



Public sector leaders, even politicians, are talking up a push to encourage more innovation and risk-taking in government bodies. Several approaches that leverage the capabilities and direction of the agency leader were offered at a recent governance forum in Canberra.

The public service's risk-averse nature is hardly a recent discovery, although it does seem to be recognised now as a suffocating blanket on innovation. Put a dozen or more senior public sector figures and a few academics in a room and the topic often drifts to the "problem" of encouraging innovation in a zero-risk environment. Add a politician, and it quickly turns to finger-pointing.

Federal minister Malcolm Turnbull made a point of calling out the public service culture where "penalties for failure are vastly out of proportion to the rewards for success" at the launch of *The Mandarin* (<http://www.themandarin.com.au/2504-mandarin-launch-2/>):

"We've got to try new things and, if you try new things, a lot of them won't work. But so what? If you smash people because they try something and it doesn't work, then they'll never try anything new again."

His federal colleague Steve Ciobo joined in the push last week at the Australian Institute of Company Directors' Public Sector Governance Forum. The government isn't demanding the public service achieve a mitigation risk of zero, he claimed.

"Rather, recognise what the actual materiality is of that risk eventuating and making determination about the framework that's put in place as a way of managing that risk," Ciobo said.

"We want to ensure that both in terms of structures but also process that some risk is appropriate, especially if in trying to eliminate that risk we result in a regulatory burden or governance burden that far exceeds the material chance of that risk eventuating."

George Sotiropoulos, NSW Treasury's executive director for financial management transformation, has formed the view that it's politicians, not public servants, who are ultimately the more over-cautious, but there is still a role for the public sector to lead and make decisions.

"Governments, no matter how much they talk about risk management, are fundamentally risk averse," Sotiropoulos told the AICD forum. "It doesn't mean we have to be risk averse in how we do things. We have to be smarter in how we do things, manage what we can, and make a call when, oh, that's going to end up on the front page ... There are things you can allow people to make decisions on that aren't necessarily going to embarrass government."

Citing an example of a Finance secretary who took a different approach, Sotiropoulos said it took a while for the department to get used to his way of managing, which was about pushing decision-making down.

"People were almost scared to make some of those decisions for fear of reprimand. The issue of risk goes hand-in-hand with learning and accepting mistakes will be made. Part of the capability of leaders is to acknowledge that I'm going to let these people make decisions, if there's a mistake I've got to use it as a constructive learning exercise," he said.

Tony Nippard, the executive director for knowledge management and governance at the Victorian Public Sector Commission, says risk is OK — even being on the front page of a newspaper is not the problem.

"They can go wrong, but if you can justify in a clear way you're only going to be on the front page once."

"We've all been on the front page at least once as public sector people of any seniority. It's when they're on the front page several times that you've got a problem," he said.

"That means your arguments are not stacking up.

"There's an increasing sophistication around risk, but it requires directors to develop similar sophistication around why it worked or didn't. "It's not a matter of making risk, it's a matter of making decisions you can justify. They can go wrong, but if you can justify in a clear way you're only going to be on the front page once."

Both Sotiropoulos and Nippard are responsible for regulating other public sector bodies, but the lessons they've learned about mitigating risk exposure in external entities applies to many types of regulatory agencies.

At NSW Treasury, they're undertaking a significant reform of governance systems and reporting requirements for state government agencies intended to improve oversight and efficiency. Sotiropoulos says the whole program is a risk decision, as they've seen both the Commonwealth and other states struggle, particularly on the systems side, but they've taken the decision to act.

"NSW has decided to do it all in one hit, and start from a much lower base," he said. The risk is high: "I feel it every day. As a team, we've accepted that, that's where we're going to take the reform agenda.

"Our experience as a regulator of a sector and key influencer in how agencies operate, yes they all have operational autonomy, but we can impose a lot of requirements that really start inhibiting their capacity to perform. We want this reporting, we want that reporting. However, as a regulator you should be able to step back and make decisions about who we put the emphasis on.

"We have had an incidence recently of some failure in an entity. Here's where that autonomy can kick in. We've put people from Treasury into that organisation, we've replaced the finance people, the CEO has been replaced, the auditor of risk has been replaced. That's at the top end — your really big stick. But there should be a staged approach and a stepped approach. You should have seen this earlier, so what did we miss? What are some of the indicators that could have helped us in that space?"

Sotiropoulos says it comes down to ensuring the people on whom the risk falls have the experience and knowledge to understand what they're making decisions about.

"We've had risk management frameworks for a long time. A lot of agencies tick the box on risk. A lot of it comes down to the people and the judgements they exercise around the decisions they make. That comes through experience, training and a lot of effort. The easy way is just to not make a decision, or take the easy way out that exposes us to little."

More at *The Mandarin*: [PGPA era: the reform agenda under Abbott government \(http://www.themandarin.com.au/8645-pgpa-era-new-act-enables-small-government-challenge-making-work/\)](http://www.themandarin.com.au/8645-pgpa-era-new-act-enables-small-government-challenge-making-work/)

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