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INNOVATION STATE

Adapted from
*Innovation State:
The Public Innovator's Handbook*

BY BILL EGGERS AND SHALABH KUMAR SINGH
> ILLUSTRATION BY JONNY MENDELSSON

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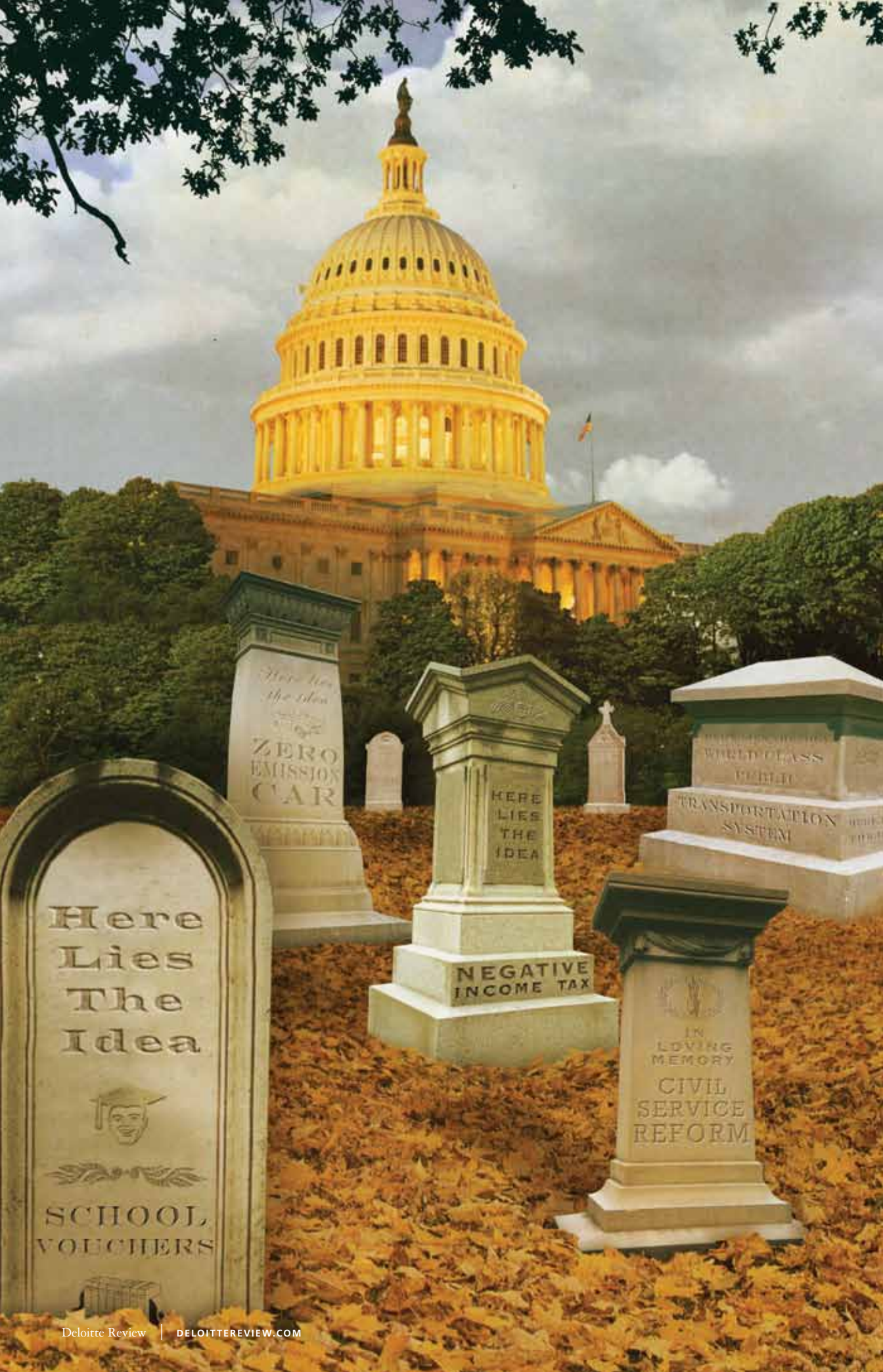
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*Here lies
the idea*

ZERO
EMISSION
CAR

HERE
LIES
THE
IDEA

NEGATIVE
INCOME TAX

WORLD CLASS
PUBLIC

TRANSPORTATION
SYSTEM

IN
LOVING
MEMORY

CIVIL
SERVICE
REFORM

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SCHOOL
VOUCHERS

INNOVATION STATE

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TO THE AVERAGE PERSON ON THE STREET, "INNOVATIVE GOVERNMENT" IS AN OXYMORON.

THE PRIVATE SECTOR INNOVATES; GOVERNMENT IMPOSES RULES AND REGULATIONS. THE PRIVATE SECTOR GIVES US DIGITAL VIDEO RECORDERS AND IPODS; THE PUBLIC SECTOR CREATES TAX FORMS AND MOTOR VEHICLE REGISTRATION QUEUES. OBVIOUSLY THIS GENERALIZATION IS UNFAIR — GOVERNMENT CAN AND DOES INNOVATE — BUT THE BASIS FOR SUCH SENTIMENT MAY NOT ALWAYS BE FAR OFF THE MARK; EVEN IN INSTANCES OF SUCCESSFUL GOVERNMENT INNOVATIONS, IT'S USUALLY A CASE OF TOO FEW AND FAR BETWEEN.

THE PROBLEM IS THAT SOCIETY FACES AN UNPRECEDENTED ARRAY OF BIG CHALLENGES —

from countering terrorism to protecting the environment to enabling commerce — and innovation in the public sector is no longer a luxury. These challenges are immensely complex in nature; solving them will require innovative approaches that bridge political, economic and cultural differences.¹ The current economic crisis is as urgent and provocative a call

311

311: WHEN GOVERNMENT INNOVATION SUCCEEDS

Imagine buying an expensive item online only to find when it arrives at your home that it's not working properly. You call customer service and get stuck in automated customer service hell — going through a series of confusing voice prompts and pressing various numbers with the likelihood that when you finally get through to a live person, you're transferred to another department where you find yourself talking to a machine once again.

Contrast this situation with what happens at one innovative organization. First, there is a single, well-known number to call for any complaint or question related to any of its myriad businesses, and every caller reaches a real live person within 10 seconds of placing the call. Moreover, the customer service representatives are so well trained that 85 percent of the time your issue can be addressed by the person who takes your call. No perilous call transfers; no exile to an automated system.

Moments after you hang up the phone you receive an email acknowledging your call, specifying how it will be resolved, and giving you a tracking number. With the tracking number, you can go online anytime and see if your issue has been fixed, and if not, you can see who is working on your complaint. A few days later you get a follow-up letter from the CEO. This is the Rolls Royce of customer service.

But it's not Rolls Royce. It's government behaving — well. The innovative service is called "311," and it started in Baltimore and soon spread to Chicago, New York City, Barcelona, Tokyo and dozens of other cities around the world. In these cities, whether you want to file a complaint, request a trash pickup, or even inquire whether an upcoming parade is going to shut down your street, you dial "311"

as any for government innovation. Governments have had to quickly develop immediate fixes to the crisis but, over the medium and long term, innovation will be required for more sustainable solutions.

Innovation will be the key to doing more with less resources and to smarter regulation. With 29 states in the United States expecting budget shortfalls in the year 2009,² governments facing revenue slowdowns and soaring deficits will have to find new and more efficient ways to deliver better value for taxpayers' money. Government regulators will need to be much more cognizant of what is going on

and within 10 seconds you'll be getting all the assistance you need. Thanks to a highly sophisticated customer relationship management software system, your issue will be distributed to the appropriate agency, logged, tracked and monitored. In the end, you'll get a letter from the mayor making sure you were satisfied with the results.

In New York City, 311 has made it easier for residents to report quality-of-life issues. Excessive noise inspections are up 94 percent and rodent exterminations have increased by more than a third. And since the Building Department now uses 311 to streamline its permit review process, the wait time for builders to get an appointment with an inspector has plummeted from more than a month to under a week.³

Today, not only does the 311 system put all of a city's services within easy, round-the-clock reach of residents, but city officials can use the millions of data points they collect each month to make better resource decisions, spotting trends that they otherwise may have missed. Case in point: New York City's chronic Sunday morning parking problem. Before 311, officials didn't realize there was a big problem since calls were placed to numerous places (police precincts, city agencies, etc). After the 311 system was implemented parking complaints all went into a centralized system. Once they had all the data in a single place they could mine it and see they had a chronic problem—namely that churchgoers are habitual parking violators, infuriating their fellow New Yorkers who reside in the vicinity of the city's more than 1,000 churches. Parking complaints are now geocoded and routed directly to the nearest police precinct's computer so they can be handled more expeditiously.

Through the savvy use of 311 systems, cities have been able to tap into the collective wisdom of their residents and businesses to better understand their needs and thereby allow government officials to catch problems before they reach the crisis stage. In essence, mayors can tap into a hitherto unused asset — the eyes and ears of millions of their residents — to better diagnose problems and manage the city's business.

in the marketplace so they can react to trends that imperil taxpayers and find ways to share information to minimize reaction times. This means that government leaders will need to look at mission redundancies not only in regulatory bodies but across all agencies.

Efforts to improve performance and meet citizen expectations require innovative approaches, yet the public sector remains mired in fear of failure and wariness of funding untested approaches. Political realities drive this risk aversion — failures make headlines while successes are spread thinly, over millions of constituents.

The fact that many innovations don't bear fruit within the political election cycle doesn't make things any easier. It is not the most welcoming environment for plunging into something new, and a key reason agencies may need to join with partners willing to share and minimize the perceived risks.

Atop all of this, the private sector has raised the bar. Citizens accustomed to the service levels of consumer-obsessed corporations have changed bureaucracy-as-usual from a grin-and-bear-it proposition to an intolerable anachronism. People – voters – expect governments to meet their needs in increasingly customer friendly ways. That doesn't mean an IRS audit can or should rival a holiday shopping trip to Bloomingdales, but it does highlight the concerns caused by perceived inconsistencies in balloting and disaster relief. Government simply has to innovate to operate responsibly in an era of efficiency and convenience.

THE STATE OF INNOVATION TODAY: SPORADIC AND PIECEMEAL

As the 311 example demonstrates, it's a myth that government does not innovate. Welfare reform and the dramatic reduction in crime in the United States since the mid-1990s are both a result of public sector innovation. But as one of the few systematic studies done on the subject by the United Kingdom's National Audit Office (NAO) shows, public agencies tend to approach innovation as a "one-off" change, using the "big bang" approach instead of a series of new approaches that make up a broader process.⁴ Out of 126 organizations canvassed, 41 said that they either didn't "do innovations" or didn't have the time to research and submit an example of innovation, suggesting that these government agencies do not view innovation as an integral part of their business.

The NAO report found that innovation is generally viewed as the responsibility of special innovation units, rather than being a core value of the organization. Many public agencies equated certain methods of generating ideas, such as formalized brainstorming, as being central to innovation. Few public agencies viewed innovation as being about designing a systematic approach to take new ideas and turn them into successful results.

Similarly an analysis of the Innovations in American Government Awards, given by the Ford Foundation and Harvard's Ash Institute, shows that only a handful of organizations appear on the winners list more than once.⁵ This suggests that even those organizations doing some of the most creative work in government have not necessarily created a culture of innovation.

The dearth of government organizations known for having a culture of innovation stands in stark contrast to the private sector where, as Tom Kelly writes in *The Ten Faces of Innovation*, "Plenty of companies in divergent industries have dis-

tinguished themselves as serial innovators,” including Google, Gillette, and W. L. Gore and Associates.⁶ Government can and does innovate, but there is indeed an innovation gap that needs to be addressed.

So why don't government agencies innovate more consistently? Certainly, would-be government innovators must contend with a host of obstacles endemic in the public sector, which their private sector counterparts usually don't face: lack of agreed-upon performance measures, judicial and legislative intervention with operations, skewed risk-and-reward ratios, and a short-term focus on election and budget cycles that can hinder the ability to make longer-term investments, to name a few.

Public sector agencies also often have a hard time defending new ideas in the face of multiple stakeholders with the power to shoot them down. The decision making process in the public sector is infinitely more complex than in the private sector; government organizations must balance multiple and sometimes conflicting objectives with no simple metrics to articulate and defend new approaches.

Consider the risks and rewards associated with innovation. Public sector agencies have limited flexibility in providing financial incentives to those who develop valuable innovations. Public sector innovations, particularly in back office operations, often go unnoticed by the public. The popular media gives much more attention to reporting on the innovations and successes of Fortune 500 companies compared with coverage of public sector agencies. On the flip

side, if the government attempts something innovative and fails, that agency and its manager are likely to find themselves on the front page. Criticism can range from personal indictment of a public sector employee to a generalized criticism of the public sector as inefficient, corrupt, or incompetent.

Citizens also want governments to develop effective solutions to complex prob-



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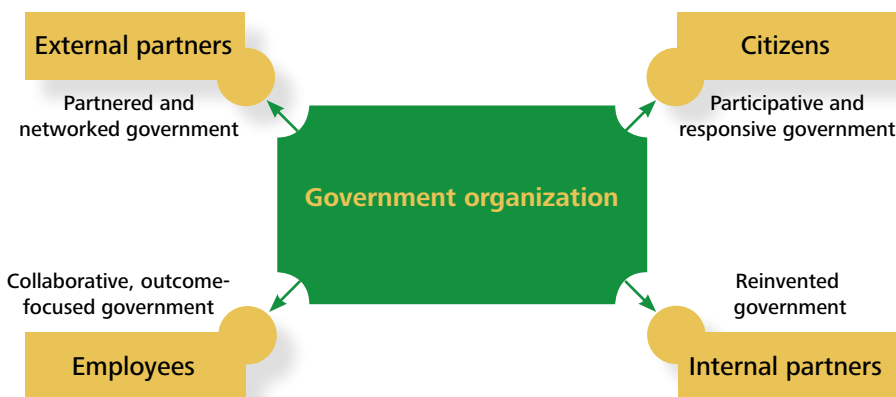
lems without increasing the burden on the taxpayers. Yet, the benefits of an innovation that may save millions of dollars in public money are typically distributed over a wide number of people and are unlikely to make much of an impact on a given individual taxpayer. In most cases, the innovation is likely to get little notice.

To complicate matters further, with many of the challenges the public sector confronts, the cause-and-effect relationship is not clear. For example, though there is consensus that welfare reform in 1996 was a resounding success, it is not clear whether the child poverty rate declined primarily because of the welfare reform or because of a booming economy.⁷

But these constraints don't tell the whole story. The most fundamental problem is that few governments take a systemic view of the innovation process. Attention to innovation tends to be piecemeal, short-term and narrow — focused almost exclusively on trying to figure out a way to fix the problem, address a crisis, or leave a legacy around a specific policy position. This approach has engendered programs like productivity banks, employee incentive programs, and innovation program offices. Sometimes these programs even manage to survive a budget cycle or a change in political leadership, but absent being part of a larger strategy for innovation and sufficiently insulated from the election cycle, they will not bring about sustained innovation in the public sector.

Innovation is a discipline, just like strategy, planning and budgeting. Like these disciplines, sustained innovation requires a methodical view of the innovation process that links the mission to organizational structure, processes, people and reward systems. Success requires first drawing on all sources of innovation — employees, citizens and other public or private organizations — and then strengthening any weak links in the cycle of innovation from idea to implementation.

Figure 1: Sources of innovation in government



FIVE STRATEGIES FOR INNOVATION

Serial innovation requires strategies for tapping into the creative wisdom of employees, citizens, and external and internal partners. While innovations in government have come from all these sources, most governments – and, to be fair, many private sector enterprises – lack a consistent approach to draw upon all of them to produce ideas that government can execute to satisfy citizen needs, improve performance, and reduce costs (figure 1).

There are several strategies that can encourage various sources of innovation and help governments maximize their ability to generate innovative approaches. These range from strategies focused on generating innovation inside the organization to externally oriented strategies that seek out and leverage promising ideas from elsewhere.

1. *Cultivate*

Changing big government organizations is often about engaging employees at all levels with diverse sets of skills to generate ideas and see them through to final execution. How can public sector agencies alter their internal environment and create incentives to enhance idea generation? What tools are available to motivate employees to deliver their best?

The U.S. Transportation Security Agency's (TSA) Idea Factory is one experiment in idea cultivation. In April 2007, the TSA launched Idea Factory, a secure intranet site that allows employees to submit ideas for improving agency operations and processes. A year later, employees had submitted some 4,500 ideas and 39,000 comments. Of those ideas, about 20 had been implemented by the TSA as of March 2008.

The TSA created the Idea Factory site after an internal survey revealed that TSA employees believed their voices were not being heard by the agency's leadership. TSA employees now review ideas posted on the site, and they vote for the suggestions they think are most worthy of management attention. The best ideas receive a certificate and a memento from the organization.

The guiding principle for any initiative to generate innovations is to understand that ultimately you will get only as many ideas as you have the ability to implement. A purely linear view of the Idea Factory process would suggest that because employees submitted so many good ideas, they translated into multiple initiatives. However, a systems view would suggest that so many good ideas were submitted because these ideas were acknowledged and implemented, creating a positive environment for submitting more ideas.

2. *Replicate*

Truly novel innovations are rare; it is often more effective to replicate and adapt an existing innovation to a new context. “We borrowed and adapted several ideas from other states and cities during my tenure as governor,” explains Former Pennsylvania Governor Tom Ridge. “It worked well because we could see what worked elsewhere and why, and then tailor and deploy those best practices in a way that fit our state’s unique needs and circumstances.”

Success or failure in replicating innovations from elsewhere often comes down to how well the idea is tailored to local circumstances. Applying a blueprint from

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elsewhere without considering the local situation or stage of development can be a recipe for disaster. For example, most civil service reform initiatives in Africa that have tried to reproduce institutions from the developed world have failed. Merely copying an innovation rarely delivers the right results. It has to be adapted to local context.

The principle behind the strategy of replication goes beyond copying one successful innovation to establishing processes that actively manage and disseminate innovations. Seen this way, adopting the replication strategy forms an essential component of creating a learning organization; any investments made to create structures for identifying and adapting innovations are likely to offer big returns,

as has been the case with the Texas Performance Review, which has saved the state billions of dollars over the years by searching far and wide for innovations that can be applied to Texas government.

3. *Partner*

Many of today’s problems are so complex that no single agency can solve them. Tasks such as reducing poverty, improving healthcare or fighting terrorism simply demand more resources – and more innovative thinking – than one organization can bring to bear. The need for both new resources and new thinking drives growing interest in partnering among government agencies and between government, private industry, universities and nonprofits.

These relationships let governments test new ideas quickly by importing them from innovative partners who also can bring with them much-needed outside capital. They also help agencies overcome bureaucratic and financial constraints, allowing them to attack long-standing problems with novel methods and cutting-edge technologies that have been proven in other jurisdictions.

When New York City Mayor Michael Bloomberg wanted to transform the city's underperforming public school system, he used partnerships to launch innovative pilot programs and sidestep organizational log jams. One example is the Empowerment Schools program, in which schools sign performance agreements committing them to high levels of student achievement. In return for this commitment, schools receive greater local autonomy over their operations. Bloomberg used funds from private organizations to test the idea before spending public money on a citywide rollout – a strategy that proved to be key to its success. In the past, school officials might have rejected such a proposal because they deemed it too risky or they could not justify the expense. Recognizing the need to work outside the normal funding process, Bloomberg and Schools Chancellor Joel Klein created the Fund for Public Schools, a nonprofit that attracts private financing for diverse school reforms. The fund allowed Bloomberg to assess and eventually implement innovative programs that otherwise might have been torpedoed by political infighting and budgetary limitations.

THE CENTRAL INTELLIGENCE AGENCY (CIA) FUNDS A NON-PROFIT ORGANIZATION, IN-Q-TEL, TO FIND AND DELIVER TECHNOLOGICAL SOLUTIONS TO THE AGENCY FOR A WIDE VARIETY OF NEEDS, INCLUDING DATA MINING, STRONG ENCRYPTION, AND THE ABILITY TO COMB THE WEB FOR VALUABLE INFORMATION.

In addition, the mayor partners with individuals and businesses interested in improving education in New York City. For instance, the city encouraged Joel Greenblatt, a successful hedge fund manager, to create a charter school called the Harlem Success Academy. The academy's business model demands strict accountability and measurable results, and classes are taught by non-union teachers.

4. *Network*

As opposed to partnerships, which typically involve bilateral relationships, networks typically involve many organizations. The idea behind the network strategy is to utilize the innovation assets of a diverse base of organizations and individuals

to discover, develop and implement ideas in and out of organizational boundaries; better capture customer response to services; and create learning organizations. More and more governments have been establishing informal global networks to tackle complex public sector challenges such as global warming.⁸

Governments can also adopt the network strategy when trying to develop new approaches to tough issues. The Central Intelligence Agency (CIA), for example,



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funds a nonprofit organization, In-Q-Tel, to find and deliver technological solutions to the agency for a wide variety of needs, including data mining, strong encryption, and the ability to comb the Web for valuable information. In-Q-Tel provides seed capital to small start-up companies to develop promising new technologies that could generate IT solutions for the CIA. In 2003, it invested in Keyhole, Inc., the company that developed the software now known as Google Earth.⁹

5. *Open Source*

As the network strategy found greater acceptance in the private sector, the software community embraced open source innovation. The open source innovation model, which encourages many people to collaborate voluntarily to create solutions, in some ways stretches the idea of networking to its extreme form: anyone and everyone is invited to contribute ideas and innovations with almost no

managerial supervision. An open source innovation strategy, when structured well, can help governments to promote continuous innovation and engage the broader community to serve a public purpose.

As part of an initiative to meet tough new education attainment targets, the government of Ontario has employed an open source strategy with its E-Learning Ontario initiative. It built an online repository of resources developed by teachers that can be customized to local needs to make this cache of information available to

teachers and students at no cost. Credit courses, a technical help desk, and professional development programs for teachers and school board members also are available free of charge. This repository is especially useful to small, rural and isolated schools that face shortages of educational resources and specialized teaching staff.

Governments have long employed the first three of these strategies: cultivation, replication, and partnering, but they have not always worked as consistently or successfully in the public sector as hoped. High failure rates, slow diffusion and crisis-driven change plague public sector innovation. Innovation, never easy in the corporate world, is even more difficult in government.

As for the network and open source strategies, the public sector is just beginning to tap these promising new approaches. The external influence for innovations surveyed by the NAO report cited earlier, for example, was limited to cross-agency work and contractors as a source of innovations. Though there is growing adoption of Web 2.0 technology in government, which uses interactive Web-based applications such as blogs and wikis to co-create content with the users, many government entities are still unaware of the power of these technologies.

ORGANIZING FOR INNOVATION

Many public sector organizations make sporadic efforts to encourage innovation, but few implement the formal changes needed to spark transformational change. Without altering traditional roles, processes and organizational structures, innovation initiatives become mired in bureaucracy and fail to deliver fundamental change. Creating a culture of sustained innovation requires creating an organizational structure conducive to generating innovations. Four aspects of organizational structure are particularly relevant from an innovation perspective; leaders of public sector agencies should ask themselves:

- Where are our *organizational boundaries*? Are contractors, suppliers and non-profits a part of our extended organization or considered outsiders? Do we have mechanisms to let ideas flow in and out of the organization?
- Do we have the *capabilities* to adopt a particular strategy for innovation?
- Is the *organizational culture* in tune with the innovation mechanism? (see inset next page on British Columbia)
- Is the organizational structure hierarchical and opaque, or does it offer *meaning, flexibility* and *novelty* to young entrants?

PUSHING THE CULTURE: BRITISH COLUMBIA'S INNOVATION ACTION PLAN

The Canadian province of British Columbia (BC) launched a major innovation initiative after surveys revealed that employees felt the organization lacked a culture of innovation. Roadblocks to implementing new ideas included the lack of permission and means to innovate, and insufficient information for employees to propose transformative ideas. To overcome these challenges, the BC Public Service took a series of steps to instill a culture of innovation throughout the organization. First, the province defined its core values — including courage, curiosity, passion, accountability, service and teamwork — in consultation with employees. Senior executives were subject to bonuses and salary holdbacks of a minimum of 5 percent based on their demonstrated support for innovation and employee engagement. Annual employee innovation awards also were created, and the BC Public Service began aggressively seeking external awards to gain recognition and thus attract more innovators.

Future activities include organizing “Innovation Sessions” where employee focus groups examine what they need to become more innovative. These suggestions are inventoried and turned into a comprehensive list of scalable ideas that will be implemented within a year. In addition, corporate values related to innovation — such as courage and curiosity — were factored into every employee’s performance assessment.

Some changes in organizational structures and cultures are necessary to make optimal use of innovation strategies. Emerging organizational models, such as the networked approach, require a bigger and more fundamental change. In this model, public sector organizations may no longer own the services they provide. Instead, they are aggregators and managers of services provided by others. This new model requires governments to gather ideas from anywhere and tap talent markets far and wide. Agencies then use internal skills to adapt these ideas to their specific needs.

THE FUTURE OF PUBLIC SECTOR INNOVATION

As we have seen in the private sector, for innovation to take root it needs to become more than an isolated project or special program. Government agencies will need to take an integrated view across strategies, the innovation cycle — from

idea generation to selection to implementation and then diffusion – and organizational structure.

The current financial crisis shows that the demand for innovation is very much present and will only continue to grow. But governments can no longer afford to be complacent about their ability to innovate, which has become crucial in light of the challenges faced at the state and national level. Governments are becoming increasingly important in our fragile global economy, and they will need to learn from the innovation leaders in the private sector, nonprofits and other governments on how to better innovate. The proof will be in the execution — how well, or poorly, governments stand up to the challenge of being more innovative.

Proper execution of innovation will require government organizations to move from hierarchy to inclusion; from ownership to collaboration; from invention to adaptation; and from a culture of acquiescence to a culture of performance. This transition may involve rethinking organizational boundaries. It may involve acquiring new capabilities to better manage the innovation process. And it may demand the creation of flatter organizations with a culture focused on performance.

This will be difficult, and government will not likely acquire a reputation for innovation next month or even next year. Someday, however, “innovative government” may roll off the tongue naturally.

Bill Eggers is director, Public Sector, for Deloitte Research, Deloitte Services LP.

Sbalabb Kumar Singh is a manager in Deloitte Research, Deloitte Support Services India Pvt. Ltd.

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