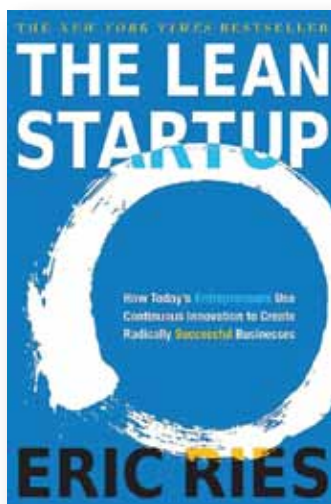




## Entrepreneurship, Management, and the Public Sector

By Vincent Reitano



The Lean Startup

Eric Ries

Crown Business

2011, 336 pages, \$28

Public and private organizations can learn lessons from each other by sharing management principles — lean management is a good example. Consider a key point of *The Lean Startup* by Eric Ries, with its striking relevance to both the public and private sectors: “We have wildly divergent associations with these two words, *entrepreneurship* and *management*... It is time to look past these preconceptions.”

Entrepreneurship and management should be part of what motivates employees in any public or private organization. Organizations should consider eliminating the perception that the functional role of entrepreneurs and managers are mutually exclusive. *The Lean Startup* explains that innovation isn’t solely the realm of entrepreneurs, and managers aren’t limited to bureaucracy.

The public sector can apply Lean principles can to potentially overcome the bureaucratic barriers that governments sometimes face through innovation and experimentation. With constituents increasingly demanding innovation, and public resources becoming increasingly scarce, the Lean principles Ries discusses can provide governments with new solutions. Lean management fosters the development of experiments to make organizations sustainable. For example, as governments begin to shift toward innovative

methods of long-term financial planning with forecasts and risk-based fiscal reserves analysis, they can use some of the lean startup principles in Ries’ book to guide their efforts.

### VISION

In the first part of the book, Ries argues that “entrepreneurs have been trying to fit the square peg of their unique problems into the round hole of general management for decades.” As governments face increasingly complex issues, public employees may be inhibited in forming solutions by a form of bureaucratic management that stifles innovation.

To see government employees as empowered entrepreneurs who have the ability to start solving problems, we need a new way to look at them and what they do. “Intrapreneurs” are the people who produce innovation within an organization, according to Ries. The actions of these employees make them entrepreneurs. Within a government, many people could be thought of as intrapreneurs, particularly as they navigate the implementation of policies and programs — which is similar to entrepreneurial management in that it requires charting an entirely new course.

The third chapter of the book tackles learning. “Unfortunately, ‘learning’ is the oldest excuse in the book for a failure of execution,” Ries says. To

address this concern, he discusses the Lean idea of validated learning, in which learning occurs in the present and future, rather than after the fact. In terms of government, this shifts the focus from ex-post policy evaluation to constant and ongoing evaluation during program implementation.

In one sense, constant evaluation of programs should validate the next steps rather than waiting months or years after the program is implemented to evaluate it. Of course, there are constraints to the ability to evaluate social programs in government, given unique institutional difference, and the need to capture changes over time. Still, knowledge of this lean principle can be used in advance of developing a program or policy to ensure that learning is constantly occurring at an organizational level.

A final aspect of the Vision section is to experiment, the topic of Chapter 4. After determining the vision of an organization, employees should proceed to develop hypotheses and then test them in terms of product development. In

terms of a government, the experimentation phase may include phasing in a new software product or program, and experimenting with different aspects of implementation. The goal is to start experimenting early, and change over time.

The experiment principle may seem challenging to follow in a government, but given the recognition that public employees engage both administration and politics, there is little reason to believe that experimentation in government cannot occur. In fact, experimenting with different administrative and policy arrangements may be the primary method by which governments become more innovative. There are countless organizations running such experiments, ranging from the Government Finance Officers Association (GFOA) to the Knight Foundation. These experiments may occur in a variety of settings, such as a school district adopting GFOA Best Practices in School Budgeting to connect budgeting to academic achievement and then measure it. In this and other organizations, once experimentation becomes the stan-

dard among government employees, innovation will follow.

## STEER

In the second part of the book, Steer, Ries reviews the need to take a leap not based purely on assumptions of the past, but in experiments to see what customers are responding to. This can occur through testing what is called a “minimum viable product” so that learning occurs by test as detailed in Chapter 6. In a sense, rather than try to create an optimal product, it may be better to release products earlier and not focus exclusively on the bottom line. Ries supports this statement by noting that early versions of the iPhone and Google search engine were nowhere near as complex as they are today, but were still adopted.

There must be some type of measurement as various experiments occur, and a response to these experiments in terms of innovation, as considered in Chapters 7 and 8. This applies to any organization, whether it’s a startup or a public organization. Ries’ argues that innovation accounting can help an organization with measurement by testing if assumptions from an organization will hold efficacy in the future. This requires consideration of a baseline measure that can be adjusted over time to respond to customers in an innovative manner.

## ACCELERATE

The third section of *The Lean Startup* focuses on how organizations can accelerate given the uncertainty that many companies can face. There are some points in this section that are particular to lean startups, but ideas regarding sustainable growth have



*In the second part of the book, Ries discusses the need to take a leap.*

direct relevance to public organizations. For example, Ries details the need to have sustainable growth by different types of growth engines such as social media to meet the needs of a customer market.

To some degree, the development of a market is what government does when it offers new services to constituents. It does, however, require that an organization continually adapt to new trends in an agile manner. Of course, agility should not be the sole criterion, or else mistakes may result that have long-term consequences. If a mistake occurs, an organization should look to the root cause, the underlying why and then address it, rather than continue providing a product or service that doesn't live up to market expectations. These concepts and principles are discussed at length in Chapters 11 and 12, respectively.

Government can learn from root cause analysis. Evaluation of programs should be constant starting from the implementation phase, and include both quantitative and qualitative measurement assessments. This can serve as a basis for innovation accounting at a governmental level.

## CONCLUSIONS

Ries' book ends with a critical discussion of Frederick Taylor's *The Principles of Scientific Management*, a classic 20th century work that had a major effect on how organizations of all types operate. He argues that "subsequent generations of managers lost sight of the importance of the people who were implementing them" with respect to scientific principles outweighing the people they direct. Instead, Ries' asserts that experiments must constantly

occur to provide data and feedback to entrepreneurs.

All types of employees and organizations can learn from *The Lean Startup*. In terms of government, experimentation and innovation can be used to respond to the demands of constituents in an agile manner. This is particularly critical under the view that government is continuously evolving in response to changing societal trends. Therefore, in the search for an optimal allocation of public services that is sustainable, governments across the country should consider utilizing lean management principles when budgeting for sustainable governance. ■

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