

PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
PUBLIC GOVERNANCE COMMITTEE**Observatory of Public Sector Innovation: Identifying policy levers to promote innovation**

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This note is provided as reference for the discussion on the Observatory of Public Sector Innovation of the 48th meeting of the Public Governance Committee. This document proposes elements for developing research on barriers to and enablers of public sector innovation under the Observatory of Public Sector Innovation's current programme of work. It draws from the analysis of the cases in the OPSI database, initial desk research and discussion at the last Observatory Task Force meeting (23-24 April 2013). The discussion may serve to guide the next steps of OECD analysis, the identification of best practices in this area, as well as directions for the development of possible guidance to foster more innovative public sectors.

Delegates are invited to:

- COMMENT on directions for analysing policy levers to promote public sector innovation and on the potential usefulness of framing policy guidance for innovative public sectors.

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OBSERVATORY OF PUBLIC SECTOR INNOVATION: IDENTIFYING POLICY LEVERS TO PROMOTE INNOVATION

The case for building knowledge on promoting public sector innovation

1. Today a number of factors 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 also a growing recognition that the complexity of the challenges facing the public sector today cannot be solved by public sector institutions working alone, and that innovative solutions to public challenges require the involvement of external stakeholders partnering with public sector organisations.

2. Public sector innovation does not happen by itself: problems need to be identified; ideas translated into projects which can be piloted on a small scale and then implemented and diffused. This requires public sector organisations to identify the processes and structures which can support and accelerate the innovation activity, and those that acts as barriers inhibiting innovation. While there is a growing body of evidence on innovative practices in the public sector, there is still a limited knowledge of the barriers that public sector organisations face to innovate and of the policy tools governments can use to surmount them and to strengthen organisations' capacity to innovate.

3. Initial evidence from the OPSI database indicates that innovation happens in many public sector domains (from procurement to IT management and service delivery)¹ leading to results in terms of cost efficiency and enhanced service quality. However, while organisations innovate, there remain significant disparities in the level and intensity of innovative activity in public sector organisations across countries², reflecting differences in innovative capacity and performance across the public sector, but also changes in the broader economy and society.

4. 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. From an initial review of the cases in the OPSI database complemented by desk-based research, the OECD has identified some key factors contributing to the success of public sector innovations (See [GOV/PGC\(2013\)3](#)). These factors have been identified at the organisational level where the innovation occurs, but also on a cross-government level and more widely in the national economy and society. Together, these may point to policy instruments that governments can activate to lower the barriers to innovation and create the conditions favourable for the development of a public sector innovation system.

5. When looking at the implementation of innovations included in the OECD database, the following frameworks and policy levers at central level appear to have played a key role in enabling and sustaining the innovation process: human and financial resource management; information and knowledge management; institutional arrangements; regulations inside government; and risk management. The following section will discuss in more detail some of the identified barriers to innovation and the role that these policy levers can play to overcome them. It will also outline critical issues that need to be addressed and that are raised by the use of these levers, and remaining questions in relation to data collection and analysis.

¹ See [GOV/PGC\(2012\)12](#)

² See [DSTI/EAS/STP/NESTI\(2011\)8](#)

Identifying potential barriers to innovation

6. Despite the wide variety of innovative success collected so far by the OPSI, it is clear that the public sector has not yet tapped into the vast potential that innovation could offer. The reasons for this appear to be various and complexly interrelated. While it is difficult to empirically identify those factors that constitute barriers to innovation, previous research in this area and initial evidence collected from the database indicate the following problems inhibiting innovation:

- **Public servants are not good at identifying and managing risks.** Innovation, by definition, entails novelty and therefore requires organisations to accept a certain level of uncertainty and risk. The public sector often has a lower level of risk tolerance than the private, as it tends to overemphasise process. It could be argued that the use of public money and statutory responsibilities hold public sector managers to higher account, and both media and political opponents are more willing to expose a failed innovation in the public sector. Moreover, innovations in the public sector can have a high degree of impact and visibility as they may affect public services such as health and social security benefits. Such factors may lead to the development of a culture of risk aversion.
- **Innovators do not get recognised nor rewarded.** This culture of risk aversion may be reinforced by a management system that fails to recognise and reward innovation. For many public sector leaders, the rewards for successful innovation are low for its inceptors even if there can be huge gains for the public sector and citizens as a whole, while the impact of failure can be significantly higher. This can be a major burden to innovation, given the central importance of senior level champions for many innovation projects.
- **Internal regulations can come at a high cost in terms of innovation.** Internal rules and regulations which are meant to provide predictable control can have unintended consequences which impact on the capacity to innovate, and further reinforce risk aversion. For example, long and cumbersome approval processes and administrative procedures can stifle creativity and flexibility in the workplace, and result in higher costs for administrations. Inflexible security or confidentiality policies can put limitations on the sharing of data and information, while freeing up information and actively encouraging exchange and collaboration tends to promote innovation.
- **Traditional problem-solving structures are not adapted to the complexity of today's issues.** "Wicked" societal problems can no longer be solved by any single government body acting alone. Instances are needed that allow government organisations to think about how their interventions interact with that of other bodies, and how they can collaborate more effectively to solve common challenges. Innovation is likely to emerge from the interactions between different bodies which require the existence of appropriate frameworks to allow these interactions to happen.
- **Lack of flexibility in allocating and managing financial resources.** Budgeting and financial management rules and procedures warrant particular attention, given some level of resource investment is required at various stages in an innovation's development. Overly rigid budgeting processes may impede investment. Furthermore, benefits of innovation can often accrue in different areas from those who made the initial investment. This may be especially true in times of austerity, when organisations are asked to invest in innovations to find efficiencies that will ultimately result in government-wide deficit reductions instead of benefits accruing to the innovators directly.

Enabling public sector innovation

7. Using the OPSI cases as a starting point, the following categories have been identified as an initial list of levers which public sectors use to address some of the issues identified above. While discussed separately in this section, these levers are rarely used in isolation but are often combined to achieve synergies and greater impact on promoting innovation (e.g. use of prizes/award combined with provision of seed funds). It is expected that further research will produce insights in the use of these policy tools to support governments' innovation capacity.

Incentivizing staff and building a culture of innovation

8. People are at the centre of innovation, and their commitment and determination drives every stage of the innovation process. Research shows that innovations are born from ideas that come from staff at all levels of an organisation. Front line staff and middle managers who interact with clients and operationalise policies often have the best understanding of the need to innovate. This is reflected in various OPSI cases, where employee involvement has been cited as key.

9. A good example is Belgium's 'Out of Office' innovation, which establishes a network of satellite offices that are closer to employees' homes, reducing the use of expensive office space in the capital, whilst improving the work/life balance within the federal public service. The project was developed as the result of a contest in which all public employees could submit efficiency ideas.

10. Recognizing that the human factor is core to innovation leads to questions regarding HR policies and practices and their role in supporting innovation. For example, further research may draw lessons on how training and development programs can develop creative thinking as a professional competency and how performance evaluation and management can be used to incentivise and/or discourage innovative thinking and acting.

11. Individual employees do not innovate in a vacuum, but instead within an organisational culture which may support and/or hinder innovation. Further research could explore, for example, the link between leadership practices and innovative organisational cultures. It may also look into diversity in the workplace (cultural, age, gender, backgrounds and educational levels, etc.) and how this can be managed to support innovation.

12. Innovation awards programmes appear to be receiving a lot of attention from various OECD countries, including the USA and the European Commission. Further research could investigate the link between such award programs and the development of innovative cultures, producing potential insight on their design and impact.

Question for discussion:

- What elements of your competency framework (for either the recruitment or performance evaluation of staff) may be said to support innovative thinking?
- Do you have a system in place to reward staff for developing and implementing new ideas?

Capturing and sharing information and knowledge

13. The availability of accurate, timely performance information is important to support the innovative capacity of organisations so that they can identify areas that require innovation, and learn from their successes and failures. “Learning organisations” are capable of collecting the right information and using it to innovate in response to changes in their environments. This is a key element of the public sector innovation cycle. Further research in this area may lead to insights on how organisational performance management frameworks are linked to innovation, and what kind of data collection is the most useful to build the innovative capacity of public sector organisations.

14. Academic research and a variety of cases in the OPSI database highlight the sharing of information across organisational boundaries as a key enabler to the success of innovations. Traditional hierarchical bureaucracies have often limited the horizontal flow of information due to rigid regulations and incompatible information management practices. Further research in this area could explore how a variety of tools can be used to support information flows across organisations and how this impacts organisations’ innovative capacity.

15. Furthermore, some countries are developing innovation units to act as centres of expertise to gather information about innovation and ensure it is accessible to all organisations. Australia has established a specific innovation unit to act as innovation specialist for the Government as a whole (DesignGov). The unit is developing a range of tools to support organisations in the Australian Public Service to become more innovative, and works to establish networks of innovators through online wikis and blogs. Further research in this area could explore the development and sharing of knowledge related to innovation and its impact on enabling innovation in the public sector.

Question for discussion:

- How does your government actively encourage the sharing of information and data across organisational boundaries? What barriers prevent effective sharing and learning?
- If you wanted to share ideas on innovation with other government officials, is there a place to do so in your organisation/government?

Setting up effective institutional arrangements supporting innovation

16. 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’ mandate (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).

17. These arrangements are expected to vary across OECD countries depending on culture and tradition, as well as the degree of autonomy organisations and individuals have. Lessons from agencification show that the level and type of autonomy needs to be matched to the nature of the mandate and outputs of an organisation: individual autonomy may encourage staff to think more creatively, but can also lead to fragmentation and stove-piped thinking in response to complex societal problems.

18. Collaboration and coordination frameworks might be needed to regulate interactions with actors outside government. As the sample of innovations collected by the OPSI indicates, innovations are often

spurred through partnerships that extend beyond traditional organisational boundaries, either with other public sector organisations, with other sectors, or with citizens. Involving actors beyond the public sector has been identified by the OECD research as one enabling factors for success of innovations. Involving different actors can help address specific policy problems, exchange knowledge and ideas, and mobilise resources and support for the implementation of the innovation.

19. However, not all partnerships lead to innovation. On the one hand, if only usual suspects are included, creativity might be hampered. On the other hand, including new and unfamiliar partners might lead to unstable networks where lack of trust hinders innovation. In any case, the different interests of network partners need to be managed.

20. This can lead to the development of innovative institutional arrangements, entities and governance approaches. For example, in Denmark, MindLAB is a cross-ministerial entity that works with services users, public sector organisations and companies to co-design and prototype innovative solutions for public services. Such arrangements can help pool both competencies and risk. Further research could look into how governments have created and managed partnerships and what arrangements have been deployed to involve actors within and outside governments for thinking about innovation and how to innovate.

21. Governments also involve users in the design phase of an innovation where countries consult with users to develop an understanding of their unmet needs and preferences. The cases collected by OPSI demonstrate a range of end-users across different types of innovation which include:

- Citizens, where innovations are focused on service delivery, such as the integration of citizen services as part of ChileAtiende in Chile;
- Public sector employees, where innovations have improved working conditions or programmes in the public administration, such as the Veteran's Benefit Navigator in Canada;
- Private sector actors, where innovations seek to improve conditions for businesses, such as the Federal e-Procurement Project in Belgium.

22. Involving end-users promises great potential in fostering innovation. Still it is often dependant on the willingness of policy makers to share power and the readiness of end-users to be part of the policy process. Furthermore involving end-users can be seen as a risk as they might feel let down when their input does not translate into practice. Better evidence of how feedback is used in the innovation activity and how both civil servants and end-users are motivated to be part of a process is needed.

Question for discussion:

- Does your country have a policy for the promotion of innovation in the public sector? How is it supported at the political level? Is there a dedicated structure or agency tasked with the development, diffusion and promotion of innovation within the public sector?
- How is this policy, when it exists, supported by inclusive partnerships involving citizens and innovators within the public sector? How do organisations in your government overcome the challenges of working in networks to facilitate the sharing and diffusion of innovation?

Optimising investment and resources allocation

23. Given the inherent uncertainty involved in innovating, investments in innovation may need to be more flexible than funding for day-to-day routine activities. Resource flexibility as an enabling factor was highlighted by various cases in the OPSI database.

24. Some organisations have also experimented with dedicated innovation financing. For example, Canada's National Anti-Drug Strategy intends to spawn innovation by providing seed funding to new projects that foster systemic change. In addition, this programme provides funding to conduct pilot projects that test and validate new treatment services and system enhancements. Further research in this area could determine what kinds of flexible funding mechanisms enable further innovation in public sector organisations.

25. Other aspects of budget processes and financial management procedure may incentivise or discourage innovation. For example, 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 when 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. Further research could lead to 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. It may also provide insight on ways of incentivising innovation in organisations when others may benefit from the results.

26. Another area in which budget policies may support or hinder innovation applies to partnerships. Breaking departmental silos has been shown to be instrumental in supporting innovation, however public sector financial accountability structures are often departmentally focused, which can make it challenging to fund collaborative innovation networks. A closer look at budgeting and financial management practices for innovative partnerships may highlight particular levers to enable a more innovative public sector.

Question for discussion:

- How can a balance be achieved between fiscal consolidation and investment in innovation?
- In your country, are budgetary arrangements in place to allow individual organisations to reinvest some of their efficiency savings in organisational innovation or service development?
- How can organisations be incentivised to invest in innovation when benefits may accrue elsewhere?
- How can flexibility be organised within budgetary frameworks in order to offer scope for experimentation and innovation?

Rethinking regulations and procedures

27. Altering regulations can be used as a lever to change public organisations' incentive to innovate, particularly as regulation inside the public sector can often represent a significant burden in terms of red tape, which can discourage innovators' efforts. In the United States, the 2010 America Competes Act has given agencies legal authority to run competitions – instead of standard procurement – as a way to procure solutions to complex issues by crowd sourcing ideas and expertise from citizen and companies from around the world. Competitions have allowed an increase in the number and diversity of the individuals, organizations, and teams addressing a particular problem, thus driving innovation.

28. The advent of collaborative platforms can open up innovative possibilities for service delivery, but concerns about the legal and operational issues of these communication tools can prevent or delay agencies using them as potential service delivery options. For example, privacy and security arrangements sets by governments (e.g. to protect the confidentiality of information owned by an agency) can create technical barriers to more open models of web-based interaction with the public. A question is how to balance the risks (e.g. of security breach or leak of confidential government information) with the rewards from establishing improved interaction or service delivery through the use of innovative tools (e.g. web 2.0 tools)³.

29. Many OECD countries have gone through extensive reviews of their legislation, but few do so with a view 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. This second element is particularly important as government officials' misunderstanding of the rules (and risk aversion) may lead them to adopt unnecessarily onerous processes or simply adopt "same as usual" behaviours.

30. Some regulatory review programs have applied an outward-looking approach which seeks to involve public officials in the improvement of internal rules. The administrative burden programme in the Netherlands invested in ideas from professionals on how to make their work more effective with less red tape. For example, several regions in The Netherlands have started an innovative pilot project which introduced the possibility to skip the requirement of reporting to the police in case of loss of a travel document. This has led to an enormous burden reduction for the police and for citizens, better collaboration between the issuing authority and those involved in the prevention and detection of fraud. It also increased awareness by the issuing authorities on the possibilities of fraud and misuse of travel documents. Further research can collect data and explore whether systematic reviews of internal regulations also served to promote innovative behaviour in the public sector and the extent to which front line staff are involved in the review of existing rules.

Question for discussion:

- Have systematic reviews of internal regulations and efforts at cutting red tape also served to promote innovation within your public sector?
- How can innovation considerations be incorporated into regulatory reviews and assessments?
- How can the public sector find a balance between regulation and openness to innovation and scope for experimentation?

Managing risk and uncertainty

31. Given all of the challenges described in this document, public sector innovation may benefit from specific approaches to risk management to ensure that innovative projects are able to monitor risks to correct course early, avoid unnecessary failure and minimise potential negative impacts.

32. Tools highlighted in the OPSI examples to manage risks include the use of prototypes and pilots. In both cases, limited testing of an innovation has enabled countries to identify potential problems with

³ Empowering Change: Fostering Innovation in the Australian Public Service (2010)

their innovations and develop appropriate solutions. When piloting the initial concept of the Canadian Open Policy Development, barriers to the concept were highlighted, such as cultural discomfort towards change and lack of technological skills. Identifying these barriers enabled the development of solutions, such as voluntary training in ministries on new technologies, and the emergence of staff ‘champions’ to guide change.

33. The cases collected by OPSI show that many organisations in the public sector use piloting and prototyping to further develop innovations and manage risks. Further research in this area may show how risk management methods and tools support innovation, despite the presence of a range of risks and uncertainty at each stage of the process. Research may also highlight how risk aversion in organisational cultures can be overcome as a barrier, while maintaining the accountability required to ensure responsible management of public finances and services.

Question for discussion:

- Are the corporate risk management tools used today up to the task of managing public sector innovation? How can they help to prevent and reduce the cost of failure?
- Are there other approaches to managing innovation projects that balance the need for risk reduction with the need for innovation?

Connecting the dots: conclusions and way forward

34. This note highlights the potential role of policy levers at the wider government level to remove barriers and create conditions for public sector organisations to innovate. It also identifies some key policy issues which need to be addressed to provide a comprehensive innovation friendly environment in which the various policy levers can interact and support each other. Initial considerations on the type and interactions of these policy levers underscores the usefulness of looking at the wider public sector framework as an integral part of the innovation ecosystem (see Figure 1 below).

Figure 1. The Innovation Ecosystem



Source: OECD

35. Not only what happens in each of these environments, but also the relationship between them, will be important in determining the capacity of central government organisations to promote innovation. The complexity of these interactions presents a potential opportunity to develop a comprehensive and unified vision and strategy across government and how this can be used to overcome organisational fragmentation and set the right incentives for individual organisations to innovate.

36. The OECD is preparing a report on the enabling frameworks for public sector innovation at the wider public sector level which collects data and further examines the policy levers presented above. This work will be based on desk research and the collection of information from countries to identify the frameworks and approaches that are in place at the national level to support innovation, leveraging the involvement of the OECD expert networks. This research and analysis will be augmented and exemplified by case studies which will allow for a more in depth understanding of the concrete challenges facing public sector innovation and the contextual factors influencing the choice of policy instruments. The findings of this report will provide evidence on the barriers that public sector organisations face and policy instruments that are most effective to overcome them. It will also outline lessons in implementation, leading to identify some good practices that foster and promote innovation.

37. The following final questions can provide a starting point for country discussion during the PGC session:

- To which extent do the areas identified above provide a comprehensive framework of innovation enablers and barriers within the public sector? Are there particular areas other than those discussed above, that you would highlight as a key enabler of innovation which require further investigation?
- Does the concept of the innovation ecosystem, as presented above, appear to be a useful approach to frame further OECD research with the goal of producing useful outcomes to policy makers and practitioners?