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Designing for the Service Industry

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Inland Revenue New Zealand: Service Design in a Regulatory Context

by Karyn McLean, Jim Scully, and Leslie Tergas

Yes, even government agencies can make the engagement of citizen-users a priority in the development of services and communications. In a model of processes and teamwork, colleagues Karyn McLean, Jim Scully, and Leslie Tergas examine how their Design and Project Management Group exploits design to convey their agency's policies and regulations, streamline compliance, and access entitlements.



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As the service sector has grown in importance to developed economies, so has awareness of the value of taking a design approach to creating these services. The business world is realizing that well-conceived and well-designed *user-centered* services can increase customer satisfaction, create brand differentiation, generate new income streams, and return greater profits. But what is the value of user-centered services in a regulatory context—where people are

obliged by legislation to engage with an organization and its services? Given the increasing transparency of public services, thanks to technology and the ability of the citizen to interact in ever-faster timeframes, designing in this environment presents some intriguing opportunities.

Inland Revenue (IR), the New Zealand government agency that collects taxes and administers a number of social support programs, places great value on the quality of its service as a means of increasing levels of voluntary compliance. This view is the strategic foundation and driver for the development of an in-house, user-centered service design capability within Inland Revenue's Design and Project Management Group. This article describes the role of customer-focused services in achieving IR's goals as a government agency, why and how we are

building a service design capability, some of our successes, and some of our challenges as we work to embed service design as a core organizational competency and practice.

The design function at Inland Revenue

The business processes, interactions, publications, letters, advertising, and online tools that are needed to ensure that people carry out their obligations have mostly been designed in-house. The IR's current website (www.ird.govt.nz), for example, which has won a number of awards for ease of use, was designed, produced, and deployed by an in-house team, with support from external interaction design and website development consultants. In the late 1990s, a team of designers and policy analysts transformed the tax process for salary and wage earners. As a result, people whose sole income is a steady wage or salary no longer file an annual tax return. The correct amount of tax is deducted from their paychecks ("at source," as we say), and no additional paperwork is required—a significant piece of transformational service design that benefits both customers (because their obligations can be met with minimal effort) and IR (because administrative costs are lower).

But IR's Design and Project Management Group (DPMG) is now moving to a new level of awareness of service design as a professional and organizational core competency. The organizational mandate for this group, which was created in October 2006 and is led by Group Manager Jim Scully, is to become a center of service design and project management excellence. This means that we have the mandate for developing capability that is on par with leading industry practices.

When Scully arrived from the private sector four years prior, he observed committed individuals delivering

complex, time-critical initiatives in a complex political environment. However, the design methods that were used varied from individual to individual, as did the skill levels. "In a nutshell, we relied heavily on a few experienced individuals and sheer hard work," he says.

To cope with increased work volume, heightened expectation of IR services from the public, and heightened expectations of our role in helping IR meet these service expectations, the group needed to reinvent itself and reframe its value to the department. Not only do we now specifically refer to our design function as *service design*, but we have also set an ambitious goal of developing that capability to the highest standards.

Recognizing the importance of providing the appropriate resources to build capability and manage our practice, the creation of DPMG included the creation of a new area, Design Development and Innovation (DDI), which is responsible for the development of methodology, practice, and industry networks, and for supporting the development of design as a professional competency within IR. It was essential to find the right person to lead this team—some-

one who not only had formal design training but was also a passionate design advocate. "It's an exciting role," says Leslie Tergas, design manager for DDI. "We are introducing new methods and skills, but we are also reaffirming a number of sound techniques we were already applying, and labeling them so that their value can be recognized and we can reapply them in a consistent manner. It's an intensive capability development program, and senior management is fully supportive."

In building service design excellence, we already had an excellent model in IR's project management function. The business project management team has been build-

Inland Revenue Design and Project Management Group (DPMG)

- There are 150 project management and service design professionals.
- It is currently working on 230 design initiatives, driven either by legislative changes or by opportunity for operational improvement.
- Initiatives range from improvement of existing services to creation of completely new ones.
- There are three design teams of approximately 35 people, each managed by a design manager.
- Service design capability development is led by a design development and innovation manager.
- The group is led by a third-tier group manager, reporting directly to the deputy commissioner for business development and systems.
- The group's Maori name is *Waihangā* (wah-ee-han-gah), meaning design.

ing project management professional capability for the past 10 years. Thanks to a well-planned and well-executed approach, the value of project management to the organization is now well understood and embedded. Tergas notes that “we have learnt from the journey that project management has been on and are using these lessons to fast-track the development of our service design competency.”

A diverse “customer” base... and diverse attitudes toward compliance

IR is New Zealand’s second-largest government department. Its primary role is the collection of business and personal taxes. Its functions, however, have broadened over the past 15 or so years to include the collection and disbursement of child support payments, collection of student loan re-payments, disbursement of tax credits for families, and administration of the government’s retirement savings program.

As an administrator of tax, as well as of social assistance policies, IR touches virtually every one of New Zealand’s 4 million citizens. In all, we have approximately 28 million customer interactions a year, through many channels—in-bound and outbound calls, an automated phone service, information and transactional websites, face-to-face advisory sessions, and correspondence.

Each of these interactions involves services that allow people to fulfill their obligations (to pay tax, repay student loans, pay child support, or save for retirement) and access their entitlements. This customer focus is set out in IR’s customer charter—a public commitment ensuring that we have an effective working relationship with customers, as well as an acknowledgment of the principles that underpin that relationship.

Since IR expects customers to do the right thing, it believes it should be as easy as possible for them to accomplish—easy to get it right and hard to get it wrong. Furthermore, the department recognizes that the motivations and reasons that drive compliant or noncompliant behavior can be complex. In understanding these, we have to take into account people’s attitudes toward compliance, as well as the factors that influence their decisions and behaviors. This acknowledgement that most people want to do the right thing, or are at least trying to do so, is summarized in the department’s compliance model (Figure 1).¹

This model links attitudes toward compliance with a corresponding compliance response. For those who are willing to do the right thing, we

1. The compliance model was initially developed by the Australian Tax Office.

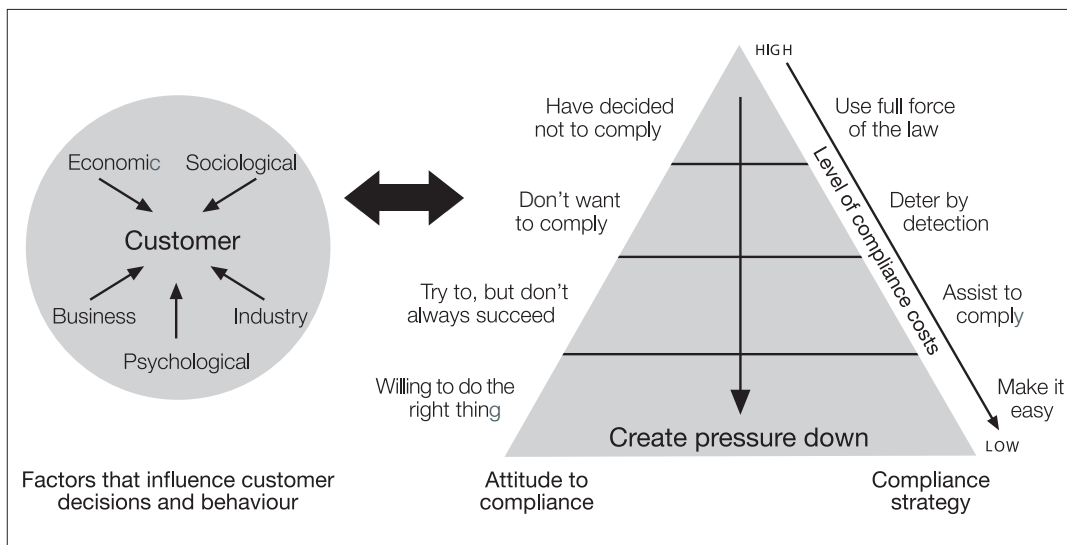


Figure 1. The compliance model is a cornerstone of IR’s strategic direction. It is predicated on the basis that the majority of the public is keen to do the right thing, but is sometimes unable to do so. The model is an acknowledgement that people can fail to do the right thing for a number of reasons, and that it is critical to approach every instance of noncompliant behavior with an understanding of the motivation behind it to be able to respond appropriately. Indeed, one individual might exhibit a variety of levels of compliance, and his or her behavior might require a different approach with every interaction with us. As such, this is not a model for pigeonholing people; it is a thinking model to inform our choice of response to each instance of compliance. In a nutshell, we aim to make our services easy to get right, and hard to get wrong.

aim to make it as easy as possible; for those who try but don't always succeed, we aim to assist so that they do get it right; for those who don't want to comply, we aim to deter by detection and rectification; for those who have decided not to comply, we will use the full force of the law.

The value of service design in this context

IR's service strategy is one of a set of organizational strategies to link IR's strategic business plan,² the customer charter, and the compliance model with our administrative initiatives. The objective of IR's service strategy is to maintain and improve overall customer compliance through the delivery of service. The strategy states that we will achieve this through understanding our customers and by designing and delivering products and services that meet their needs consistently across all channels (Figure 2). Well-designed user-centered services reduce barriers to meeting tax obligations and accessing entitlements, and reduce the costs of doing this to the department, as well to as the customer. The net result is that IR is better able to meet its various obligations to government (revenue collection, disbursement of entitlements) without burdening customers with unreasonable financial, psychological, or opportunity costs to doing

the right thing. And when we get our services right, we provide our customers with all the right reasons to engage with us—making it easy to comply and hard to avoid complying.

Building service design capability

There are four critical aspects to our work on building capability:

- Setting a vision and standard for excellence
- Defining what we mean by service design capability
- Developing effective working partnerships
- Defining what we mean by service design activity

What we mean by capability

There are four interconnected facets described by our capability framework—*identity, practice, process, and expertise* (Figure 3, on next page). We are considering expanding this to include *environment* because we realize how critical the right work space is to creating the right working dynamics. Using this framework ensures that we address all aspects of service design capability and achieve a holistic and meaningful transfor-

2. This strategic business plan, called "Our Way Forward," is a clear vision statement with excellent buy-in from staff across all levels of the organization.

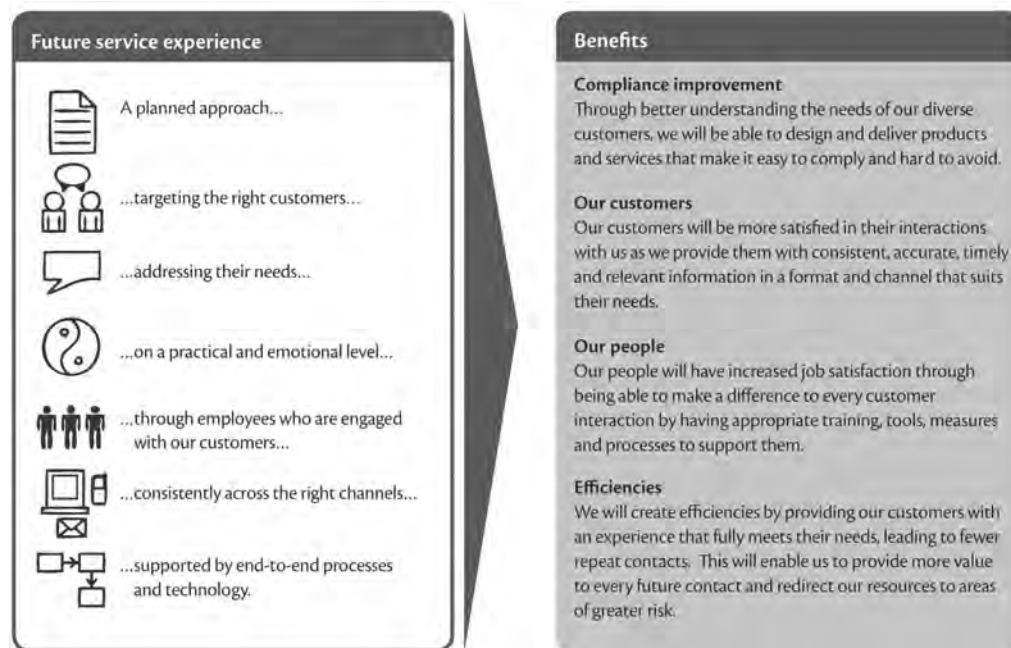


Figure 2. Our future service experience is a strategic statement of what we aspire to achieve through our service strategy. By understanding our customers' service expectations, their drivers for interaction, and our own business needs from a service perspective, we will be able to create a state that delivers the future of the service experience. Each aspect of the future service experience is linked to a set of goals and activities to help us realize the benefits described here.

mation in the way we work, in the way we understand what we offer, and in the way the organization recognizes our value.

Identity addresses who our designers are in a professional sense, and how they optimize the professional value they bring to each design engagement. The challenge is to build our designers' confidence, to help them see themselves as professional designers working within the IR context, rather than as IR experts required to design. The majority of our people don't have a formal design education. They have been designing, however, for several years, and have developed valuable skills. Our focus has been to raise awareness of the unique value our designers bring to IR. Our organizational understanding is highly regarded across IR, and one of our challenges is to increase awareness of the professional design skills and expertise we bring.

Practice and process address how we work—the methodologies, tools, techniques, and unique approaches that enable service design excellence. We have introduced the practice of iteration and collaboration as fundamental

design dynamics. We have also developed a purpose-built, principles-based service design methodology, and rolled it out in conjunction with one-on-one coaching. The focus has been to situate the intuitive design process staff have been following within a framework that makes the process consistent and brings a new level of rigor to the work they do. Our methods, tools, techniques, and practices are held in *Design Central*, an intranet repository.

Expertise addresses the knowledge and skills possessed by each designer and the collective expertise we have as a group. A critical development has been establishing communities of practice around six interrelated dimensions of service design—design vision, customer experience, service systems, service interactions, service embedding, and project management. Each of our designers is a member of one of these communities and participates in knowledge and skill-building sessions. Self-learning is also encouraged through access to a collection of resources that include service design books, articles, and case studies.

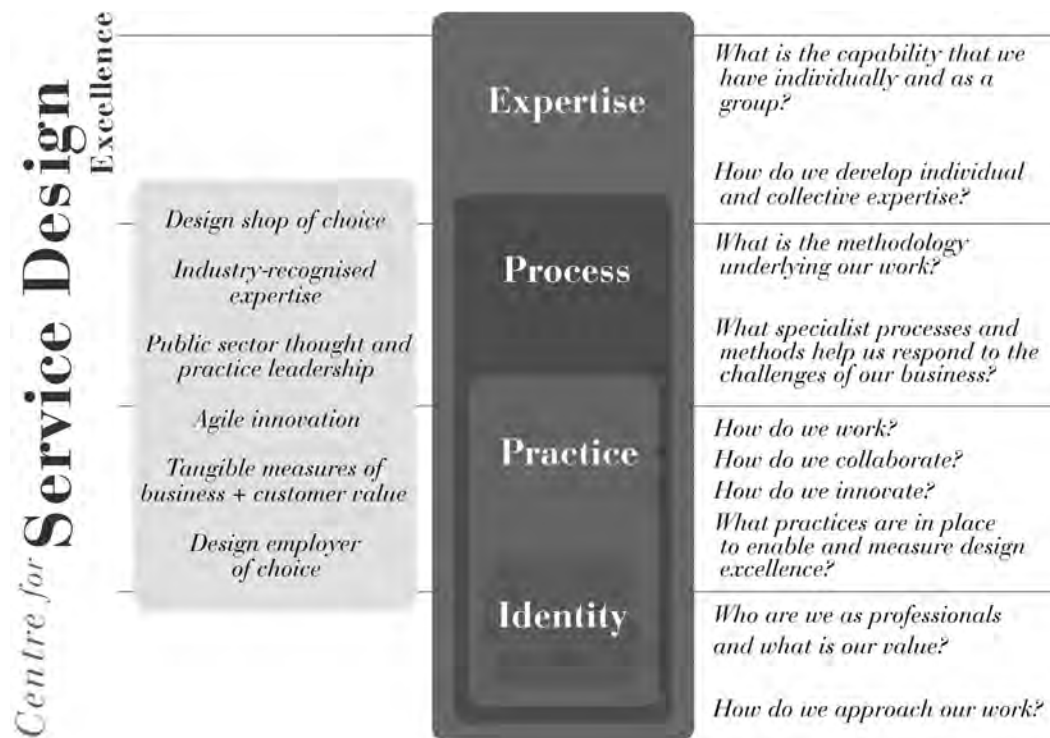


Figure 3. This service design capability framework is a tool to ensure that we address all aspects of service design capability, including a holistic and meaningful transformation in the way we work. Throughout our capability-building journey, this framework has been useful in articulating our goals to ourselves and to the organization, giving us a shared language and vision of service design excellence. As such, the framework drives the identification, prioritization, and measurement of capability-building initiatives.

Developing working relationships

A key relationship is with IR's Customer Insight Group (CIG), whose mandate is to develop customer understanding across the organization in order to improve compliance. The group researches customer expectations and our customers' worlds to understand what is changing, what the future will look like, and how we might shape this future for mutual benefit.

CIG operates a network of liaison officers based in the community, who offer specialist face-to-face advisory services to individuals and to community organizations, and who are a source for insight into the needs and aspirations of our customers. CIG also engages in insight-gathering activities, and works closely with DPMG to synthesise this insight into user experience strategy and concepts for service improvement and transformation. The success of the customer insight and the design groups is mutually dependent—one provides knowledge of customers and the other melds it into a truly customer-centred, organizationally useful design.

Defining the scope of service design activity

Often, designers lament their relegation to the role of producers—executors of the client's ideas. This happens when the strategic value of design is not recognized. Early on in our transformation, we identified this as a potential danger, and we set out to describe the scope of our service design activity in concrete terms.

Our strategic design planning process provides a response to the questions, "How do we deliver on strategic intent?" and "How will we know when we've achieved it?" The focus is on understanding strategic intent and determining the unmet needs, whether articulated or unarticulated. The process results in a strategic design framework that assists the business in developing a holistic strategic view that enables the organization to define pathways for change.

Design planning asks the question, "What should we create in order to meet intent?" This process starts with an identified business/customer need and scopes out concepts that may meet this need. The preferred concepts are chosen and potential solutions identified that can directly meet the need. The output for the design planning process is a design plan (for a single initiative) or a program plan (multiple

initiatives that work together to achieve intent).

Design implementation asks the question, "How will we make it—what form should the service or service component take?" This process begins either with an identified business/customer need or with a completed design or program plan. The focus of the design implementation process is to scope out and develop design solutions. The output for the design implementation process may be either a solution plan or the fully implemented solution.

Design evaluation asks, "Did the design meet the intent?" The output is an evaluation that measures the success of a design in the context of the experience users have with the service.

Families Customer Perspective—an example of strategic service design planning

IR identified customer segments that required a specific strategy to bring together the intersection of customer insights and IR strategic goals and formulate a vision for our approach to each of these segments. We call this strategy a customer perspective and, as statements of strategic intent, they provide direction for how and what we design.

CIG and DPMG have worked closely to develop customer perspectives. Creating these perspectives involves gathering insights from customer experience research (quantitative, as well as qualitative, ethnographically based research), and organizational knowledge gained through service interactions, customer feedback, and feedback from organizations that represent these various customer segments. We first map out the current experience and explore this for innovation and improvement opportunities. We then map out the future customer experience. New service initiatives are conceived and will be measured in terms of how it will help us achieve this desired future state.

The development of the Families Customer Perspective began with 40 one-on-one interviews in our customers' homes in four different New Zealand locations.³ Through these interviews, we sought to gain a deep understanding

3. IR designers worked closely with the external agency conducting the research. This included attending several interviews as observers. We believe that experiencing customers' environments is critical to effectively develop insights and translate these into design initiatives.

of what it means to manage a home and look after a family, and the role of social assistance within this context. Many of the interviews were conducted in the evenings, after work—ringing phones, dinner preparation, after-school conversations, and so on. Interviews in this context allowed us to witness the dynamics of day-to-day family life.⁴ The objective was not to ask customers what they wanted. Rather, we sought to develop a deep understanding of their experiences so that we might better address both articulated and unarticulated needs.

Through this rich engagement with a sample of our customers, we identified five family customer types, all of which interact and engage with IR differently and have different expectations of us. Modeling the customer experience through customer typologies is a technique that allows us to target and tailor our services and our efforts in a manageable and focused way (Figure 4).

Where relevant, we design services for each customer type—to respond to a unique customer experience and set of needs, with the aim of improving uptake of entitlements and compliance. For example, people who fall within the New Entrant⁵ customer type might express confusion about the system and which social assistance they are entitled to; while people who fall within the Stable Circumstances⁶ customer type

find the system relatively clear and easy to understand, but can get into debt if they don't notify IR when things change for them. Both sets of needs and aspirations are valid and require targeted service interventions.

The Families Customer Perspective provides a framework from which to conceive new initiatives, as well as to measure the effectiveness of new or improved services. It also allows us to work together across IR toward a common goal for families and to measure our progress toward achieving this.

Parenting Information Pilot—an example of service design implementation

The Parenting Information Pilot is a targeted service intervention aimed at New Entrant customers responsible for child support payments. This customer type includes parents who are new to the system and are going through the process of learning how to parent together effec-

4. We follow strict guidelines to protect the privacy of our customers, in accordance with the Privacy Act 1993. We do not use names or any other details through which the customers can be identified, including images.

5. New Entrants are customers who are entering the social assistance system for the first time. We try to work with them to ensure they establish the desired patterns of behavior. These customers often have high informational/education needs.

6. Stable Circumstances customers often have regular income and are either in work consistently or receive a benefit and have few changes in their personal circumstances.

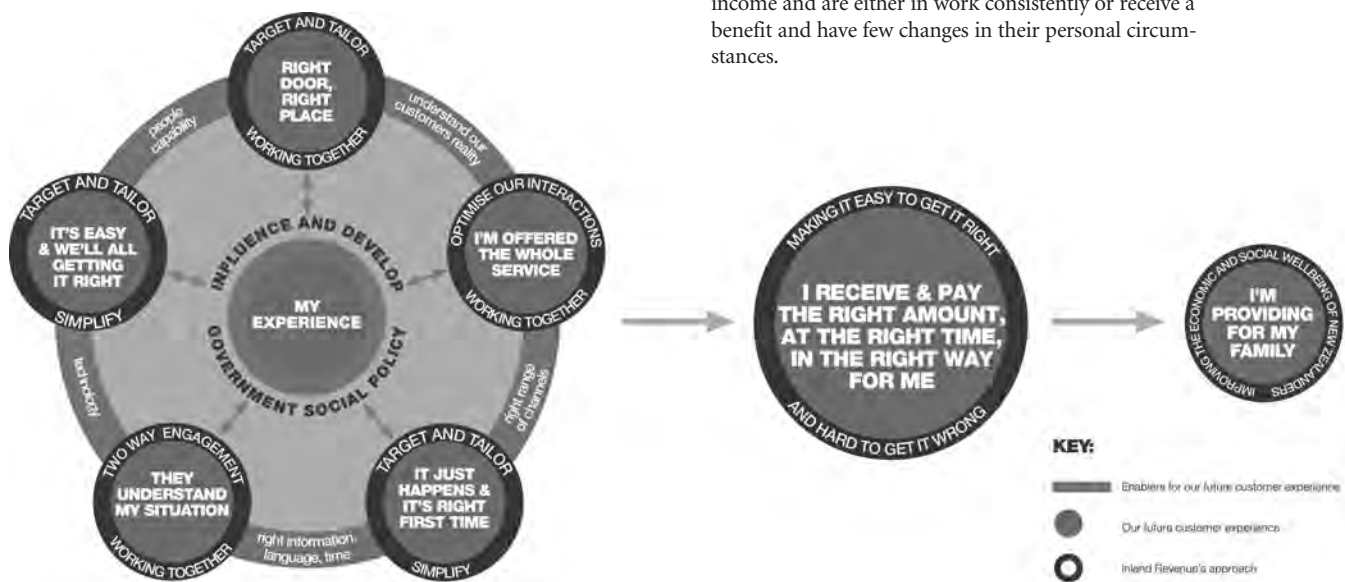


Figure 4. The Families Future Customer Experience, an output of our strategic design planning process, is a tangible statement of what customers will experience when we achieve our strategic intent. Because we aim to target and tailor our approach to achieve the best outcomes, this customer experience has been interpreted through the lens of each of the customer behavioral types we have synthesized from customer research. The framework serves as both a view of where we want to head, and a way of prioritizing initiatives and measuring their success.

tively even though they are separated. IR has decided to target these customers, as they are often in a better position to make changes to the way they interact with the other parent than parents who have been in the system for some time. In other words, we are looking to help customers get it right from the start.

The Parenting Information Pilot is a resource set that includes an interactive CD ROM with experiences, tips, and tools on working with the other parent, relationships with children, new personal relationships, and finances.⁷ This initiative grew out of learning through research that newly separated parents do want to put the needs of the child first and have a more “professional” relationship with the other parent. The resource set is intended to help parents have an effective custodian/paying parent relationship so that they put the well-being of their children first, including complying with their child support payments (Figures 5 and 6). This is an example of an initiative that developed from understanding customers’ unarticulated needs. In this case, we are not addressing noncompliance, but rather preemptively addressing the possible causes of this behavior while also working to achieve IR’s primary goal—“improving the economic and social well-being of New Zealanders.”

But will it have the intended effect? Karyn McLean, as the design manager responsible, explains the importance of measuring the pilot’s success: “We are carrying out an evaluation to identify whether the resource package is effecting an increase in compliance, what impact the package has on the attitudes of new customers, and whether there is a particular group of customers on whom the package has more or less impact.”

Transforming communications for taxpayers—the value of service design planning

As mentioned earlier, IR has done much to reduce the burden on people to file tax returns—there is a group of people who never

7. This information has been adapted with permission from a CD produced by the Australian Child Support Agency, and has been updated in collaboration with two not-for-profit agencies, New Zealand Relationship Services and the New Zealand Federation of Family Budgeting Services Inc.

need to file a tax return at all and therefore have no direct interaction with IR. IR relies on the income information that is reported by their employers to determine the correct amount of tax to deduct from each paycheck. How do we know that the information that employers are reporting is correct?

Kathy Clement, a design manager who was involved in the original income tax simplification initiative for salary and wage earners, shares this insight: “We are continuously striving for the right balance between simplification and accuracy. Making things simple for the customer typically means giving up a certain amount of control over the veracity and correctness of information on which we assess obligations and

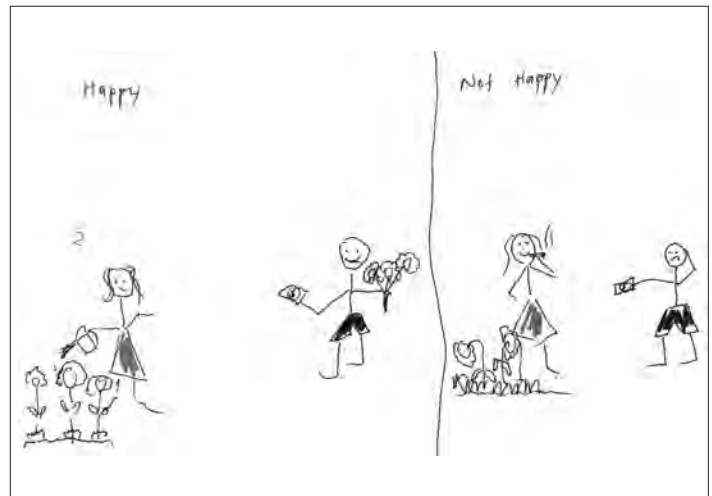


Figure 5. This drawing, from a paying parent, comes from our customer research into barriers and drivers for child support compliance. It illustrates the parent’s willingness to pay based on how he or she sees the child benefiting from the payments and the other parent’s parenting style.

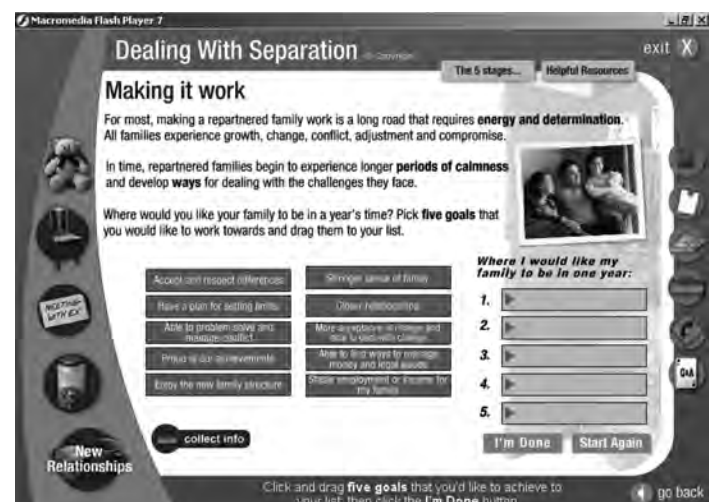


Figure 6. The service design initiative resulting from the research is a CD-ROM that offers tools and tips to assist in parenting when separated. It emphasizes how to achieve an effective, working relationship between the parents, one that will put the needs of their child first.



Figures 7. Introducing Kiwi Ted. Kiwi Ted is a persona who represents the experience a person might have with Inland Revenue. We use personas to create a vivid picture from the customer's point of view. These pictures help us to identify opportunities for improving our services and interactions with customers, and are a springboard to generating service design concepts to improve the experience.

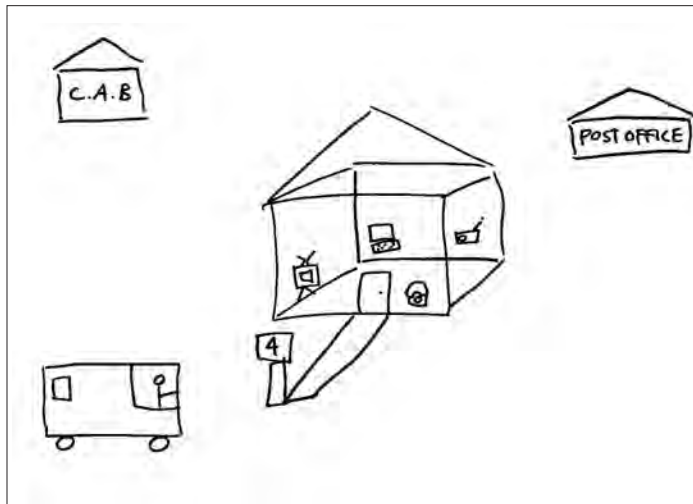


Figure 8. This is Ted's house.

entitlements, and this can pose a threat to the revenue base because we may not be collecting enough, and/or we may be giving out too much.⁸ Strategic design thinking is a critical competency to bring to the challenge of turning this trade-off into an opportunity for transformational innovation that ensures the system is fair for all.⁹

Another challenge associated with customer experience simplification is the range of programs we administer. A customer might not need to interact with us in order to meet tax obligations, but we may need to interact with him or her to correctly assess a social assistance entitlement because this is based on household income, not individual income. Transforming communications with taxpayers is a service

design planning initiative that aims to rationalize information flows to and from customers based on the right drivers—an improved customer experience, improved accuracy of information, with the flow-on effects of lowering administrative costs for the department.

As per our design methodology, we have begun this initiative by mapping out the current customer experience, with the help of a persona, Kiwi Ted. We use personas to paint a vivid picture of the customer experience and to make a compelling case for change. Kiwi Ted typifies the experience of a customer who might be a self-employed taxpayer, receive social assistance, be registered in the government's retirement plan, and have student loan repayments. The result can be a vast amount of information that IR sends to Kiwi Ted in an effort to ensure that he knows what he has to do. Even with all the right intentions, the effect can sometimes be overwhelming (Figures 7, 8, 9, and 10).

This simple but powerful snapshot of the customer experience forms the basis for the next step—a service design planning exercise to transform this scenario while addressing IR's regulatory requirements.

Our design journey—challenges and next steps

We have made some real gains—for our organization, for our customers, and for our designers—and in terms of designing services that result in increased compliance and entitlement uptake. However, it is still early days. We face a number of challenges. Our new design approach is different from that of our traditional organizational mode. Design is synthetic, iterative, and relies on deep customer insight while striving for innovative outcomes; our organizational approach tends toward the linear and fact-based and strives for optimizing process and system performance. The two approaches can co-exist, but we need to understand where each is most usefully applied, and we also need a common language set through which to relate each approach.

⁸ Contrary to what might be a popular belief, tax administrations are not in the business of maximizing the tax collected. Rather, they aim to collect the *right* amount of tax established by law. In the social assistance disbursement function, IR's responsibility is to distribute all the assistance that people are entitled to by law.

