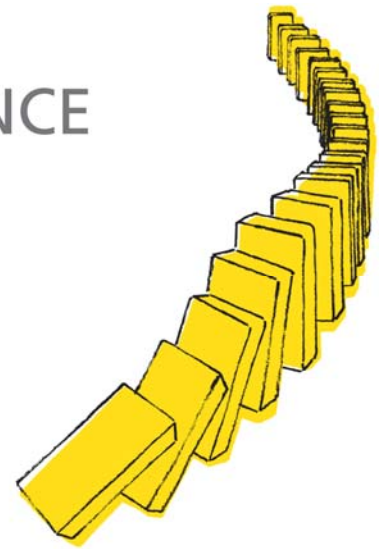


PUBLIC INNOVATION CONFERENCE

Creating the Conditions

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Role of IT in innovative government



Professor Henning Kagermann, Chief Executive Officer and Chairman of the Executive Board, SAP

Ladies and Gentlemen,

I'm honoured to be here, thank you for the kind invitation. We often speak about innovation in these days. Innovation is crucial to economic growth and creation of wealth, in particular in developed markets with high labour costs. And innovation is crucial to public service.

In Germany last year, the first national "IT summit" chaired by Chancellor Angela Merkel increased the awareness for IT as key enabler of innovation in science, business, and personal lifestyle. One of the key topics was innovation through IT in public sector. SAP has been instrumental in helping German Government join up around this topic. My colleagues told me, that Sir David Varney's 2006 report and the Service Transformation Agreement from CSR 2007 demonstrated that IT has a strategically important role to play in shaping the future of Public service delivery. And the UK Government leads the way world-wide in the development of radical reform. So I'm delighted to be learning more about it here today.

In SAP we are fortunate to be dealing with both public and private sectors. We are Europe's largest software company, with 43,000 employees, half of which based in Europe. We are the world's market leader for business software and support approx. 45,000 organizations of all sizes, in all industries and all countries. And we became market leader through innovation. Today we spend €1.5 billion in R&D and manage a network of developer labs in eight countries with 12,500 employees in R&D. And we early recognized the basic principle of the networked world: There are always more smart people outside your organization than inside. Therefore we focus on open innovation creating communities of innovation and IVNs where we bring thought leaders from all over the world together to discuss the future of a given industry in the next 5 to 10 years.

I see SAP as a key enabler of innovation in all sectors. Therefore we talk to our clients not just about their IT, but about their business. We listen to them. And we notice IT has become strategic to business direction. In the 90s, use of IT was all about operational efficiency. Now the focus has shifted toward how IT enables service, innovation and competitive differentiation. This spring, SAP hosted a global CEO event on what is called "the growth challenge". The answer to it is – not surprisingly – innovation. However, it's important to understand that successful innovative organizations are not just driven by mere idea-generation. Ideas are the fuel, not the engine. The most differentiating elements of a powerful innovation engine are: aspiration and strategy; execution

& rollout; organization & culture – and the right IT. And often it's sufficient to just implement best business practices, packaged in off the shelf software.

IT acts as both the catalyst and the enabler for innovation. Innovation is not just product innovation. It's more and more innovation in service, processes, and business models, as e.g. the CEO of Procter & Gamble, A.G. Lafley, stated in our annual report 2006: "With SAP, our business model can be used as a tool for innovation – and competitive advantage." Increasingly, innovation is realized in networks with co-innovation and deep collaboration across companies. This so-called "business network transformation" requires an even more flexible and adaptable IT infrastructure. Organizations need to rapidly re-compose existing business processes into innovative new business models in the network. Similarly, in the public sector, we are seeing that innovation increasingly is being realized across organizational boundaries and through collaboration across agencies and departments. Thanks to ICT, the cost of collaboration is declining. Co-innovation and business networking become economically feasible. So how does this apply to the public sector?

A survey by the Economist Intelligence Unit on the public sector by 2010 revealed that "citizens and businesses will become increasingly demanding ... as consumers of public services." They will "expect greater personalisation, faster and more accurate service fulfilment and more proactive communication, without paying more or sacrificing quality enhancements." Managing the bottom line of course remains important. But improved efficiency and cost-cutting are understood now as prerequisites. It's the foundation for innovation.

Successful public and private sector organisations which are able to rapidly innovate, share common characteristics: Firstly, they consolidate their IT to reduce cost and unnecessary duplication. Secondly, they standardize on software and systems. And thirdly, they build on platforms that allow for interoperability and information sharing.

A key example of our own innovation is the work we have done on Public Return on Investment (Public ROI), the theme here being "creating a like-minded community." For many projects we can report hard financial results. Examples are the Austrian Federal Budgeting and Bookkeeping System project with annual savings of approximately 30 million euros; the consolidation of 28 HR systems for about 800,000 employees at US Postal with annual savings of about 64 million US-dollars; or the financial management in Nova Scotia, Canada, with savings of approximately 43 million Canadian dollars.

Clearly delivery of value to the citizen is much more than value for money; there are social, political and organisational aspects as well. In business, companies measure financial ROI: Invest money to foster innovation and bring it to scale. In the end you (hopefully) get more money out of it. But with the non-profit, service based public sector, measuring value includes social and political returns, such as: improving the quality of life, keeping our streets safe, and helping educate our youth. Governments need the ability to not just maximize, but measure that value.

At SAP we have developed just such a measurement framework, "Public ROI" (in collaboration with the Centre for Technology in Government in New York). This framework – published in late 2006 – helps government measure the operational, social and political dimensions of value. We worked with five pilot customers worldwide to develop this framework (Central Government of Austria, Government of Israel, U.S. States Washington and Pennsylvania, and Nova Scotia/Canada). Our approach allows our clients to develop a much more robust business case. And the connection between finance and real public value becomes obvious.

My second experience refers to our work with the Florida Department of Revenue. It shows how creating a collaborative approach across boundaries can make a real difference and deliver positive outcome for citizen and the government alike, the theme here being "a new vision for government". Recognizing the importance of "joining up" government we call this "Collaborative Outcomes". The agencies and departments involved share responsibility for, and actively collaborate, to manage towards a common outcome. Collaborative outcomes reduce the layers of bureaucracy. They foster a citizen focused-service oriented culture. And they reduce costs and ultimately drive higher public value.



The scenario from the Florida Department of Revenue includes General Tax Administration and Child Support Enforcement: A mother of two children is entitled by court order to receive child support payments from her ex-husband. She is not receiving her monthly child support payment, and contacts the department of social services within her state. The social services system and staff interact with the tax & revenue agency. They verify if the ex-husband has fulfilled his tax obligation, or is owed a tax refund, or is employed. Based on the situation, the agency can withhold the father's tax refund, send a notice of an outstanding tax obligation, or garnish his wages, in order to collect the money owed to the mother. Once the tax agency collects the money from the father, it disburses the money to the social services agency, which then sends the money to the mother, ensuring her child support payment is paid. All these transactions are supported by IT, and automatically tracked and reconciled in to the general fund within the financial management system in the public administration agency.

The collaborative outcome achieved in this scenario is: The child support enforcement agency ensures the mother receives her payment. And the tax & revenue agency ensures the ex-husband fulfils tax obligation. In the end, public value is maximized, because the father (non-custodial parent) "pays his fair share" – an operational return; while the mother (custodial parent) stays off welfare – a social and political return.

For my third story I'd like to speak briefly about our work supporting the City of Cape Town who has moved rapidly towards integrated service delivery for citizens built upon a single IT platform. The theme with this story is that of citizen focus and empowerment.

In 2000, Cape Town's 7 autonomous municipalities merged to create a new "Unicity" – with 30,000 employees, a budget equal to 750 million euros, and service delivery to 3.2 million citizens (electricity, water, sanitation, waste removal, housing, health care). But incompatible, old IT systems were hindering innovation and change. Therefore they chose SAP as lead software partner. With clear benchmarks, their expectation was the project would pay for itself in four years. But with improvements achieved through billing alone, it paid for itself in just two years. With a better bottom line and payment ratios up from 85 to 98 %, the city shifted most of its savings toward social development programs aimed at individuals and small businesses. Citizen's services have been transformed, e.g. payment for services is now from a single, consolidated bill (at any cashier's office, retailers, post office, or via Internet).

The CIO, Nirvesh Sooful, summarized: "SAP has helped Cape Town run its public service administration like that of a successful business. We've enjoyed a strong return on investment, and our citizens have never been more satisfied." My message with the Cape Town story is that innovation requires first a solid platform upon which then to develop citizen focused services.

Let me summarize: Innovation at SAP occurs when we work closely with our clients, when we share their aspirations and when we understand the challenges that they face. Innovation in government is important but it must drive public value. From my experience, the way for governments to maximize public value through innovation is by focusing on IT enabled collaborative outcomes. Our approach is that innovation in itself need not be exciting but it must be built on a solid structure.

And finally: If the UK Government really is going to strengthen people's voices, drive forwards personalisation, foster real collaboration, enhance accountability and reach out to society as a whole, then innovation should be at the very core of public services. But to be successful this must be enabled and underpinned by robust and adaptable platform based systems. Ideas are the fuel of public service innovation. But in most cases you need IT to make the engine run.

Thank you.

