innovation, and their application to the organisation's processes and decision-making structures to ensure delivery of outstanding performance.

| <b>Components</b>  | <b>Enablers – The Things Organisations Should Consider</b>   | <b>Examples – How Organisations Could Take Action</b>   |
|--|--|---|
| Create a decision making environment where it is expected that assumptions and evidence will be challenged | A clear and transparent decision making process  | Because of the emphasis from the top on innovation – team members have access at very short notice to very senior people with a stake in the proposed innovation.   |
|  | Effective challenge as part of process   | Ask pertinent questions about how risk assessments were carried out and ask about the relevance and status of treatments and controls. Ensure that “challenge” does not become a personal issue                               |
|  | Awareness of how organisations use software to support decision making                               | An object oriented database is used as a risk repository – and the corporate risk register is generated from this.  |
|  | Risk management as part of decision making   | The risk manager is not responsible for any risks ownership is designated as appropriate.   |
| Look to embed risk management in the organisation by selling the benefits rather than aspects of control.  | Make use of top management support to ensure that the approaches are fully implemented               | Get top management to play an active role in managing risks and ensure management support for risk taking and the creation of a culture for extraordinary performance   |
|  | Understand the critical success factors for specific organisations and understanding of own maturity | Don't start with the controlling/governance aspects of risk management – sell the benefits.<br><br>Individuals see risk management as an enabler by providing control and a framework to innovate key to success is teamwork. |

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|  | A strategy for countering innovation fatigue  | Risk manager provides support, hand-holding and best practice examples to keep things moving.   |
| Clarify risk appetite in the context of the decision, rather than automatically assuming that all 'high' risks need to be reduced. | Need to identify risks (how, where etc)   | Don't automatically assume that all "high" risks need to be reduced to "medium" or "low" – clarify risk appetite in the context of the decision   |
| Can-do culture.  | Ensuring the delivery of the results/ performance improvements was identified as the key enabler for ensuring an effective approach to innovation | Encourage people to think of the problems, and find ways round them. Not to think how to extricate themselves if they fail, but how to ensure they succeed.   |
| Valuing the contribution of team-working   | Encouraging team working and consultation to drive innovation, Working both in collaboration and in competition with other teams                  | Boot-camp teams made up of cynical, inquisitive, robust and challenging people  |
| Ensuring engagement with the stakeholders  | Stakeholder engagement in the innovation process:   | Suppliers invited to provide creative solutions using a non-adversarial approach to encourage innovation and risk identification. Building and maintaining relationships is key.<br><br>Embed the voice of the customer in the innovation and risk processes. |

### 4.3.6 Delivery of change

This perspective covers the approaches that can be used to deliver significant change.

| <b>Components</b>  | <b>Enablers – The Things Organisations Should Consider</b>   | <b>Examples – How Organisations Could Take Action</b>  |
|--|--|--|
| Ensure there is a systematic process and sound methodology for delivering change, such as a project approach. Reinforce this focus on outputs and outcomes through budget allocations. | Using programme boards to manage delivery programmes   | A flexible PPM approach has enabled a more outcome focused approach and also to address cross-cutting issues more effectively.                   |
|  | The ability to determine and sell the benefits/ organisational outcomes  | Must have a sponsor at senior level for proposed schemes.  |
|  | Established performance metrics to support feedback  | Successful organisations measure progress, team and individual performance and results.  |
|  | Using the situation to drive change and maintain momentum.   | Taking advantage of a change in ownership or the environment. The setting of stretch goals was also common                                       |
| Focus on strong partnering and bring in the stakeholders right at the start of the project   | Effective Stakeholder engagement that recognises different needs of customers/partners'                                    | Consciously aim to build a "coalition of stakeholders" from the outset   |
|  | Engagement in innovation with customers and suppliers (Open innovation)  | Partnership with retail customers to develop innovative sales  |
| Make full use of the appropriate governance arrangements matrix management approach - particularly with crosscutting schemes.  | Well defined and supportive assurance mechanism  | Conduct OGC type Gateway reviews or health checks to ensure that programmes and projects remain on track   |
|  | First class leadership, recognising that the leadership style must change dependent on the stage of the innovation process | Refocusing the organisation on common values following near catastrophic change, then building the imperative to innovate to survive and prosper |



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| Project control and review                 | Management through review groups                  | Legal board acting as sounding board for innovation around highly regulated business.<br><br>Opportunity review groups to formally consider innovations   |
|  | Providing funding and support                     | Restricting financial support to maximise value from product delivery   |
|  | Initiatives working together and not in isolation | Programme management co-ordinating the linkages between different projects  |
| Managing people through the change process | Utilising peoples' ideas                          | Have a staff ideas scheme and/or a formal process to manage creative talent.<br><br>Success hinges on teamwork – being able to function openly and in a robust way.   |
|  | Make best use of people                           | Allocation of funds to thought leaders to stimulate innovation.<br><br>Use of 'tag teaming' in managing projects.<br><br>Important to get the balance right between creativity and delivery. Need to get the disciplines honed first, before cranking up the drive to innovate. In other words, ensure there is delivery capability before raising expectations about innovative schemes. |

## Appendices

### Appendix 1 – The project team

#### ***The project team for the study and authors of this report:***

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## **Appendix 2 – Site visited organisations**

We are very grateful to the following organisations for allowing us to visit them.

### **QinetiQ**

QinetiQ is one of the world's leading defence and security technology companies. The company was founded in July 2001 from the main part of DERA, the government's defence research laboratories, and part-privatised via a public/private partnership in 2003. It is the world's first national defence laboratory to transfer to the private sector. QinetiQ operates at the leading edge of technology, integrating legacy weapons systems with state-of-the-art sensors and software for the British Ministry of Defence; fielding advanced robotic systems for the US Department of Defense; providing port security products for the US Department of Homeland Security; and designing advanced security systems for many of the City's computer systems. QinetiQ is committed to delivering Brilliant Solutions to Important Problems.

### **F Hoffman - La Roche Ltd**

The aim of Roche, as a leading healthcare company, is to create, produce and market innovative solutions of high quality for unmet medical needs. Roche products and services help to prevent, diagnose and treat diseases, thus enhancing people's health and quality of life. The company does this in a responsible and ethical manner and with a commitment to sustainable development, respecting the needs of the individual, the society and the environment.

### **Department for Education and Skills**

The Department for Education and Skills is the government department responsible for children's services, education and lifelong learning in England. It also has wider responsibilities for a range of government policies, some of which it shares with other departments, for example, the Sure Start programme (shared with the Department for Work and Pensions). The aim of the department is to help build a competitive economy and inclusive society by creating opportunity for everyone to develop their learning, releasing potential in people to make the most of themselves, and achieving excellence for all in standards of education and levels of skills.

### **Camelot**

Camelot is the operator of the UK National Lottery. It employs over 900 staff, the majority of whom work from a head office in Watford, Hertfordshire. The objective for all staff is to maximise returns, through lottery games and in the most efficient and socially responsible way, to good causes and Government. This involves creating, marketing and promoting new games, developing and running the lottery infrastructure, providing services for players and winners, and working in partnership with retailers. Camelot's mission is Serving the nation's dreams.

### **BT**

BT Group is one of Europe's leading providers of telecommunications services. Its principal activities include local, national and international telecommunications services, higher-value broadband and internet products and services, and IT solutions. In the UK, BT serves over 20 million business and residential customers with more than 30 million exchange lines, as well as providing network services to other licensed operators. First and foremost, BT is passionate about its customers. This passion for customer service runs through the BT vision – Connecting your world. Completely.

## **Azure Solutions**

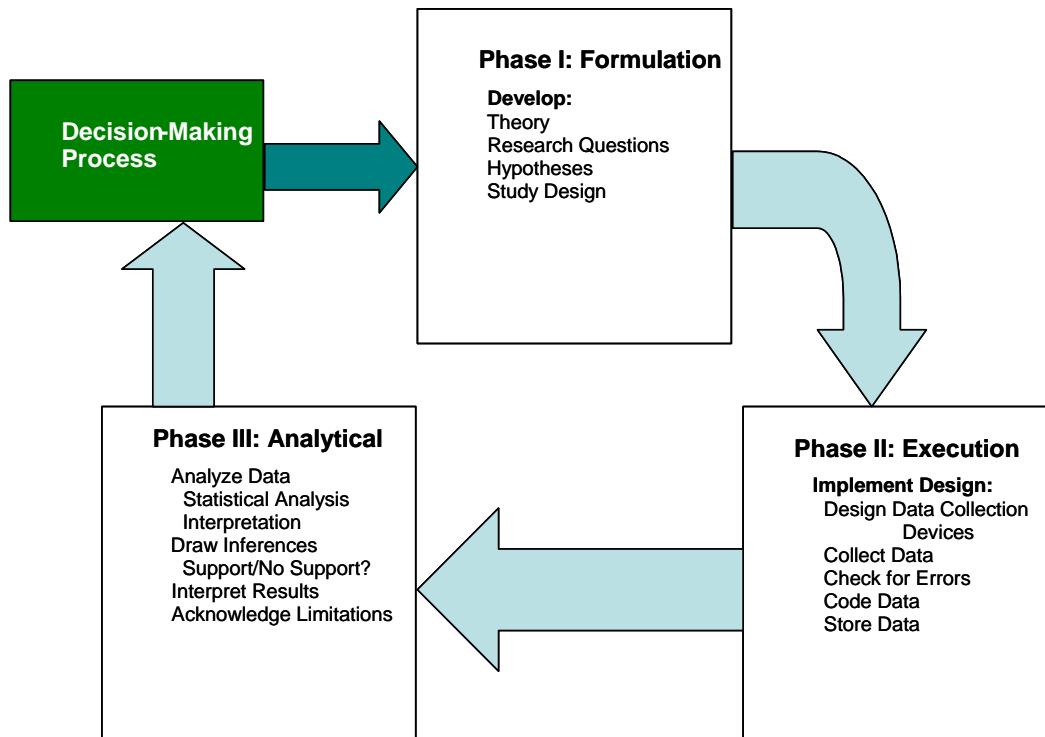
Azure Solutions is the world's largest revenue assurance company. Azure provides individual products or complete revenue-assurance solutions using a common platform and any combination of products that a customer might need. Azure has more than 65 customers across the world, including PTTs, mobile operators, national operators, carrier's carrier and cable TV companies.

## Appendix 3 The study methodology

### Introduction

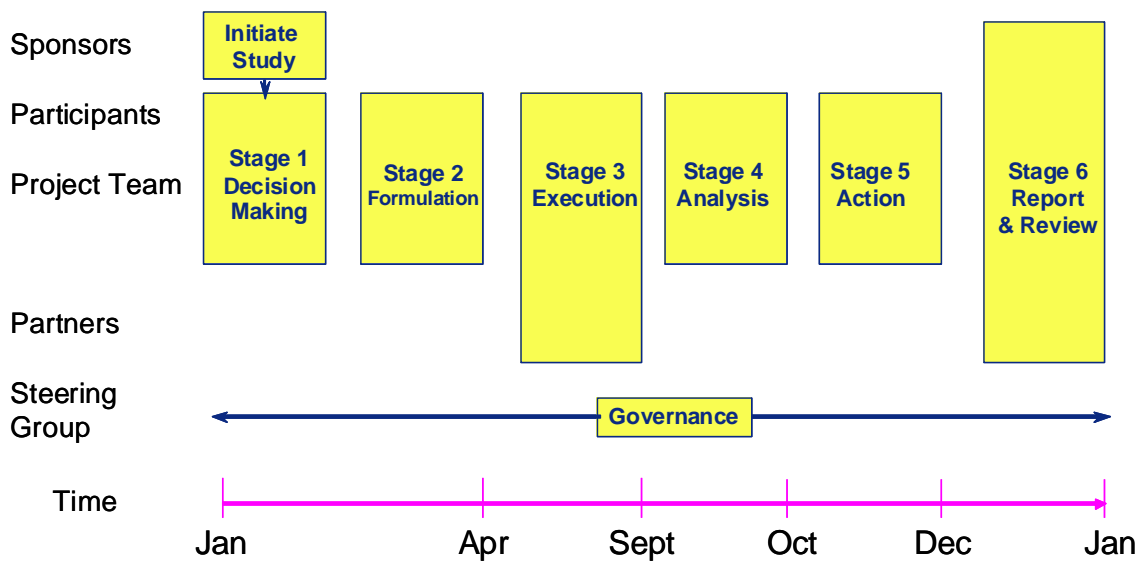
The study made use of three techniques: Research, Benchmarking and Action Learning. The action learning related to the implementation of the findings of the study and so will not be covered in any detail in this section.

The base research approach was that proposed by Hair, Babin et al. (2003). This is shown in Figure 1.



**Figure 1: Base research approach**

Although the study had an academic foundation, it was a very practical project. The basic research design was therefore combined with a recognised benchmarking approach, the Benchmarking Roadmap (Tanner and Walker (2002)). This had the advantage of translating the research process into a simple to understand approach for participants as well as providing a range of well-proven techniques. The Benchmarking Roadmap was converted into the study roadmap, and this is given in Figure 2.



**Figure 2: The study roadmap**

The participants, the representatives from the organisations sponsoring the study, formed an extended project team. This team met at five key points in the study:

1. **Kick-off:** Where the scope of the study and initial research questions were finalised
2. **Initial insights:** When the literature review was completed. This meeting finalised the framework for the study, which was in effect the research model.
3. **Site visit selection:** Where the organisations were selected for the site visit case studies.
4. **Analysis:** To refine and confirm the analysis from the site visit case studies.
5. **Final report:** When the analysis is complete and the results are available for discussion.

### Stage 1: Decision-making

Stage 1 was the planning stage, where the study plan and responsibilities were agreed, and the scope of the study defined. The key event in this stage was the Kick-off meeting.

Prior to the kick-off meeting a draft study scope was generated. This included the aims and objectives of the study, together with a set of initial research questions and a defined study scope. This document represented the draft research proposal.

At the kick-off meeting participants shared their objectives for the study, received an introduction to the study and research/ benchmarking, and reviewed the study plan. The main output from this meeting was a revised study scope, which was used as reference document for the literature review.

### Stage 2: Formulation

Stage 2 was where the research literature review was conducted. This resulted in the first major outputs of the study, which were the Initial Insights report and the Body of Knowledge. It was from this work that the research framework was defined to be used as the basis for the study.

This Insight Report drew from a wide array of literature from a number of sources including company case studies and articles, academic viewpoints, business practitioner viewpoints and government publications. The search criteria included risk management and innovation management, and an overwhelming amount of literature was discovered. As with any research there may have been some sources that were not included in the search, but as these become available they were added to the growing body of knowledge.

The literature identified was summarised to extract the relevant information in the context of the study. Based on this information, a further in-depth analysis was conducted to draw out the main learning points. This included categorising the themes within the literature to form the proposed study framework. The analysis also led to the identification of a number of insights, which were used to populate the framework in preparation for the benchmarking aspect of the study.

The study framework developed from the literature review was refined and agreed with the study group at the Insights Meeting. The final framework formed the guiding model for the benchmarking study and the basis for the questionnaire and site visits.

### **Stage 3: Execution**

The execution stage was a two-step exercise. The first step was data collection using a screening questionnaire and in the second step a number of organisations were site-visited in order to construct case studies. Before describing the activities under each step the question of the sample is addressed.

#### **Sample selection**

Two of the outputs from the Initial Insights meeting were a list of potential questions and a list of potential partners. The latter was used as a foundation for a search for potential partners, which used a number of sources including organisations cited in the literature reviewed, conference presentations/ conference networks, and government contacts. The sample was in effect a convenience sample and all organisations in the sample were sent the questionnaire (Moser and Kalton (1971)).

#### **Step 1: Screening survey**

This screening survey was one of the major deliverables from the Execution stage, designed to survey organisations and identify 4 to 6 exceptional performers for a site visit. The questionnaire was designed around the framework that was developed during the formulation stage, where current literature was reviewed to provide insights into the area being studied.

Use was made of Churchill's eight step approach to design the questionnaire (Churchill and Iacobucci (2002)). The questionnaire was a structured undisguised questionnaire and it sought both qualitative and quantitative data. A pilot was conducted using the study as the participants. From a total of 242 invitations to participate issued, 56 responses were received representing a response rate of 23%.

At the Site Visit Selection meeting the results of the screening survey were presented to the participants in a blinded form so the organisations could not be identified. This was to minimise any bias. The organisations for site visit were selected based on their response to several critical questions, which had been identified by the participants. A total 'score' was also calculated to identify high scoring responses. A total of four organisations were selected at this point. A further two were selected once all the responses had been received. Agreement to visit these two additional organisations was reached by virtual consensus using e-mail.

All organisations that responded to the screening questionnaire received a copy of the screening survey report. This report summarised the main findings from the screening survey and included both categorical data such as industry and organisational size, together with the means and standard deviations of the responses on the scale items.

In some cases, the presence of correlations was examined on an exploratory basis. The normality of the data was examined to ensure that skewness was within a plus/ minus 1.0 tolerance and kurtosis within plus/ minus 3.0 to protect against the violation of multivariate assumptions (Hair, Anderson et al. (1998)). The analysis was simplistic in that only single item scales were used and as a consequence there were no tests on scale reliability (Schwab (1999)).

## **Step 2: Site visits**

The site visits followed benchmarking best practice guidelines. Once the organisations to be site visited had been identified they were approached to gain their agreement to grant access to members of the team.

Site visited organisations received briefing documents reinforcing the aim and purpose of the study prior to the visit (Saunders, Lewis et al. (2003)). Arrangements were made through one contact person. Site visits were conducted on the organisation's premises in four out of the six site visits. In the other two cases, the site visit was held off-site. Prior to the majority of the site visits, the site visit team convened the evening before to discuss the plan for the day and to review the screening questionnaire respondents.

At the start of the site visit an introduction session was held where the site visit hosts introduced themselves and their roles in the organisation, the site visit team introduced themselves and their organisations, and the study facilitator introduced the aims, context and proposed plan for the visit. When practical to do so, the site team split into two sub-teams:

*Team 1* explored the strategic perspective in terms of leadership, management and culture. This involved interviews with leaders and managers. The specific areas were:

### Leadership:

- How does the organisation create the understanding, expectation and desire to innovate and take risks in order to achieve extraordinary performance?
- How does the organisation actively promote creativity, innovation and risk management to encourage a radical approach to improvement?
- How does the organisation create an environment/culture that supports and encourages considered risk taking?

### Management:

- How does the organisation manage opportunity and associated risk to maximise performance gains effectively?
- How does the organisation manage transformation projects to achieve step change in performance?
- What are the key enabling processes that support effective innovation?
- How does the organisation embed the approaches into the day-to-day activities for everyone?



*Team 2* explored the process perspective, looking at a recent successful innovation to explore how it was managed to achieve extraordinary improved performance. The specific areas were

- How did the organisation manage opportunity and associated risk to maximise performance gains effectively?
- How did the organisation manage the transformation project(s) to achieve step change in performance?
- What were the key enabling processes that supported effective innovation?
- For risk management generally:
  - What worked well?
  - Where did you get stuck?
  - What did you learn?
  - With hindsight, what would you have done differently?
- For innovation management generally:
  - What worked well?
  - Where did you get stuck?
  - What did you learn?
  - With hindsight, what would you have done differently?

At the end of the visit the team reconvened to discuss and summarise their findings. A short presentation was then given to the site visit hosts.

Each site visit team member captured notes during the visit, using a pro forma designed around the framework for Achieving Extraordinary Performance through Innovation and Risk Management. The reports were consolidated into a single site visit report and returned to the site visit host for comment. As a result of these checks some observations were modified and some removed to protect confidentiality.

#### **Stage 4: Analysis**

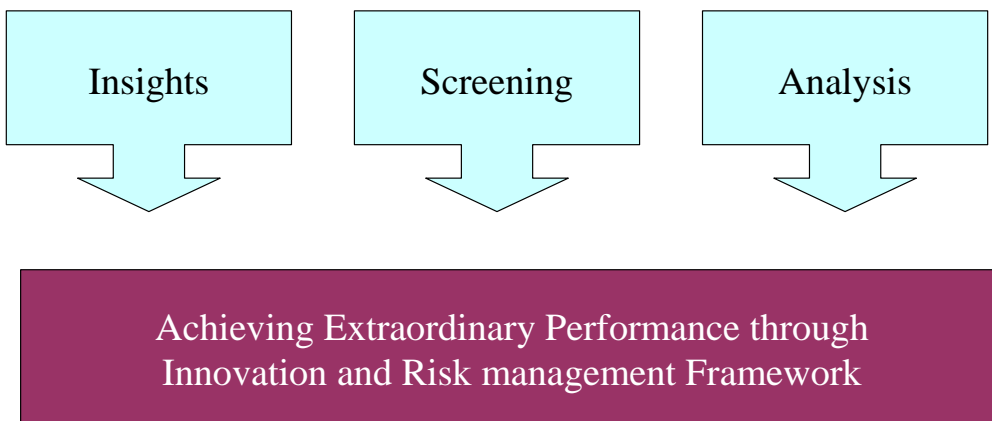
The analysis of the site visit findings was conducted in several stages. First, an independent researcher analysed the final site visit reports to identify the main enablers. This initial analysis was repeated by the entire project team at the Analysis meeting. This included team members that had been on the various site visits. Although the later analysis used a wider cross-section of people, some of which had first hand experience of the organisations at site visit, the approach was limited by having to process so much information in a relatively short space of time.

The output from both analyses were combined to form the body of the Analysis report, which was reviewed and agreed by a steering group that included the independent researcher and both members of the project team that had attended all site visits. This focus of this review was to identify themes across all site visited organisations.

## Stage 5: Actions

The primary purpose of stage 5 was to reflect on the learning from the study and to implement appropriate actions in order to improve the participants' organisations performance. The first step in achieving this was to review the study framework in light of the additional information that had been collected since the Initial Insights report.

At the Final Report meeting the participants worked to re-define the study framework/ research model. Input was taken from the three sources as defined in Figure 3. This resulted in the final framework, which would consequently be used to communicate the results of the study, as a basis of a predictor of future extraordinary performance and as the basis of an assessment diagnostic tool.



**Figure 3: Inputs to reviewing the framework**

## Appendix 3 - The European Benchmarking Code of Conduct

### Introduction

Benchmarking - the process of identifying and learning from best practices in other organisations - is a powerful tool in the quest for continuous improvement and performance breakthroughs. The authors and sponsors have produced this European Code of Conduct to guide benchmarking encounters and to advance the professionalism and effectiveness of benchmarking in Europe. It is closely based on the widely used APQC/SPI Code of Conduct promoted by the International Benchmarking Clearinghouse, and the authors gratefully acknowledge this source. The wording has been modified to take into account the rules of European Union competition law. The layout and presentation have been modified to provide a more positive chronological approach.

Adherence to this Code will contribute to efficient, effective and ethical benchmarking.

### 1.0 Principle of Preparation

- 1.1 Demonstrate commitment to the efficiency and effectiveness of benchmarking by being prepared prior to making an initial benchmarking contact.
- 1.2 Make the most of your benchmarking partner's time by being fully prepared for each exchange.
- 1.3 Help your benchmarking partners prepare by providing them with a questionnaire and agenda prior to benchmarking visits.
- 1.4 Before any benchmarking contact, especially the sending of questionnaires, take legal advice.

### 2.0 Principle of Contact

- 2.1 Respect the corporate culture of partner organisations and work within mutually agreed procedures.
- 2.2 Use benchmarking contacts designated by the partner organisation if that is its preferred procedure.
- 2.3 Agree with the designated benchmarking contact how communication or responsibility is to be delegated in the course of the benchmarking exercise. Check mutual understanding.
- 2.4 Obtain an individual's permission before providing their name in response to a contact request.
- 2.5 Avoid communicating a contact's name in open forum without the contact's prior permission.

### 3.0 Principle of Exchange

- 3.1 Be willing to provide the same type and level of information that you request from your benchmarking partner, provided that the principle of legality is observed.
- 3.2 Communicate fully and early in the relationship to clarify expectations, avoid mis-understanding, and establish mutual interest in the benchmarking exchange.
- 3.3 Be honest and complete.

### 4.0 Principle of Confidentiality

- 4.1 Treat benchmarking **findings** as confidential to the individuals and organisations involved. Such information must not be communicated to third parties without the prior consent of the benchmarking partner who shared the information. When seeking prior consent, make sure that you specify clearly what information is to be shared, and with whom.
- 4.2 An organisation's **participation** in a study is confidential and should not be communicated externally without their prior permission.

## **5.0 Principle of use**

- 5.1 Use information obtained through benchmarking only for purposes stated to and agreed with the benchmarking partner.
- 5.2 The use or communication of a benchmarking partner's name with the data obtained or the practices observed requires the prior permission of that partner.
- 5.3 Contact lists or other contact information provided by benchmarking networks in any form may not be used for purposes other than benchmarking.

## **6.0 Principle of Legality**

- 6.1 If there is any potential question on the legality of an activity, you should take legal advice.
- 6.2 Avoid discussions or actions that could lead to or imply an interest in restraint of trade, market and / or customer allocation schemes, price fixing, bid rigging, bribery, or any other anti-competitive practices. Don't discuss your pricing policy with competitors.
- 6.3 Refrain from the acquisition of information by any means that could be interpreted as improper including the breach, or inducement of a breach, of any duty to maintain confidentiality.
- 6.4 Do not disclose or use any confidential information that may have been obtained through improper means, or that was disclosed by another in violation of a duty of confidentiality.
- 6.5 Do not, as a consultant, client or otherwise pass on benchmarking findings to another organisation without first getting the permission of your benchmarking partner and without first ensuring that the data is appropriately 'blinded' and anonymous so that the participants' identities are protected.

## **7.0 Principle of Completion**

- 7.1 Follow through each commitment made to your benchmarking partner in a timely manner.
- 7.2 Endeavour to complete each benchmarking study to the satisfaction of all benchmarking partners as mutually agreed.

## **8.0 Principle of Understanding and Agreement**

- 8.1 Understand how your benchmarking partner would like to be treated, and treat them in that way.
- 8.2 Agree how your partner expects you to use the information provided, and do not use it in any way that would break that agreement.

## **Origins**

This Code of Conduct is the result of a consultation and development process co-ordinated by The Performance Improvement Group with the help of The Eurocode Working Group. The Eurocode Working Group comprises senior Benchmarking managers and legal representatives from the following organisations: BT, Department of Trade and Industry (UK), European Foundation for Quality Management, IFS International, KPMG Peat Marwick (USA), Shell International, Siemens, The Benchmark Network, The Post Office.

Contributions were also gratefully received from the following: American Productivity and Quality Center, British Quality Foundation, Prudential Assurance, Swedish Institute of Quality, Strategic Planning Institute, The Benchmarking Centre UK, The Benchmarking Club Italy, The Law Society, The Quality Network.

## **Important Notice**

This Code of Conduct is not a legally binding document. Though all due care has been taken in its preparation, the authors and sponsors will not be held responsible for any legal or other action resulting directly or indirectly from adherence to this Code of Conduct. It is for guidance only and does not imply protection or immunity from the law.

## Benchmarking Protocol

### Benchmarkers:

- Know and abide by the European Benchmarking Code of Conduct.
- Have basic knowledge of benchmarking and follow a benchmarking process.
- Should have:
  - Determined what to benchmark
  - Identified key performance variables to study
  - Recognised superior performing organisations
  - Completed a rigorous internal analysis of the process to be benchmarked

**before** initiating contact with potential benchmarking partners.

- Prepare a questionnaire and interview guide, and share these in advance if requested.
- Possess the authority to share and are willing to share information with benchmarking partners.
- Work through a specified contact and mutually agreed arrangements.

**When the benchmarking process proceeds to a face-to-face site visit, the following behaviours are encouraged:**

- Provide meeting agenda in advance.
- Be professional, honest, courteous and prompt.
- Introduce all attendees and explain why they are present.
- Adhere to the agenda.
- Use language that is universal, not one's own jargon.
- Be sure that neither party is sharing proprietary or confidential information unless prior approval has been obtained by both parties, from the proper authority.
- Share information about your own process, and, if asked, consider sharing study results.
- Offer to facilitate a future reciprocal visit.
- Conclude meetings and visits on schedule.
- Thank your benchmarking partner for sharing their process.

## Benchmarking with Competitors

*The following guidelines apply to both partners in a benchmarking encounter with competitors or potential competitors:*

- In benchmarking with competitors, ensure compliance with competition law.
- Always take legal advice before benchmarking with competitors. (Note: When cost is closely linked to price, sharing cost data can be considered to be the same as price sharing).
- Do not ask competitors for sensitive data or cause the benchmarking partner to feel they must provide such data to keep the process going.
- Do not ask competitors for data outside the agreed scope of the study.
- Consider using an experienced and reputable third party to assemble and 'blind' competitive data.
- Any information obtained from a benchmarking partner should be treated as you would treat any internal, confidential communication. If 'confidential' or 'proprietary' material is to be exchanged, then a specific agreement should be executed to indicate the content of the material that needs to be protected, the duration of the period of protection, the conditions for permitting access to the material, and the specific handling requirements that are necessary for that material.

## Ownership

This document has open ownership, and may be freely reproduced and distributed to further the cause of good benchmarking practice. If you reproduce the Code of Conduct, print it in its entirety, giving credit to the members of the Eurocode working group who contributed their time and expertise without cost. Anyone requiring further information or wishing to participate in the Eurocode Working Group should contact:

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