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# Theme 2: Simpler, smarter and innovative public services

**How can governments deliver services better and more efficiently? This is one of the key questions governments all over the world are constantly dealing with. In recent years countries have had to cut back government spending at the same time as demand from citizens for more high quality service is increasing. Public institutions, just as companies, must adapt and develop over time. Rapid technological advancements and societal changes have forced the public sector to reform the way it operates and delivers services. The public sector needs to innovate to adapt and advance in the 21st century.**

There are a number of reasons why public sector innovation matters (Potts and Kastelle 2010):

- The size of the public sector in terms of percentages of GDP makes public sectors large components of the macro economy in many countries. Public sector innovation can affect productivity growth by reducing costs of inputs, better organisation and increasing the value of outputs.
- The need for evolving policy to match evolving economies.
- The public sector sets the rules of the game for private sector innovation.

As pointed out, there is clearly an imperative to innovate. However, public sector innovation can be difficult, as public services deal with complex problems that have contradictory and diverse demands, need to respond quickly, whilst being transparent and accountable. Public sector innovation has a part to play to grow future economies, but also to develop the solutions to the biggest challenges facing most western nations today. These problems won't be solved without strong leadership from the public sector and governments of the future. These issues are (Pollitt 2013):

- Demographic change. The effects ageing of the general population will have on public services.
- Climate change.
- Economic trajectories, especially the effects of the current period of austerity.
- Technological developments.
- Public trust in government.
- The changing nature of politics, with declining party loyalty, personalisation of politics, new parties, more media coverage etc.

According to the publications of national governments, the OECD, World Bank and the big international management consultancies, these issues will have major long-term impacts and implications (Pollitt 2013).

The essence of this background paper is to look at how governments can use innovation to help grow the economies and solve some of the biggest challenges of this generation and determine what the essentials to make it happen are. Firstly, a difficult economic environment in many countries tends to constrain the capacity of governments to deliver quality public services. Fiscal pressures, demographic changes, and diverse public and private demands all challenge traditional approaches and call for a rethinking of the way governments operate. There is a growing recognition that the complexity of the challenges facing the public sector cannot be solved by public sector institutions working alone, and that innovative solutions to public challenges require improved internal collaboration, as well as the involvement of external stakeholders partnering with public sector organisations (OECD 2015 a).

Willingness to solve some of these problems is not enough. The system that most western countries have created is in many ways a barrier to innovation. For instance, the public sector can lack innovative leaders and champions (Bason 2010, European Commission 2013), the way money is allocated, and reward and incentive systems can often hinder innovative performance (Kohli and Mulgan 2010), there may be limited knowledge of how to apply innovation processes and methods (European Commission 2013), and departmental silos can create significant challenges to 'joined up' problem solving (Carstensen and Bason 2012, Queensland Public Service Commission 2009).

There is not an established definition of innovation in the public sector. However, some common elements have emerged from national and international research projects. The OECD has identified the following characteristics of public sector innovation:

- **Novelty**: Innovations introduce new approaches, relative to the context where they are introduced.
- **Implementation**: Innovations must be implemented, not just an idea.
- **Impact**: Innovations aim to result in better public results including efficiency, effectiveness, and user or employee satisfaction.

Public sector innovation does not happen in a vacuum: problems need to be identified; ideas translated into projects which can be tested and then scaled up. For this to happen public sector organisations need to identify the processes and structures which can support and accelerate the innovation activity.

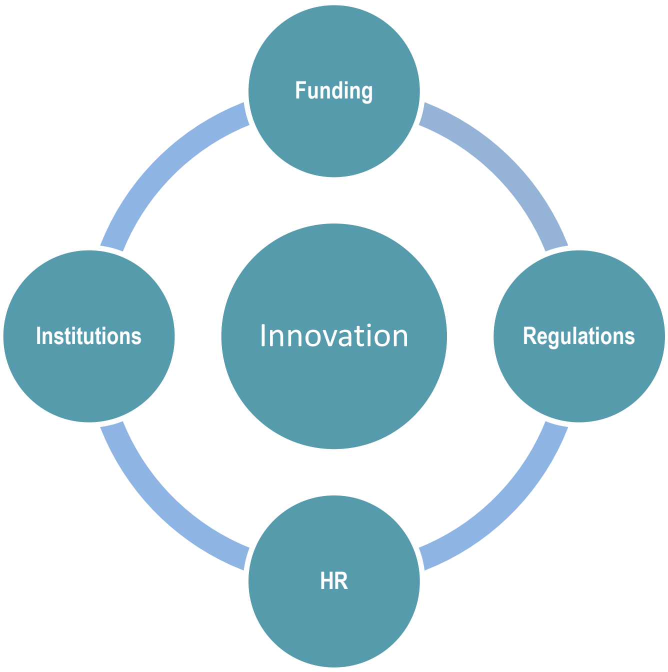


Figure 1. Key components for successful public sector innovation.

The barriers to public sector innovation are in many ways the key to its success.  In this background paper four key components for public sector innovation success will be discussed and ways to change them from barriers to supporters of innovation. The framework and the policy levers can play a key role in enabling and sustaining the innovation process: These levers are:

- **Institutions**. Innovation is likely to emerge from the interactions between different bodies.
- **Human Resources**. Create ability, motivate and give the right opportunities.
- **Funding**. Increase flexibility in allocating and managing financial resources.
- **Regulations**. Processes need to be shortened and made more efficient.

Realising the potential of innovation means understanding which factors are most effective in creating the conditions for innovation to flourish, and assessing their relative impact on the capacity and performance of public sector organisations.

## Institutional arrangements supporting innovation

The capacity of the public sector to innovate also depends on the quality and effectiveness of the institutional arrangements supporting innovation. These arrangements may include, for example, the level of institutionalisation of innovation in governments' mandates (e.g. specific public sector innovation portfolio) and the articulation of formal responsibilities (e.g. dedicated organisation tasked with the promotion of innovation or "shared" responsibility model) (OECD 2015a).

Institutional arrangements for public sector innovation are defined here as the teams, units and funds established by governments and charged with making innovation happen. Governments around the world are increasingly developing dedicated teams, units or funds for supporting innovation efforts at a national, regional and city level (Puttick et al 2014).

These institutions for innovation come in a variety of forms (Puttick et al 2014):

- *Organisations:* Self-governing structures with their own strategy or set of rules
- *Units:* New entities set up within an existing organisation (more permanent than a team)
- *Teams:* Groups of individuals brought together within an existing structure
- *Programmes:* Defined projects delivered and operated within an existing institution's

These structures matter because they can overcome some of the barriers to public sector innovation. Innovative organisations, units, teams, programmes and funds for innovation can, for example, help to create a culture of public sector innovation, by putting experimentation at the heart of the public sector (European Commission 2013, Christiansen and Bunt 2012). They can also play a key role in spreading the use of innovation methods such as prizes, design, ethnography, co-creation, and rapid prototyping, whilst sharing evidence and supporting adoption and diffusion of innovation within the wider public sector (Bellefontaine 2012, Cartensen and Bason 2012, Puttick et al. 2014 and Torjman 2012).

Different types of institutional arrangements can be identified as evident in a recent study undertaken by the OECD and Nesta in the UK, in which countries reported on the structures that they have in place to support innovation. These teams, units and agencies could include those that were creating better public services, improving outcomes, improving efficiency or making better policies (OECD 2015b).

**Table 1. Supporting public sector innovation**

| Countries | Agency/unit/team | Purpose |
|---|---|---|
| Denmark | **Agency for Digitisation** | To create digital public services across government |
| Denmark | **Mindlab** | Uses human centred design as a way to identify problems and develop policy recommendations |
| Finland | **Sitra** | Drives innovation within areas such as healthcare and sustainability |
| Sweden | **VINNOVA** | Provides R&D funding to a range of public innovation projects |
| United Kingdom | **The Behavioural Insights Team** | Applies insights from behavioural science to policy challenges |
| United Kingdom | **What Works Network** | A set of institutions dedicated to helping policy makers understand what is working – and what is not – in a number of areas |

Creating an innovation team or a unit is one way of supporting public sector innovation. The examples in table 1 indicate that there are countries within the Northern Future Forum that have taken those steps.

A recent research by Nesta in the UK and Bloomberg Philanthropies has identified the enabling conditions needed for the establishment and management of a successful innovation team within government (Puttick et al 2014). There are six elements common to all the innovation teams studied. The research showed that these six elements were of crucial importance, with each innovation team prioritising different combinations of these features, to achieve results and impact for their host or partner government (Puttick et al 2014).

- **Methods:** Employ explicit methods, drawing on cutting edge innovation skills and tools, alongside strong project management to get work done.
- **Team**: Effective teams will contain a diverse mix of skills and a combination of insiders and outsiders to government.
- **Resources:** Institutions for innovation need a defined funding model for the team, attracting partners and supporters to leverage flexible funding.
- **Leadership**: Effective leaders will continually demonstrate and communicate the team's unique value, whilst celebrating success and sharing credit amongst the team.
- **Partnerships:** It is crucial that strong links are forged to executive power inside the government, leveraging internal and external partnerships, resources and insights, to achieve goals.
- **Impact measurement**: Impact should be relentlessly measured, with successes quantified whenever possible.

**Points for discussion:**

- *Which institutional arrangements are being used to spur innovation? (e.g. innovation units, mandates, etc).*
- *How do governments institutionalise the involvement of various actors and end-users throughout the innovation life-cycle?*

## HRM for innovation

People are at the core of public sector innovation. Ideas for new services and business activities are sparked in the minds of civil servants, political leaders, service users and members of the broader community, and are developed and brought to scale through the dedication of many various professionals and stakeholders at different stages of the process. Civil servants and public employees are central at every stage, and therefore the management of government employees can be a fundamental enabler to build organisational capacity to innovate. Recognising that people are at the centre of innovation raises questions about what motivates them to be public innovators, what skills they require for success, and how public organisations can increase both. Answers to these questions require some understanding of the kinds of competencies and behaviours that support innovation, and the way that incentive structures motivate learning and engagement. This suggests the need to look beyond an organization's formal training, incentives and rewards, and to include the organisational culture that frames and structures the way individuals and groups interact and take meaning from their work (OECD 2015c).

The role managers and staff play in creating and supporting public sector innovation cannot be underestimated. A recent report by the EC Expert Group on Public Sector Innovation suggests that the public leader of the future will need to strike a new balance "between administration, stability and predictability on the one hand, and leadership, change and innovation on the other. The expert group report on public sector innovation also envisions the public manager of the future as an entrepreneur. "As a public entrepreneur, one's emphasis must shift to a more pro-active stance in pursuit of collaborative problem-solving and unleashing new opportunities." This means leaders who "challenge assumptions", "focus on outcomes" and co-design solutions with end-users, "lead the unknown" by experimenting on a small scale with potential innovations, and "envision a concrete future" by making innovation tangible (European Commission 2013).

Eurofound (2012) suggests that employee-driven innovation "depends strongly on employees contributing their knowledge, expertise, creativity and commitment to the process". The management challenge is to harness the creative problem-solving potential of their workforce to enable more employee-driven innovation. Managers and leaders can establish the conditions necessary to support, champion and lead employee-driven innovations.

Academic research suggests that HRM practices can have an impact on the capacity of organisations to innovate. Factors that are proven to have an impact in certain circumstances include communication networks, rewards and incentive structures, managerial and leadership styles, organisational practices related to the attraction, selection, training and compensation of employees, and job design factors, such as the use of teams and delegation of decision rights (Laursen and Foss, 2013). If we accept that the workforce is a necessary and central contributor to public sector innovation, then one of the goals of HRM should be to support employees to contribute to this outcome (OECD 2015c).

A well-established theory of employee performance states that employees require the ability, motivation and opportunity (AMO) to do their jobs well (Boxall and Purcell, 2011). But how do we develop the workforce's ability, motivation and opportunity for innovation and how can we impact it?

- **Ability** can be defined in terms of skills and knowledge. Which skills and knowledge are required to innovate will depend on the sector and type of innovation desired. Abilities exist in individuals but need to be considered and balanced at the team and organisation level.
- **Motivation** can be defined as a willingness or desire to do a good job. Motivation can be deeply personal, based on one's beliefs and values, and can also be highly relational, influenced by an employees' relationship with their peers, leaders and perception of their organisation.
- **Opportunity** focuses on organisational development and brings the structural context into the analysis. Here we are concerned with factors such as the design of teams and work units,

the flexibility of working arrangements, the availability of resources and time, freedom and autonomy (OECD 2015c).

If HRM practices have an impact on ability, motivation and opportunity then it is likely that particular forms of HRM activities would impact the strength and type of AMO, and the balance between the three elements. In table 2 the level of impact HRM practices has been estimated.

**Table. 2. How can HRM impact? Level of impact**

| | Ability | Motivation | Opportunity |
|---|---|---|---|
| **Work organisation** | Medium | Medium | High |
| **Recruitment and selection** | High | Medium | Low |
| **Performance management** | Medium | High | Medium |
| **Training and development** | High | Medium | Low |
| **Compensation** | Low | High | Low |
| **Leadership** | Medium | High | High |

In a recent OECD study countries were asked to provide cases that may impact AMO for innovation. A few countries in the Northern Future forum gave examples of HRM practices and programmes with a clear focus on promoting innovation in the public sector. Finland's Government Change Agent Network is a good example. Then there are other more holistic HRM strategies with no direct aim of promoting innovation such as, for example, Sweden's Common Basic Values for Central Government Employees, the UK's Movement to Work and Finland's Towards Year 2020 Initiative (OECD 2015c).

**Points for discussion:**

- *How do HR policies and practices support innovation?*
- *How can performance management and other types of recognition create incentives to innovate?*
- *What skills do public employees of all sorts need to support innovation?*
- *How can diversity be used to inspire innovation?*
- *What leadership styles and practices are required to support innovation?*

## Investment and resource allocation for public sector innovation

Public sectors across many OECD countries face major productivity challenges, most innovation funding and attention has not been directed at trying to address the most pressing social, economic and environmental challenges that most governments are facing. Governments around the world have been forced to implement a variety of budget cuts as a result of the recent financial crisis. It is during these difficult financial times that efficiency-focused innovation becomes even more important. But innovation incentives change drastically, depending on whether the benefits are reinvested within the organisation or are harvested for deficit reduction. Governments need a better understanding of how different fiscal consolidation approaches (e.g. automatic productivity cuts, programme reviews) impact an organisation's motivation and ability to innovate, e.g. in terms of the predictability of budget cuts or mechanisms that allow the reinvestment of some productivity gains. Given the inherent uncertainty involved in innovating, funding innovation may require a different approach from other types of programme spending. The OECD has highlighted the need for greater resource flexibility as an enabling factor (OECD 2015 a & b).

It can be assumed that different approaches to fiscal consolidation would have different impacts on an organisation's innovative capacity, both in terms of the incentives to innovate, as well as their ability to fund it. When looking at how to strengthen the relationship between resource flexibility and innovation in the public sector three key features have been identified as potential growth supporters (OECD 2015 a).

1. **Budgeting process**: Resource allocation is a central process of every public sector organisation, which is usually highly regulated and subject to specific practices, policies and protocol. While their impact on innovation capacity has not yet been fully researched, budgeting processes and rules can be expected to play a role in a number of ways.
2. **Innovation funds**: Innovation in the public sector may not always have a high price tag attached. Nevertheless, some available resources are necessary to enable an innovation to get off the ground. In some cases this can mean specific investment through, for example, a dedicated innovation fund.
3. **Partnerships**: Breaking departmental silos has been shown to be instrumental in supporting innovation, but public sector financial accountability structures are usually structured around government departments and agencies, which can make it challenging to fund collaborative innovation networks.

One challenge for governments facing fiscal consolidation is how best to reduce spending while enhancing and preserving the capacity required to innovate, and even to use certain budget cutting exercises as a way to accelerate innovation in government. However, if all resources are being used to meet day-to-day operational needs, there are no resources or capabilities left to test better ways. Tools such as automatic productivity cuts, strategic expenditure reviews, and funding freezes have been used in various combinations in many countries, and each will impact the government's capacity to innovate in the future. How these tools impact innovation, and what combination is optimal under which conditions is an area that requires further research (OECD 2014).

**Points for discussion:**

- *How do different fiscal consolidation approaches (budget cuts) impact an organisation's motivation and ability to innovate?*
- *What successful models are there to support the funding of innovative solutions?*
- *Can the budget process be mobilised to support policy and management innovation?*

## Cutting red tape: Rethinking regulations and procedures

Public sector innovation takes root when the knowledge of a problem and its potential solutions come together with people who are able and motivated to do something about it. These people also need the opportunity and the resources to innovate and this suggests the need to consider how the rules, laws, and bureaucratic processes that regulate the public sector can be designed to encourage public sector innovation to flourish. Public sector organisations are regulated by a complex web of laws, rules and procedures. These include budgeting, resource management, reporting obligations, project management and approval processes, communication protocol, legal frameworks that regulate public sector organisations activities in areas such as privacy, security, or procurement. While these rules are established for good reasons (protecting the public interest, ensuring ethical use of resources, promoting accountability, establishing common operating procedures for consistency and efficiency), their design may have unintended effects that can inhibit individual and organisational capacity to innovate. For example, regulation may constrain programmatic changes or inhibit co-operation across ministries or in partnership with other sectors (OECD 2014).

Clarifying and, in some cases, simplifying the legal and regulatory context to encourage public sector innovation is something that not too many governments have been doing. Rules, regulations and internal requirements accumulate over time, leading to complex interactions that require legal expertise to clarify. Reducing government red tape has been a common focus in many countries over recent years, primarily to reduce its burden for businesses. However, regulatory simplification could also be considered to reduce the burden of requirements on public agencies with a focus on maintaining the public objectives behind existing regulations while considering alternative solutions.

Many OECD countries have gone through extensive reviews of their legislation, but few do so with the intention to look at the impact of internal administrative requirements on the capacity of organisations to innovate. Most reviews have the purpose of either verifying the rigor and consistency of the process to develop and implement regulations and/or to assess the degree of understanding of regulations by staff. Tools have been developed to do this, with a focus on regulations in the larger economy. OECD publications on Regulatory Impact Analysis, for example, show that countries have developed a range of tools to give decision makers a better understanding ex ante of the impacts of regulations and the risks associated with their implementation. A similar approach could be developed for internal government regulation to disentangle the webs of rules and assess the impact for the development of innovative organisational capacity (OECD 2014).

Updating rules and regulations is particularly important to enable governments to harness the potential presented by some of the new approaches. Many governments have been slow to embrace these tools, due to regulations that were not designed for these new realities. For example (OECD 2014):

- **Detailed records:** Policies that require governments to keep detailed records of their interactions with citizens may limit the free-flowing interactions characteristic of social media.
- **Privacy legislation**: Privacy legislation may further limit the ability to interact meaningfully with citizens on these channels, if interactions are classified legally as personal data.
- **Accessibility laws**: Accessibility laws which guarantee equal access for the impaired, may limit the use of social media if it can be argued that, for example, the visually impaired cannot gain access to the same quality of service.
- **Intellectual property rights**: They may place further limitations on the sharing of third party information over social media sites.

These examples highlight the way that well-intentioned legislation may limit the speed and scope of innovation in the public sector in ways that do not always clearly result in public benefit.

**Points for discussion:**

- *What alternatives are there to detailed regulations to ensure programme performance and service quality?*
- *How can systematic reviews of regulations serve to promote innovative behaviour in the public sector?*

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