The Innovation Imperative in the Public Sector

SETTING AN AGENDA FOR ACTION

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BETTER POLICIES FOR BETTER LIVES

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Foreword

The public sector is seeking to innovate, to become more open, collaborative, iterative and participatory. Innovation has become a must for governments if they are to address the multitude of citizen and private sector expectations, the complexity of the policy challenges and the quest for productivity.

Fostering innovation in public organisations requires changes that encourage organisations and the people that work for them to come up with new ideas, try new approaches and work in new ways.

To support governments in their drive for innovation, the OECD Public Governance Committee has developed the Observatory of Public Sector Innovation (OPSI). The OPSI's mission is to promote a better understanding of public sector innovation, collecting evidence on what works and connecting innovators in the public sector around the world so that they can share their experiences and learn from each other.

This report provides a synthesis of the initial findings of the Observatory's work, drawing on the innovative experiences available on its online platform and the results of the OECD conference 'Innovating the Public Sector: from Ideas to Impact', which took place on 12-13 November 2014. The report provides a framework for understanding and analysing public sector innovation, and identifies the main capabilities that determine an organisation's capacity for innovation: empowering the workforce, generating ideas, adopting new methods of work and reducing regulatory complexity. Finally, it sets out specific actions that governments can take to strengthen their capacity to innovate.

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Executive summary

Governments are seeking to innovate: in how they work; in the services they provide and how they provide them; and in how they interact with citizens, businesses and civil society. These changes are being driven by different forces, including a more globalised and networked world, rising citizen expectations, new technologies, increasingly complex problems facing governments and – particularly since the 2008 economic crisis – tight budgets. Whatever the reason, the consensus seems clear: public sector organisations need new ways of working.

How does public sector innovation happen?

Drawing on recent experiences from national and sub-national governments available on the OECD's Observatory of Public Sector Innovation, as well as lessons from the past, the OECD has developed an integrated framework for analysing public sector innovation. It identifies four levels where innovation takes place: 1) the individual innovator, 2) the organisation in which he or she operates, 3) the public sector as a whole and 4) society, and four organisational factors: people; knowledge; ways of working; and rules and processes. Both the levels and factors are interlinked, and the borders between them are not always clear-cut. This framework can guide future research, and forms the basis for the OECD "Innovation Imperative: A Call to Action" which identifies four areas that governments need to address to promote and enable public sector innovation (see Public Sector Innovation: An Agenda for Action).

Empowering the public sector workforce

The cultural dimension of the framework looks at how to motivate and encourage people to innovate. While pay does not seem to be an important motivator of innovation in the public sector, other extrinsic rewards such as recognition, career advancement, special assignments and competitions may play a role. Intrinsic factors such as seeing the value and impact of one's work and learning new skills can also be a strong incentive. Human resources management practices that integrate such motivating factors can

help create an environment that encourages innovation. However, the informal incentives embedded in an organisation's "culture" may be even more important, including relationships within hierarchies, the approach to teamwork, recourse to experimentation and tolerance of failure. Traditionally, the public sector tends to be averse to risk, but being innovative implies a certain amount of trial and error. Political leaders and senior managers set the tone, and their support for and commitment to innovation is crucial.

Generating and sharing innovative ideas

The flow of information is essential for generating new ideas, and how data and knowledge are managed and shared within an organisation can support or inhibit innovation. Public sector organisations need systems to gather and manage information produced both internally and externally, including data on their own finances and overall performance, individuals' knowledge and ideas, information on the needs and demands of users, ideas from outside their organisations, etc. Increasingly, governments are using social media and crowdsourcing to interact with the public more directly, and actively seek citizens' input on how to improve public services.

It is not enough just to gather data however; organisations must also be able to use that information to make changes – to become learning organisations. Knowledge management can help, but it is important that the organisational culture supports continuous learning. It is also crucial to share information to increase its innovative potential, and to help spread ideas and promising practices across organisations. Open Government Data and "big data" initiatives offer both new sources of public sector information and new ways to share it with people and firms outside of the public sector, who may, in turn, use it to come up with new ideas, services or products.

Working in new ways

Governments today face problems that are increasingly complex, multi-dimensional and interrelated. To tackle challenges such as energy sustainability or youth unemployment, they must draw on the expertise and resources of a broad range of people and organisations from the public, private and voluntary sectors and academia. Identifying these different sources of knowledge and finding ways for them to collaborate means rethinking how organisations are designed and how work is managed. To encourage networks and collaborative working, countries are experimenting with flexible staffing systems that allow people to be moved to specific projects, and with new leadership responsibilities that cut across different policy domains.

Such flexibility and collaboration can be difficult to achieve, especially within traditional organisational structures and human resource management frameworks. Clear communications, prior agreements (including on financial arrangements) and representative steering committees can make different parties more willing to work together. Governments are also finding new ways to work with citizens, the private sector and civil society to "co-design" public services. Innovation labs to tackle specific problems, social impact bonds to fund new services, and "collaborative commissioning" to co-design service contracts are some examples of these new partnership approaches.

Finally, to truly transform public services, it is also important to stop providing services that are not effective, difficult as that may be, to free up resources to develop new, more effective ones.

Innovating within rules, processes and procedures

The complex set of laws, rules and procedures that govern the public sector may have unintended effects that hinder innovation. Just as they have simplified administrative processes for businesses, governments may want to examine regulations inside government to eliminate overlapping and contradictory rules, clarify acceptable practices and ensure that legislation does not needlessly limit or discourage potential innovation.

Similarly, policies governing how financial and human resources are allocated can make it difficult or costly for an organisation to invest in innovation or share resources with others to achieve common objectives. Some fiscal consolidation measures may also reduce the capacity to innovate, even as countries seek ways to improve productivity and efficiency. Allowing ministries or agencies a certain level of resource flexibility is one way for government to support innovation.

Countries are exploring new approaches to project management that involve citizens, users and staff in decision making. These new approaches focus on the desired outcome and then adapt processes to achieve it, rather than building a service around existing organisational structures. They rely on collaboration across organisations and sectors, and often use pilot testing, experimental design and prototyping. While these approaches minimise risk by allowing innovations to be adjusted before being implemented on a large scale, they do require a greater degree of flexibility than many public organisations are accustomed to.

Drawing on this work, the OECD has set out a call to action identifying four areas that governments need to address to promote and enable public sector innovation:

- Action 1: Focus on People
- Action 2: Put Knowledge to Use
- Action 3: Work Together
- Action 4: Rethink the Rules

Public sector innovation: An agenda for action

A framework for public sector innovation

Governments are operating in a new landscape. The public sector faces economic, social and environmental challenges; technology is revolutionising how citizens interact with government; individuals and organisations across society are forming new kinds of partnerships; and citizens are more informed and connected than ever. Together these factors create opportunities for new ways of thinking about government and how it works.

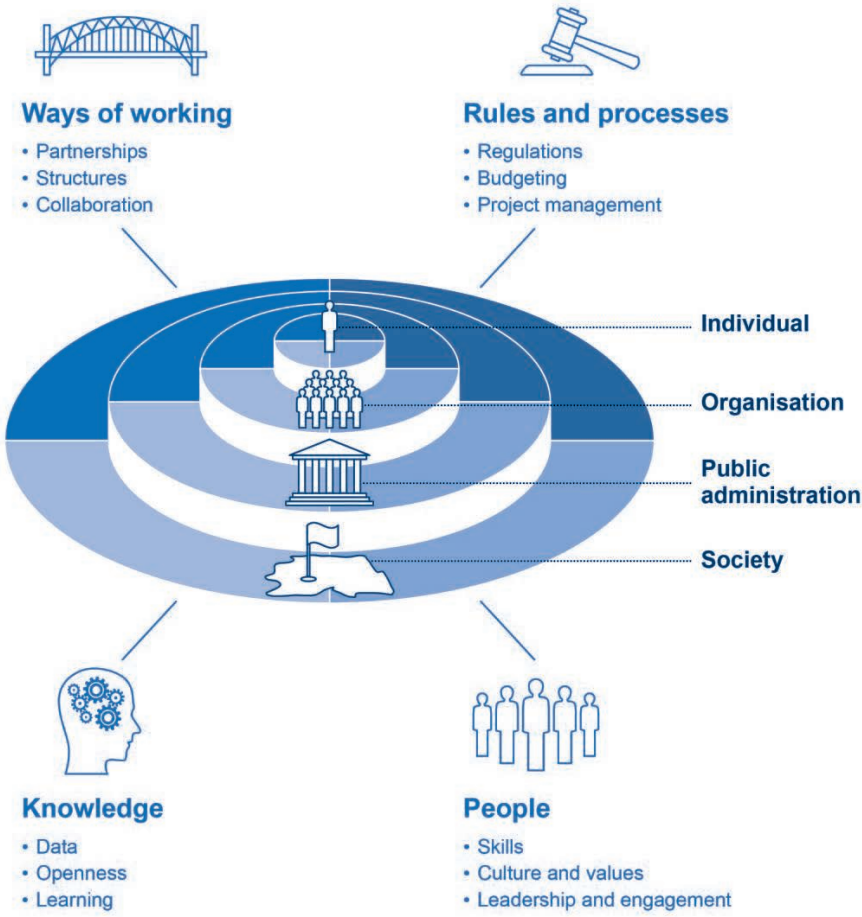
Making the most of this situation requires that governments have the capacity to recognise and respond to those opportunities. The innovative experiences submitted to the OECD's Observatory of Public Sector Innovation (OPSI), and lesson sharing with country practitioners, have provided the OECD with material to identify some of the factors that shape this capacity.

Public sector innovators do not innovate in a vacuum, but in a structured organisational environment. Initial research indicates that certain organisational factors may help encourage innovation whereas others may work against or hinder it (European Commission, 2013). Asking public employees to innovate may not produce results if the organisational environment itself does not support innovation.

Figure 1 illustrates the kinds of considerations required to think about organisational innovation capacity and its context, starting with the individual at its core and moving outward.

This framework helps to conceptually organise and classify interrelated ideas and concepts along two dimensions: the level of analysis and the thematic element. It is the result of an initial review of the OPSI cases and literature. It presents a first step towards identifying and classifying various factors that appear to influence public sector innovation. The framework is not meant to be normative – it does not offer an ideal to strive towards. Nor is it empirical, based on proven science or theory. It is also not final, as it is expected to bend and shift as new knowledge is developed and the number of cases in the OPSI grows.

Figure 1. **The Environment for Public Sector Innovation**



The **levels of analysis** are represented by the concentric circles of the diagram: individual innovators; the organisation in which the individual innovates; the public sector of the country, made up of numerous organisations; and society at large, with whom the public sector partners to innovate.

Defining the exact point where one sphere becomes the next will usually be highly context specific – depending on the issue and the country. For example, the level of control and discretion individual organisations

(ministries, agencies, etc.) have in budgeting may be quite different from human resources management and/or performance management, and will differ from one jurisdiction to the next.

The framework is further divided into four quadrants, which represent thematic elements which are groupings of organisational attributes influencing public sector innovation:

- **People:** The cultural dimension – how people are motivated within an organisational setting to explore new ideas and experiment with new approaches. Here it is also suggested that leadership and the way people are selected, rewarded, socialised and managed have an impact on an organisation's innovative capacity.
- **Knowledge:** The realm of knowledge and learning which allows us to consider issues related to the collection, analysis and sharing of information, knowledge development and learning. The hypothesis is that data, information, knowledge and learning are essential to innovation and the way they are managed can support or hinder innovation. The challenge is to build the capacity to pool available knowledge to improve public decisions about innovative solutions and to share knowledge to encourage social innovation.[1]
- **Ways of working:** The way work is structured within and across organisations may have an impact on innovation in the public sector. This includes the development of physical spaces and innovative methods to structure teams, break down silos and work in partnerships across organisations and even sectors.
- **Rules and processes:** Rules and processes, (including the legal/regulatory framework, budgeting, and approval processes) may offer (or block) opportunities to innovate.

The circle represents the importance of understanding all of these issues of public sector innovation as an integrated and connected system, in which no one part of the framework exists in isolation. Different innovation issues, projects and questions may involve different combinations of areas and linkages across them, depending on the problem being addressed and the specific context of the country's structures. For example, information management and human resources data management regimes have a significant impact on organisational culture as well as on the capacity of public organisations to adapt to changing needs and circumstances.

Defining public sector innovation

There is no established definition of innovation in the public sector; however, some common elements have emerged from national and international work. A recent project led by the OECD's Working Party of National Experts for Science and Technology Indicators (NESTI) has set out to consider how the experience with business innovation surveys and others could help in defining and measuring innovation in the public sector.

The framework of defining and measuring innovation in firms is set out by the *Oslo Manual*, which defines innovation as: "The implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations" (OECD, 2005).

Two important characteristics of innovation are highlighted in this definition. First, an innovation must be implemented, meaning that it cannot just be a good idea, but must be operational. Second, an innovation must be either entirely new or a significant improvement. Novelty is relative: that is, an innovation must be new for the organisation where it is implemented, but may already be in use elsewhere.

As noted above, one of the key differences between the public and private sectors lies in their objectives. Innovation offers companies a means to achieve competitive advantage in the market to support profit generation. In contrast, there is no single "bottom line" motivating public sector organisations to innovate. This does not mean that the impact of innovation in the public sector does not matter. Innovation should not simply be about implementing something new, but about achieving results for society. Each public innovation addresses a public policy challenge, and a successful public innovation is one that achieves the desired public outcome.

Building on these elements and evidence of innovations in the public sector, the following characteristics of public sector innovation emerge:

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

The concept of novelty is challenging. Cognitive testing by NESTI demonstrated that while public sector managers typically understand the definition of innovation (as the implementation by the unit of a new or substantially changed service or good, operational process, organisational or communication method aimed at improving the public sector unit's operations or outcomes) that they had difficulties in ascertaining whether a change was sufficiently large to qualify as an innovation or not.

The work on defining public sector innovation will be further refined, building on the evidence from the OECD's Observatory of Public Sector Innovation and the OECD's NESTI, with the latter focusing on operationalising some concepts and classifications for collecting statistical data on innovation in the public sector.

Sources: OECD (2005), *Oslo Manual: Guidelines for Collecting and Interpreting Innovation Data, 3rd edition*, The Measurement of Scientific and Technological Activities, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264013100-en; OECD (forthcoming), *OECD Innovation Strategy*, OECD Publishing, Paris.

The innovation imperative: A call for action

Meeting the innovation challenge requires taking a systemic approach – focusing on the people involved, the information they are using, the ways in which they are working together, as well as the rules and processes which govern their work. Governments are called upon to urgently address these four areas to promote and enable public sector innovation:

ACTION 1: People matter

Governments must invest in the capacity and capabilities of civil servants as the catalysts of innovation. This includes building the culture, incentives and norms to facilitate new ways of working.

No government can build a strong and secure country without a professional, capable and innovative civil service. As demands on the public sector and corresponding resources continue to move in opposing directions, an innovative public service will be increasingly vital to ensuring both domestic and global success. Given the far-reaching impact of the public sector, all governments have a stake in ensuring that their public services are equipped with the skills, incentives and scope for smart risk taking and problem solving to spur innovation and drive better outcomes for citizens.

ACTION 2: Knowledge is power

Governments must facilitate the free flow of information, data and knowledge across the public sector and use it to respond creatively to new challenges and opportunities.

The information, data and knowledge that inform strategic and operational decision making are critical to fuelling public sector innovation. Harnessing the innovative potential of information requires that information be open and available, and that organisations carefully consider what information is required and how best to systematically integrate it into the decision making process to support continuous learning. Organisations who fail to learn risk incurring higher costs and repeating their errors, while failing to realise new possibilities.

ACTION 3: Working together solves problems

Governments must advance new organisational structures and leverage partnerships to enhance approaches and tools, share risk and harness available information and resources for innovation.

The complex problems faced by governments today require new ways of working. These include approaches based on collaboration and partnership which integrate the vital perspectives of citizens, civil society, academia and business, as well as exchange within the public sector. Creating more open, networked, and horizontal organisations, adept at collaboration inside and outside government are required. So too are more flexible approaches to working, including pooling talent and creating multidisciplinary management teams to strengthen collaboration. Temporary teams, pilot projects and short-term assignments are all ways for governments to experiment and better align talent and resources to encourage dialogue, experimentation, risk-taking, problem-solving and innovation.

ACTION 4: Rules and processes to support, not hinder

Government must ensure that internal rules and processes are balanced in their capacity to mitigate risks while protecting resources and enabling innovation.

While internal controls, rules and processes are required to ensure sound stewardship and accountability, they can inadvertently stifle innovation. To guard against this, governments must ensure that their public services are marked by reasonable rules and lean processes. Such efforts should ensure that the accountability regime is both robust and easy to navigate while also more systematically focused on enabling innovation. New outcome-focused approaches to project management are one step in moving away from the rigidities of a command-and-control model.

Note

1. Social innovation refers to innovation that occurs beyond government among actors in civil society and citizens, targeting social problems with the benefits accruing to society as a whole.

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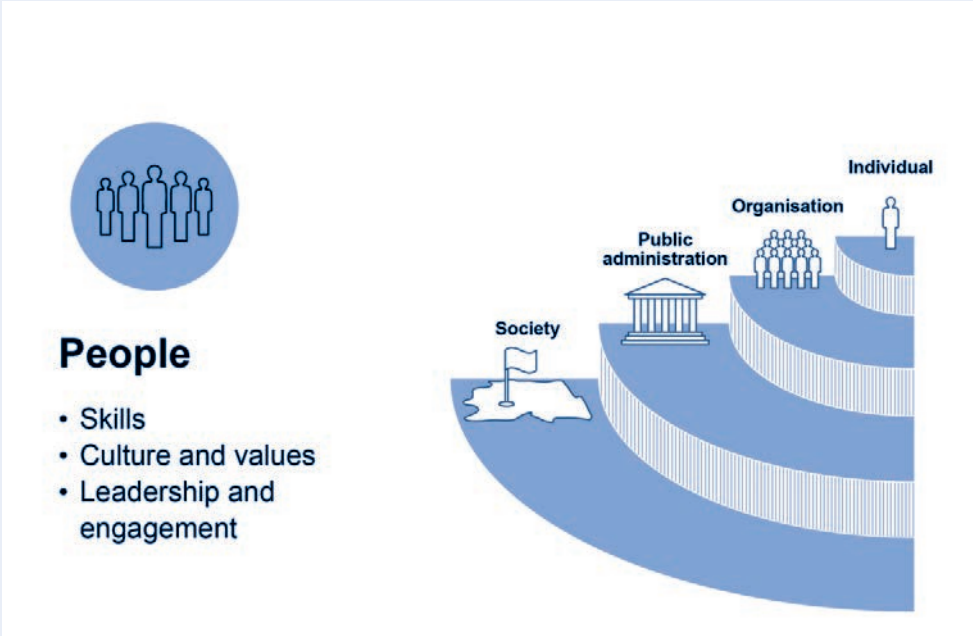
Chapter 1

Empowering the public sector workforce to achieve public sector innovation

Enabling innovation in public sector organisations means enabling the people who work in these institutions. People management helps to build innovative capacity in a great many ways, by ensuring that the right people with the right skills and talents are working in the right ways to maximise creative energy and see projects through to implementation. Motivating public servants to think and act in ways that lead to innovation requires a careful consideration of the reward structures in public sector organisations and the organisational climate and culture. How risk is handled and the way that experimentation and learning are encouraged can impact the willingness of employees to contribute their ideas and energy to innovation. Effective leadership that is able to inspire and ensure stable and effective working conditions can also contribute.

Box 1.1. **How people contribute to public sector innovation**

One of the key considerations when thinking about organisational innovation capacity is the people who innovate and the context in which they operate. There is the individual innovator at the centre; the organisation in which they work; their national public sector, made up of numerous organisations; and society at large, with whom the public sector partners to innovate. How these different levels engage and interact with each other can shape the opportunities and space for innovation.



Introduction

People are central to public sector innovation at every stage of its process. Innovations begin as ideas in the minds of citizens, public servants, managers and political leaders and are generated at the cross sections of human interaction. These ideas are inspired by the needs of citizens and are transformed from idea to practice through the commitment of public servants and leaders who anticipate these needs and respond to them. As such, the study of innovation must begin with an understanding of the people who contribute to innovation,[1] and what motivates them and enables them to do so.

A recent report by the European Commission's 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" (European Commission, 2013). This report links innovative behaviour to an entrepreneurial mind-set which includes challenging assumptions, focusing on outcomes, co-designing with end users, and embracing the unknown through small-scale iterative experiments. This depends on leadership, vision, communications and the ability to build alliances. For many, these characteristics simply describe the role public servants take on to serve the public interest. It means balancing visionary change with concrete implementation.

Recognising that humans are at the centre of innovation and that innovations are often initiated by middle managers or frontline staff (Borins, 2014) raises questions about what motivates people to be public innovators, what skills they require for success and how public organisations can increase both. Answers to these questions require a nuanced understanding of the kinds of competencies and behaviours that support innovation, and the way that incentive structures interact with public servants' values to motivate learning and engagement (Box 1.2). This suggests the need to look beyond an organisation'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.

Motivating professional public servants to be innovative requires careful consideration of the range of incentives and disincentives that operate simultaneously within an organisation, both intrinsic and extrinsic. These can include extrinsic factors such as the way that pay is structured and the way promotions are granted. It can also include the quality of relationships among staff and management, the way teamwork is used and the way effort is recognised. Intrinsic motivation can be impacted by the way that staff are made aware of the impact of their work – how close they are to the beneficiaries of the policies that they develop, how they see value created as a result of their ideas and their labour.

Motivating professional public servants to be innovative also requires that they have the right skills to apply to the problems they are being asked to solve. Employees who feel less capable to complete tasks will be less motivated to undertake them, while those with new skills will be keen to put them to use. Some of these skills are likely related to specific technical abilities, such as the ability to understand and manipulate the big data sets discussed in the next chapter, or the ability to manage prototyping or experimental approaches to service design discussed in Chapter 4. Other

skills include the ability to make connections between ideas that are not apparent, to ask the right questions and network with the right people. Acquiring and reinforcing these skills in the public sector workforce likely requires thinking about employee and workforce development in new and creative ways.

Box 1.2. **Motivation and rewards: A fine balance for innovation**

Motivation, defined as the desire or willingness to do something, is not a simple concept to describe. Nevertheless, it is considered key to a wide range of performance outcomes at the personal and organisational level. Even if an employee has all the abilities required to perform, she or he will apply these abilities only if it is valued by the organisation. Hence, organisations must offer the right incentives to motivate the best behaviour.

Motivation is linked closely to the concept of employee engagement – another term whose definition shifts depending on the author using it. Engagement is often defined in conjunction with motivation, commitment and job satisfaction, and is significantly correlated in multiple studies to improved organisational outcomes, including performance and innovation. For example, studies by Gallup on firms in the private sector found that those with low staff engagement experience significantly higher staff turnover and more accidents. Conversely, those with higher engagement have more customer advocacy, higher productivity and more profit (MacLeod and Clark, 2009). These findings have been corroborated by other researchers. Furthermore, engagement correlates with innovation – 59% of engaged employees say that their job brings out their most creative ideas, compared with only 3% of disengaged employees (MacLeod and Clark, 2009).

Motivated employees are hence considered to be better at their job, to put in more effort to achieve outcomes and to be willing to push for positive change in their workplaces by committing extra energy above and beyond the minimum required from their job descriptions.

Motivation is also considered to be deeply personal – what motivates one person may discourage another, and this adds to its complexity and mystery. At the most basic level, people are motivated to do things that they perceive to produce a beneficial outcome. At the individual level, it is common to distinguish between two kinds of motivation: intrinsic and extrinsic. Intrinsic motivation compels people to act for a reward that is gained by the activity itself. Frey and Osterloh (2002) identify three kinds of intrinsic motivation: in the first form, people do an activity because it brings them pleasure. In the second, it is the completion of the activity that brings them pleasure (e.g. crossing the finish line of a marathon, meeting an important deadline). The third is motivation to comply with internally held standards. This last category includes values-based standards such as community service, commitment to family, ethical fairness, etc. Extrinsic motivation compels people to act for a reward that is separated from the act itself. The most common example is financial payment for services rendered.

Sources: MacLeod, D. and N. Clark (2009), *Engaging for Success: Enhancing Performance through Employee Engagement*, Office of Public Sector Innovation, Surrey, United Kingdom, available at: www.engageforsuccess.org/wp-content/uploads/2012/09/file52215.pdf; Frey, B.S and M. Osterloh (2002), *Successful Management by Motivation: Balancing Intrinsic and Extrinsic Incentives*, Springer-Verlag, Berlin.

Many central governments face significant challenges in motivating innovative behaviour from their employees. Some of these challenges are rooted in the bureaucratic nature of public sector organisations. For example, multiple levels of hierarchy often separate staff from the decision-making level, and the administrative nature of many of the jobs can result in a feeling of removal from the impact of their work. Some of these challenges result from the public and political nature of the work. For example, public scrutiny to ensure the stewardship of public funds may encourage risk aversion.

Organisational levers for empowering innovation in the workforce

Despite these challenges, much innovation takes place in government and at all levels of the public sector. Strategies to identify and promote innovative behaviour are top-down and bottom-up. From the top down, one could implement management tools and programmes to build the innovative capacity of public organisations and the innovative capabilities of employees and managers. From the bottom up, one could identify ways to encourage employees to experiment with new approaches, to explore new avenues and to celebrate this kind of behaviour to inspire others to act in similar ways.

Human resource management (HRM) policies are one set of organisational levers that affect the behaviour of professional public servants. It could be hypothesised that HRM policies have an impact on the innovative capacity of an organisation. For example, some administrations are looking for ways to add "innovation" to their leadership competency frameworks to guide selection, performance management and development. It remains to be seen how "innovation" can be broken down into discreetly identifiable behaviours for assessment.

Pay systems are a core element of HRM. There is no solid evidence on the ability of pay to motivate innovation. Instead, it's worth expanding the concept of compensation to consider how other incentives such as special recognition, career advancement, team selection, special assignments, challenge competitions and learning opportunities can motivate desired behaviours.

One concept that may take on importance in the context of public sector innovation is job significance – how one perceives the impact of their job on the well-being of others. The theory of public service motivation suggests that many public sector employees pursue their careers because they are intrinsically motivated to create public value rather than increasing private wealth (Paarlberg et al., 2008). If this is true, then these employees will be

intrinsically motivated by seeing the positive benefits of their efforts. It follows, then, that if staff are motivated by the impact of their work, they will also be motivated to innovate when ideas and opportunities come together to increase the impact that their efforts produce.

Understanding and leveraging this kind of motivation implies HRM practices which are designed to bring employees closer to the impact of their work, structure learning opportunities by interacting with their beneficiaries and others who share similar values and take pride in similar kinds of work (Box 1.3). It includes selection processes that prioritise people with values that match those of the organisation, and could inform socialisation, training, performance assessment, promotion and leadership development practices.

Box 1.3. **Incorporating public service motivation into management practices**

Paarlberg et al. (2008) suggest that public service motivation is key to unlocking the productive potential of public sector organisations. While they do not link it directly to more innovative public services, we can hypothesise that a more motivated and engaged workforce would likely be more interested in improving the outcomes of the services they manage and therefore may be more interested in innovating. The authors suggest that the following 14 management tactics could be employed by public service organisations to maximise the potential of public service motivation:

- Tactic 1: Use public service motivation as a selection criterion for entry into public service employment.
- Tactic 2: Provide formal and informal opportunities for newcomers to learn about organisational values and expectations for employee behaviour that reflect public service values.
- Tactic 3: Develop performance appraisals and performance monitoring systems that include observations of behaviours that reflect and encourage public service motivation.
- Tactic 4: Identify beneficiaries of jobs; establish opportunities for direct contact between employee and beneficiary; and provide clear channels for service beneficiary feedback.
- Tactic 5: Interpret broad public service missions in terms of clear and meaningful work expectations.
- Tactic 6: Develop work structures that enhance self-regulation through empowerment and participatory decision making.
- Tactic 7: Commit to creating a supportive workplace environment that models and reinforces public service motivation.

Box 1.3. **Incorporating public service motivation into management practices** (*cont.*)

- Tactic 8: Create and maintain incentives that align organisational mission and employee predispositions.
- Tactic 9: Design compensation systems to emphasise long-term attractiveness to employees and avoid performance-related pay that might crowd out intrinsic motivations.
- Tactic 10: Articulate and symbolise organisation, mission and vision in ways that connect with employees' zone of existing public service values.
- Tactic 11: Encourage and reward the development of leaders who communicate and model public service values.
- Tactic 12: Foster institutional support for the incorporation of public service values into professional and educational curriculum.
- Tactic 13: Advocate for and provide opportunities for pre-service experiences.
- Tactic 14: Bring public service to the attention of the broader society.

Source: Paarlberg, L.E. et al. (2008), "From theory to practice: Strategies for applying public service motivation", in: Perry, J.L. and L.E. Hondeghem (eds.), *Motivation in Public Management: The Call of Public Service*, Oxford University Press, Oxford, United Kingdom, pp. 268-293.

In contrast to the top-down practices mentioned above, bottom-up practices identify innovation-positive behaviour and bring this to light, in order to celebrate it and to inspire others. Using tools such as innovation awards to celebrate innovation success (arguably a top-down practice) can have diffusion effects by enabling groups to learn from each other's experience, to identify and overcome specific barriers, and to signal the importance of innovation as an organisational priority. In this way, it can have an impact on the organisational culture (see next section).

Organisational cultures, leadership and innovative organisations

So far this chapter has discussed formal human resource management practices that can be listed in an employee manual. The informal incentives, however, may be even more important, and this is often discussed in relation to an organisation's culture.

Organisational culture is made up of "core values, behavioural norms, artefacts and behavioural patterns which govern the way people in an organisation interact with each other and invest their energy in their jobs and

the organisation at large" (Gee and Miles, 2008). It includes a web of basic assumptions that have been proven to work in the past and are therefore accepted as common sense within the organisation. Organisational cultures are the unwritten rules and expectations based on the shared attitudes and values of individuals within an organisation.

Leadership is often identified as a key determinant of organisational culture. In fact, some research[2] suggests that the behaviour of leaders and organisational supervisors is the primary influence on employees' ethical behaviour. Employees will do what they see their supervisors do, rather than what the policy manual dictates. Furthermore, organisational leaders can play key roles in establishing many of the preconditions ripe for innovation such as strategic alignment across an organisation, empowering staff to take initiative, collaborative work units and prioritising learning. This includes political leaders who send powerful signals if public sector innovation is needed and encouraged.

The link between innovation, organisational culture, leadership and the human resources regime is difficult to establish empirically but has much to do with risk acceptance and aversion. An Australian government report suggests that a risk-averse culture discourages employees from bringing forward innovative ideas to decision makers with the power to move them forward (Australian Government, 2010). Structural and institutional factors reinforce an incentive structure that encourages risk aversion, while innovation as a concept is not easily measured, and is therefore not well tracked or rewarded at the individual level.

A commonly discussed feature of innovative organisations is their acceptance of experimentation and learning through trial and error. Innovation requires willingness to experiment and learn from what works in practice. The challenge is to uncover ways to enable experimentation while mitigating the risks that will be borne by society as a whole. An associated challenge is finding ways to reward public servants who undertake well-structured experimentation, even when it does not succeed.

The examples from the OECD's Observatory of Public Sector Innovation (OPSI) provide some insights that illustrate a number of the above concepts in action. The Canadian Open Policy Development innovation articulates the idea of culture change – the challenge of moving from a small group of innovators to effecting a wider change across an organisation.

Open Policy Development, Canada

> *Transitioning from early adopters to widespread practice requires addressing a deeper challenge, that of cultural change. Cultural features such as risk aversion, hierarchies and silos are all prominent in many large organisations and are also significant barriers to change. This is particularly the case with open policy development and its effort to unchain communications and interactions. High-level leadership and support is crucial to shifting cultural views, but so is explicit empowerment of mid-level managers who can otherwise stifle enterprising employees. The emphasis has to be on taking intelligent risk that envisions failure as an acceptable and educational outcome. Being smart about risk requires experimentation and fast failures.*[3]

The Canadian example above highlights a number of recurring themes that are seen in the OPSI cases and literature. These include the challenge of innovating in organisations characterised by risk aversion, hierarchies and silos. A comfort with experimentation with no guarantee of success and with trials and errors that can be used as learning opportunities is another theme that is often recognised and which is taken up later in this report.

Belgium's "Healthy Work" innovation set out to learn from teams of healthcare providers who work in partnership with communities and a range of healthcare professionals. This innovation explicitly sets out to create an organisational culture that values and prioritises learning.

Healthy Work for the Future, Belgium

> *We wanted to learn from teams which are facing great challenges, but have excellent managing skills to deal with them. How are they able to manage their work in a difficult area? ... Besides a series of workshops, "Kind en Gezin" launched a survey to explore whether the organisation has a creative learning culture. A creative learning culture is a critical success factor for healthy jobs in self-managing teams. Furthermore we started to focus on management and leadership in self-steering teams. We launched innovative projects to give oxygen to change management (i.e. internal job switches as a learning programme, "Do-Tanks" with the Netherlands...).*

The focus on creating a learning culture to enable teams to innovate can provide transferable knowledge beyond the medical professions. The Belgian submission goes on to list a number of useful lessons for any team tasked with developing innovative solutions to complex policy problems.

Healthy Work for the Future, Belgium

> *Innovation is a continuous process. When you let it go, the process stops. Innovation is only a success if the management team supports it completely. When you work on the self-management of teams, employees discover they can do more. A good rewarding [incentive] policy is important. Would we change our approach? We would build in more rewarding systems during the project and better communication about the goals of the project. We are working on that in the sequel of the project implementation.*

The link between culture and leadership described in the Belgian example is found in a number of the innovations collected by the OPSI. Indeed, support and commitment from leadership is one of the most mentioned factors for success across the initiatives. This does not necessarily imply that innovation happens top down, but that, at some point, the buy-in and support from the organisational leadership is required to set the stage for the wider adoption of whatever innovative practice is to be implemented. This sentiment is captured in the following quote from Iceland's experience incorporating social media into their police system.

Policing and Social Media, Iceland

> *A crucial factor was the fact that the head of the RMP (Reykjavík metropolitan police), the police chief, was a turning force behind the project and so deeply embedded from the get-go. This installed an atmosphere amongst the group that they were trusted to respond [via social media], thereby shortening response times and installing a sense of a personal atmosphere since the responses sent were less formal in their nature.*

Key findings

Motivating public servants to contribute to innovation suggests the need to look at an organisation's formal training, incentives and rewards, as well as the organisational culture that frames and structures the way individuals and groups interact and take meaning from their work.

Innovative organisations would benefit from HRM practices designed to bring employees closer to the impact of their work, structure learning opportunities by interacting with their beneficiaries and others who share similar values and take pride in similar kinds of work.

Using tools such as innovation awards to celebrate innovation success can have diffusion effects by enabling groups to learn from each other's

experience, to identify and overcome specific barriers, and to signal the importance of innovation as an organisational priority.

Organisational leaders can play key roles in establishing many of the preconditions ripe for innovation, such as strategic alignment across an organisation, empowering staff to take initiative, collaborative work units and prioritising learning.

Finding ways to reward public servants who undertake well-structured experimentation, even when it does not succeed, is a key challenge for innovation-oriented HRM.

Conclusions and open questions

The examples provided above illustrate some of challenges encountered when growing an innovation from a small group of innovators and early adopters to a larger system-wide change involving a shift in organisational culture. Taking a wider innovation lens to this challenge allows us to ask how organisational culture supports and/or hinders an organisation's innovative capacity:

- What skills do public employees of all sorts need to support innovation?
- What leadership styles and practices are required to support innovation? Is it the same leadership to drive top-down change as to enable bottom-up participatory ideation?
- How can diversity be used to inspire innovation?
- How can a culture of risk aversion be overcome safely?
- What cultural differences exist in terms of how recognition and incentives are perceived? How can these be acknowledged, overcome or adjusted for?

Furthermore, we know that many public sector organisations are beginning to include innovation or innovation-related competencies in their competency frameworks. But how are these actioned? What results do these achieve? How does this impact a wider performance management framework? How do they relate to accountability?

Notes

1. In contrast, more traditional public administration reform analysis tends to approach public sector reform from a structural/organisational angle first, and then considers the human dimension (change management).
2. See, for example, Hassan et al. (2014: 333).
3. Examples in italics are from the Observatory of Public Sector Innovation website (OPSI): www.oecd.org/governance/observatory-public-sector-innovation/home.

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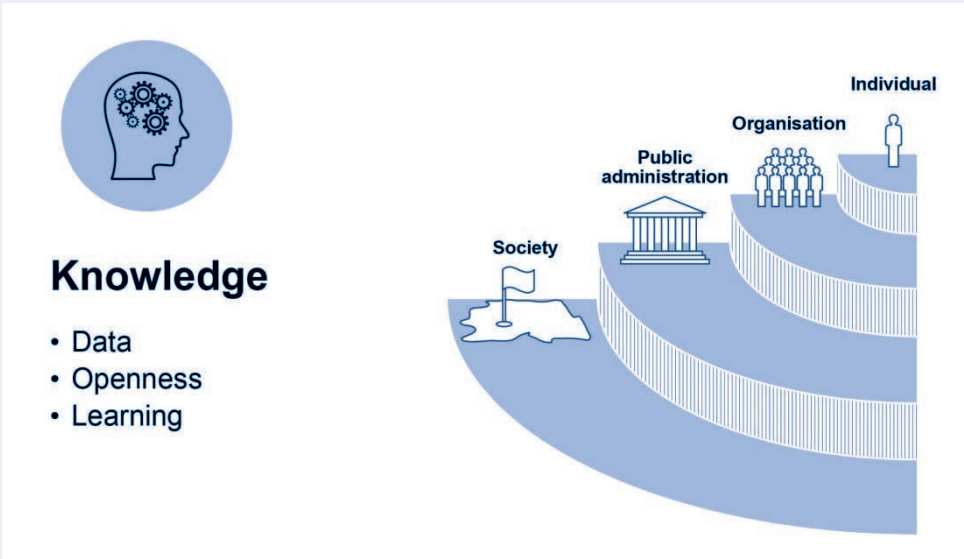
Chapter 2

Generating and sharing innovative ideas in the public sector

Innovation does not just mean doing new things, but new things which are appropriate for the organisation in question and the community that it serves. To achieve this, organisations need access to accurate, good quality, usable information about their operations, their performance, their past experiences, their partners and the users that they serve. The availability and exploitation of such information and knowledge can support organisations to become "learning organisations" which grow, mature and develop, by drawing on information and learning from their experiences and those of others. However, being able to tap into such knowledge poses challenges for public sector organisations. They need appropriate information systems in place to generate and manage data and information internally. Sharing and interoperability with other organisations across the public sector can support the exchange of appropriate information, while openness across society can facilitate the creation of public sector value and innovation across the economy.

Box 2.1. **How knowledge contributes to public sector innovation**

How an organisation generates, uses and shares its data, information and knowledge is important for organisational innovation capacity. It occurs in a context with the individual innovator at the centre; followed by the organisation in which they work; their national public sector, made up of numerous organisations; and society at large, with whom the public sector partners to innovate. How these different levels engage and interact with each other can shape the opportunities and space for innovation.



Introduction

Developing capacity for innovation requires that an organisation changes and adapts by learning from its past experiences while anticipating future challenges through organisational foresight. Data, information and knowledge have important roles to play as the building blocks for creating a learning organisation that displays these attributes.[1] They support daily operations, help an organisation understand its evolving context and support evidence-based decision-making; when used strategically they can help an organisation adapt and compete through learning to promote and sustain employee and organisational learning.

Data, information and knowledge about an organisation exist in many different forms and locations; developing as a learning organisation means being able to harness each of them to support continuous learning. This means identifying their different sources, exploiting what they say about an organisation by regularly and systematically integrating them into the decision-making process, and sharing them openly across the relevant actors both within and beyond government.

Using information to improve the innovative capacity of public organisations gives rise to three interrelated issues:

- Sourcing: the identification of the different types and sources of data, information and knowledge that are relevant.
- Exploiting: organisations need to channel data, information and knowledge into a usable form so that it can be fully exploited to support evidence-based decision making and organisational renewal (to support the development of "learning organisations").
- Sharing: organisations need to share information collected with wider sets of actors including other public sector organisations and members of the public to support decision making, accountability, co-innovation and facilitate value creation elsewhere in the economy.

The next section focuses on the individual, organisational and institutional aspects of data, information and knowledge. It seeks to draw out what they mean in practice at the different levels, and the role that they can play in developing an organisation's capacity to support and sustain innovation.

Sourcing information from within and across organisations and sectors

Information to support innovation can come from a wide range of sources, both within and outside organisations. Information on organisational performance, for example, comes from the financial data produced by line ministries, spending reviews and performance measurement systems which produce data by measuring input, processes and output creation, as well as outcomes and impacts.

Beyond organisational data and information, an individual's knowledge about the organisation in which they work is a highly valuable resource. This detailed, practical knowledge may make them well-placed to recognise opportunities for innovative improvements in how an organisation functions and the services that it delivers. Innovation awards that recognise

employees' ideas are one example of how governments identify, organise and learn from this tacit knowledge.

Sensitivity to demands, trends and opportunities in the wider society is key for developing an organisation's innovative capacity. Opportunities for innovation can be identified by having an accurate understanding of service delivery performance that includes service users' demands and citizens' expectations. This requires that organisations have a comprehensive understanding of their current performance, drawing on quality, accurate and relevant information and management systems that ensure it is accessible and timely. At the same time, it requires that they have information systems which are able to monitor and draw on trends external to the organisation itself.

Increasingly, new media sources, such as social media and other web-based communications platforms, are providing governments with sources of innovative ideas and new tools to connect to users and engage in discussions that support innovation. By drawing on the wide and varied information held across society as a whole, this may offer possibilities to build the public sector's innovative capacity through the provision of new expertise, creativity and feedback.

Student Update Facebook and Twitter accounts, Australia

The Department of Human Services' Media Section began monitoring social media mentions of the department several years ago, in the same way it monitors mentions in traditional media. This monitoring led to the recognition that the interactive nature of social media provided the opportunity for the department to join in conversations – providing requested information and correcting misinformation. The department began participating in conversations on social media where [it] observed that [it] could add value. The launch of the Student Update Facebook and Twitter accounts allowed the department to take that one step further.[2]

Opening up government to external information sources is also about developing more participatory modes of governance. Cases collected by the OPSI provide examples of how citizens are being provided with opportunities to regularly contribute ideas or feedback to the public sector. New uses of technologies such as crowdsourcing, big data and open data (discussed later) are enabling the public sector to tap into the rich information that is held in society to develop new, better public services.

Challenge.gov, United States

The challenge and prize program[me] at the General Services Administration (GSA) provides an online platform, strategic consulting, training and best practices that enable federal agencies to manage and run public prize and crowdsourcing contests. Citizen solvers, individuals and companies, from around the world can contribute expertise and drive innovation by entering and providing solutions to the federal government's mission-centric problems, whether technical, scientific or creative…

… Challenges allow the public and the government to co-create. They allow government to tap into the collective knowledge and resources of the public, and help the public more easily contribute their expertise to find better solutions.

Exploiting information: Extracting meaning for organisational learning

Reviewing data, information and knowledge to support innovative capacity requires that an organisation is able to continually learn and adjust its activities based on results and its environment; in other words, to become a **learning organisation**. One element of being a learning organisation is having appropriate knowledge management strategies in place to ensure the availability of accessible, timely and quality information to support decision making.

Knowledge management systems, especially their ICT components, seem to bring at least perceived improvements in efficiency and productivity (OECD, 2013). This supports findings on the role of knowledge management in firms which finds empirical evidence to suggest that firms which are better at knowledge management use their resources more efficiently, enhancing innovation (Darroch, 2005). On the other hand, the infrastructure of knowledge management systems alone is not sufficient to shape the behaviour and culture of an organisation which requires trust and openness to support information sharing.

Organisational learning is not simply the sum of the learning of individuals within an organisation but rather it is about how the organisation as an entity adapts and competes through learning. Some other key elements which define learning organisations:

- multilevel: i.e. learning is interrelational, occurring between individual behaviours, team organisations, organisational practices and structure

- importance of the beliefs, values and norms of employees to support sustained learning
- role of a learning culture within an organisation promotes and sustains employee learning (OECD, 2010).

Box 2.2. **Obstacles to learning in the public sector**

There are obstacles to learning in the public sector setting. In 2002, Chapman (2002: 13) noted the following ones. While the pace of public sector modernisation has been swift since then, it is worth reflecting on the persistence of these particular obstacles:

- Political process which uses failure to score points rather than learn lessons.
- The pressure of uniformity in public services.
- The reliance of civil servants and ministers on command and control mechanisms.
- Lack of evaluation of the impact of previous policies.
- Pressure for immediate response to the crises of the day.
- A tradition of secrecy that limits feedback and learning.
- The dominance of the vertical silos effectively making end user performance secondary to other considerations.
- A drive for efficiency in policy making, and resistance and protection of vested interests by some professional and intermediary bodies.

Sources: Kemp, R. and R. Weehuizen (2005), "Policy learning, what does it mean and how can we study it?", Publin report D15, NIFU STEP, Oslo, available at: http://survey.nifu.no/step/publin/reports/d15policylearning.pdf; Chapman, J. (2002), *System Failure: Why Governments Must Learn to Think Differently*, DEMOS, London, available at: www.demos.co.uk/files/systemfailure2.pdf.

A culture that supports lifelong learning is also crucial to develop an organisation that learns from its information. The concept of a learning organisation is much greater than the use of information, and links to the agility and adaptability of an organisation to respond to information. It is also about the willingness to discuss established and taken-for-granted routines, practices and assumptions behind the way employees work and think. This is further taken up in the section above.

Sharing information: Multiplying its innovative potential

The innovative potential of information gathered and used by one organisation can multiply when made available to many. The contributions of many can lead to the identification of the different dimensions of policy challenges, highlighting the importance of system-wide co-operation and ultimately more complete, holistic solutions. Making information and data more broadly available, including to the public at large, in a way that protects the privacy of individuals, can also spur innovation beyond the public sector, and support innovative partnerships with other actors.

Sharing organisational information across the public sector can also support the identification of useful practices which may provide individual organisations with innovative ideas that can be adapted to their own context. Cases collected by the OPSI illustrate how drawing on the experiences of others provides inspiration for innovations such as the unified public service number, 115, in Germany which built on similar practices at the local level, or the Presidential Delivery Unit in Chile which was inspired by the United Kingdom's Prime Minister Delivery Unit established in 2001. These practices depend upon a regulatory framework that enables the sharing of data and information in safe ways. Updating rules and regulations to enable new practices is taken up further in Chapter 4.

Sharing information across organisations and sectors can also provide ideas, advice and guidance in the development of innovations.

Senior Executive Service System (SESS), Chile

The SESS was designed based on international experience. In particular, the experiences of OECD countries like Australia and New Zealand were highly influential in the design of the Chilean model, through the analysis of its laws, its institutions and the functioning of these.

Learning from others in this way may reduce the investment costs of learning how to do something new, and reduce the risk associated with innovation by identifying some of the key challenges and possible solutions from the outset.

Effective management information systems across the public administration may also support greater integration where information is shared across different services, and even different levels of government. This may create new possibilities for innovations in how the public sector perceives and treats its citizens. Citizens are no longer reduced to a single issue – their income tax, their child benefits, their hospital treatments – but can be viewed more holistically, by providing an overview of how they

interact with the public administration across a range of different services. When this can happen in a way that prioritises the protection of citizens' privacy, this integration may make it possible for the public sector to identify new opportunities for innovations that improve services for citizens based on their characteristics and their existing relationship with the public administration.

NemID and borger.dk, Denmark

Borger.dk and Min Side (or My Page) is unlocked with NemID (the Danish National eID and digital signature scheme) to use "personal fragments" such as age, gender and geographical location to make it possible to target specific groups of the population, e.g. reminding a car owner with an outstanding fine to pay the fine, including a payment option, evidence of the parking infringement and a complaint option, or a single mother within a specific age group living in a specific municipality with children at a given school. The technical ability to personalise content and e-service provision is flexible and can, in fact, be deployed to the entire portal.

Public administrations' openness to the wider society is being facilitated by new technologies, which are providing new possibilities for public sector information. Initiatives such as Open Government Data (OGD), big data analytics (see Box 2.3) and the opportunities created by social media offer not only new sources of information, but also new ways to share public sector information, building a more fluid, two-way relationship between government and society. This openness is being reinforced by other organisational practices that support increased co-creation of public services. These are discussed further in Chapter 3.

Opening up government data can help to create a two-way interaction between government and society. Government opens up its information, making it accessible and re-usable, so that it is no longer the sole provider of solutions but rather becomes a platform that facilitates other actors to create public value (O'Reilly, 2010). Innovations collected by the OPSI recognise this role of government in increasing the transparency of government information to be re-used or modified and enhanced by others to release public value. Spain's APORTA project, for example, promotes the reuse of public sector information, because it is seen to spread knowledge, develop new services and products and improve the reliability and security of the data that the public sector manages. The availability of public sector information also plays an important role in raising public awareness, helping to create societal consensus for action and a springboard for co-innovation.

Openness is also important in creating competition and driving performance pressures. Openness of performance data can support competition between public sector organisations to drive public sector innovation. Comparative benchmarking and user choice, for example among schools and hospitals, neighbouring municipalities or boroughs, sub-national governments or across countries, can create pressures and incentives between public sector organisations to improve quality, where innovation is one of the means to achieve this.

Box 2.3. **Open Government Data and big data for public sector innovation**

The two main elements of Open Government Data (OGD) are normally defined as follows:

- Government data: are any data and information produced or commissioned by public bodies.
- Open data: data that can be freely used, re-used and distributed by anyone, only subject to (at the most) the requirement that users attribute the data and that they make their work available to be shared as well.

"Big data" is a collection of datasets so large and complex that it is difficult to use on-hand database management tools, or traditional data processing applications, for their processing that includes capturing, storage, search, sharing, transfer, analysis and visualisation. The trend towards having and dealing with larger data sets produced by different actors is also due to the additional information derivable from the analysis of a single large set of related data, as compared to separate smaller sets with the same total amount of data, allowing correlations to be found to spot business trends, determine quality of research, prevent diseases, link legal citations, combat crime and determine real-time roadway traffic conditions.

Source: Ubaldi, B. (2013), "Open Government Data: Towards empirical analysis of Open Government Data initiatives", *OECD Working Papers on Public Governance*, No. 22, OECD Publishing, Paris, http://dx.doi.org/10.1787/5k46bj4f03s7-en.

Key findings

- Organisations need access to accurate, timely, quality data and information that provide an accurate picture of their operations and performance.
- Information alone is not sufficient; organisations need to have the systems and resources in place to enable them to exploit it, to support decision making and organisational renewal.
- Openness, both to sources of information beyond an organisation's borders and an organisation's openness with its own information,

will help increase overall knowledge, enables new products and services to be developed, and facilitates value creation across the economy.

- The availability and exploitation of knowledge, coupled with organisational learning, can support the emergence of a "learning organisation" which develops and matures, learning from its past experiences to tackle future challenges.

Conclusions and open questions

The generation, use and sharing of data, information and knowledge management within and across a public sector organisation can be an important factor in building its capacity to innovate. To support countries in putting in place systems, cultures and practices that maximise this potential requires further exploration and evidence:

- What role is played by management information systems in the innovation process, and how can their effectiveness in increasing innovative capacity be ensured?
- How can different sources of data, information and knowledge be identified and harnessed so that they work together to support learning organisations that sustain innovation?
- Opening up public organisations can allow them to tap into additional resources and ideas coming from a variety of actors outside the public sector. How can governments increase their capacity to innovate by interacting more closely and fluidly with what is happening beyond their own immediate borders?

Notes

1. The conventional view sees data, information and knowledge in a hierarchical relationship. "Data" refers to facts or observations without interpretation. They can be seen as the building block or raw ingredient from which information and knowledge flow. Information is data organised with meaning or purpose and knowledge gives meaning to information by drawing on beliefs, perspectives, expectations or judgements (Ubaldi, 2013).

2. All examples in italics are from the Observatory of Public Sector Innovation (OPSI): www.oecd.org/governance/observatory-public-sector-innovation/home.

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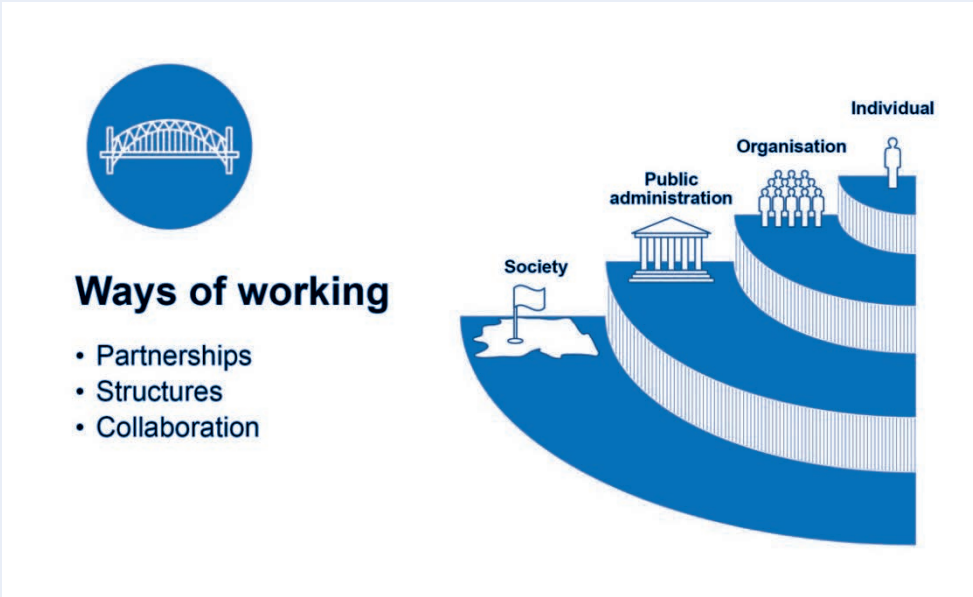
Chapter 3

Working in new ways to support public sector innovation

Few contemporary public sector organisations that are responsive and effective in targeting their citizens' needs and desires can do so in isolation. Individual organisations hold different sets of information, have different resources and competencies to act in different areas. Developing a complete picture of the individual citizen, understanding what they need and the entry points where they can best access public services means that organisations need to work together. Country experiences demonstrate that collaboration and partnership are being supported by new ways of working – at team level with more flexible ways of organising teams and how their work is executed, to institutionalising co-design and user-centred services through innovation labs. Further work is required to understand when and where such approaches are appropriate, and in which circumstances they add value.

Box 3.1. **Ways of working that support innovation**

How an organisation works in terms of its structures and partnerships can influence its innovation capacity. As with other factors that shape innovation capacity, organisational ways of working are set in a context with the individual innovator at the centre; followed by the organisation in which they work; then their national public sector, made up of numerous organisations; and finally society at large, with whom the public sector partners to innovate. How these different levels engage and interact with each other can shape the opportunities and space for innovation.



Introduction

The increasingly complex, interrelated and multi-dimensional nature of problems faced by governments today are leading many to ask which governance models are best suited to address them. Issues such as unemployment, population ageing and energy sustainability touch on the expertise, knowledge and resources of numerous individuals and organisations, which span the public, private and civil society sectors. The relevance of these different organisations means that there are different "routes for public innovation" to bring together the contribution of governments, businesses, academia and civil society (Mulgan, 2007).

Developing innovative capacity may depend on the ability of government to steer a vast ecosystem of relationships across sectors to enable society's resources to be best channelled to target need.

Organisational design looks at the work that needs to be achieved, how its component parts can be divided, how these parts connect and how organisational activities will be managed. Moving to a government context, this means taking an issue such as youth unemployment; thinking about the components that shape it such as economic growth, labour market policies and education; thinking about where the knowledge, resources and execution of these components lie, for example, policy making in different line ministries, policy execution in schools, universities and businesses, expert knowledge from academic experts; considering how work can be managed so that the resources of each actor are channelled effectively to provide a joined-up solution; and establishing an organisational design that supports this. Organisational design therefore has implications for how individuals, organisations, the public administration as a whole and society in general interact and work together.

Rethinking some elements of organisational, system-wide and institutional designs may offer one lever to improve collaboration within and across entities. The public sector is often charged with having a weak capacity for integrated, collaborative ways of working. There is "silo" working both within and across organisations, with managers arguably devoting more energy to defending their own fiefdoms than working corporately. At the same time, an inward focus can lead to policy conversations being limited to government. Rethinking organisational design, from the individual jobs and teams upward, could be one effective approach to overcoming some of these tendencies, and better support the kinds of information and data sharing discussed in the second chapter of this report.

It must of course be acknowledged that the size and constitutional arrangements of a country influence the amount and formality of the co-ordination required in that given context. In small countries, for example, much of the horizontal co-ordination may take place informally. However, in larger countries with more diverse societies, more explicit structures become necessary to ensure inclusivity.

Looking beyond public organisations to enhance innovative capacities

Individuals and organisations working in isolation cannot achieve the level of change that the public service requires. The capacity of civil servants to deal with the complexity of today's issues depends on their

ability to act as "stewards" who need to understand the interactions and connections of different organisations and actors across the delivery landscape (Hughes, 2013). To achieve this, individual civil servants require "linking capacity" to other organisations at policy, professional and user levels (Bekkers et al., 2011). Such networks make the valuable insights, resources and capacity of these different agents accessible to individual staff and the organisations where they work, as well as provide motivational aspects that can address some of the issues discussed in Chapter 1.

How far individuals and organisations connect with each other and work collaboratively is affected by formal structures, such as how teams are designed, how work is organised, the management of information and performance incentives that recognise sharing and collaboration. Informal features such as culture, networks and leadership support are equally important in shaping the extent of individual collaboration and its quality.

The formal design of teams may affect how far individuals collaborate with actors with different backgrounds and sets of skills. In the United Kingdom, a new trend among line ministries is to use more flexible pools of staff that can either be moved across a whole department or directorate to staff specific projects, or deploying small flexible pools of staff to urgent or priority work as it emerges (Kidson, 2013).

Such flexible staffing systems may facilitate the development of networks and collaboration because individuals are constantly required to work with new sets of individuals, each with a different skills set and background. In contrast to standing policy teams, such flexible working may result in greater exposure to different issues, and therefore different organisations and people, supporting the development of individuals' networks.

Other approaches to organisational structure include altering the responsibility of senior leaders. Traditional hierarchical structures with individual leaders heading up different discreet policy domains with standing teams beneath them may encourage silo working where each team and senior leader focus on their own policy domain to the neglect of the wider picture. Instead, giving primary responsibility for policy to a single senior leader across a number of different domains in an unstructured team setting may encourage more strategic, collaborative working across a whole ministry or group of related ministries (Kidson, 2013).

There are also challenges associated with such ways of working. More flexible structures may make it difficult to develop strong relationships with stakeholders, and may reduce the corporate memory and deeper policy knowledge related to specific fields. Knowledge management systems must

work well to ensure that knowledge is retained and supports continuous improvement, even if some individuals move to different projects.

Equally, it should be acknowledged that organisational autonomy and human resources frameworks can make such a flexible vision difficult to achieve in reality. Different posts and functions are associated with correspondingly different wage scales and benefits, meaning that simply shifting staff to different teams and different job profiles is procedurally and practically difficult.

Developing innovative, joined up public policies that draw on the resources of all relevant actors requires effective collaboration across the whole of government. The innovations collected by the OPSI frequently emphasise the importance of different structures and approaches for effective cross-government working to facilitate the success of innovations.

A number of innovations highlighted the role of multiple organisations from across the public sector in providing knowledge and experiences to support their development. For example, Open Policy Development in Canada necessitated collaborative working with other parts of the administration.

Open Policy Development, Canada

> *One challenge is that policy staff are not strictly operational in their focus. Other divisions have more immediate responsibilities and interactions with external clients. This has meant that developing pilot projects and other applications of open policy development has required partnering with service delivery divisions.*

However, innovation cases collected through the OPSI suggest that establishing such collaboration is not always easy. Challenges included identifying leadership and authority when a project engages multiple actors from different organisations and levels of government. This was a challenge highlighted by Germany when developing its unified public service number, 115. As a multilevel project with independent actors and without a centralised authority, coming to a mutual understanding on the organisational, technical, legal and financial aspects of the implementation was difficult.

Another challenge highlighted by the OPSI cases is that different organisations may be reluctant to collaborate. Communications and providing the opportunity to work and design solutions together were highlighted as important solutions to build mutual trust in the Korean Minwon24 experience.

Minwon24, Korea

> *Collaboration of multiple agencies is essential. It was not easy to bring all the pertinent agencies together and co-ordinate them to work together. To tackle these issues, we organised conferences and workshops for those in charge at public agencies to emphasise the importance of online delivery.*

As noted in several of the innovations, specific infrastructures, in particular steering committees and prior agreements, helped to facilitate cross-government, and even cross-sector working. In Denmark, borger.dk's collaborative working arrangements were underpinned by financial contributions. The innovation was collectively financed by central government, regional government and the municipalities, respectively providing 40 per cent, 20 per cent and 20 per cent of costs. The financing arrangement was reflected in the project's steering committee, which was composed of representatives from national, regional and local government.

The experiences of the innovations collected by the OPSI indicate that developing structures and frameworks that support collaboration across government is not only important in terms of helping to generate innovative ideas, but in providing the guidance and resources to support an innovative idea to its fruition.

Partnering beyond public entities: Co-designing and co-producing public services

In the context of contemporary "wicked" problems, collaboration beyond government with society is perhaps more important than ever. Citizens interact with public services in a variety of ways, whether in relation to their health, their family, their employment, their education or their income, to name a few. Furthermore, issues such as population ageing or inequality are not the domain of any single organisation but touch different bodies across different parts of the public, private and civil society sectors. If public organisations and public institutions are going to have the capacity to develop innovative solutions that tackle these issues they need to be able to collaborate and partner effectively with actors from across society.

Some countries are experimenting with new structures and units that facilitate the public sector's ability to engage the broad range of actors who are relevant to any single issue. Many of these units apply design concepts to public services which involve bringing together interested actors to co-design creative solutions. In Finland, the Cardboard Hospital brought

together staff, patients and experts to design a better hospital environment for its users.

There are efforts to institutionalise this co-design approach in some countries and cities, through the creation of innovation labs (Box 3.2), such as Mindlab in Denmark, the pilot of the Helsinki Design Lab in Finland, the Policy Lab in the United Kingdom, and the offices of New Urban Mechanics in Boston and Philadelphia. While it is still too early to assess the effectiveness of these units, they play a role in introducing new methodologies and approaches in designing and delivering services drawing on the resources, interest and energies of a wide range of partners.

Box 3.2. **Institutionalising co-design: Labs**

Labs aim to address the "architecture of the problem", as the Helsinki Design Lab calls it, by bringing together small interdisciplinary teams bridging organisational and sector boundaries, with experience and expertise that reflects the complex nature of policy challenges.

Often labs in the public sector are used to provide a number of different services. They may be a place where staff can come together to learn about human-centered design or to address large-scale policy problems. For example, Mindlab in Denmark has used its multidisciplinary approach, bringing together actors with different skills such as ethnographers, designers, public policy specialists and citizens to tackle issues such as simplifying the process for managing claims related to industrial accidents.

Sources: Design Council (2013), "Design public good", May, Design Council, London, available on the See platform: Sharing Experience Europe – Policy Innovation Design, www.designcouncil.org.uk/sites/default/files/asset/document/Design%20for%20Public%20Good.pdf; GAO (2014), "Office of Personnel Management: Agency needs to improve outcome measures to demonstrate the value of its Innovation Lab", Report to Congressional Requesters, GAO-14-306, March, United States Government Accountability Office, Washington, DC, available at: www.gao.gov/assets/670/662137.pdf.

In recent decades, public administrations have increasingly recognised that governments do not hold the monopoly on the delivery of public services. This is predicated not just on the fact that the public sector does not have all the tools to generate the desired public outcomes or to address some of the complex issues we are facing as a society. Public results require the active contribution of multiple actors in society. While efforts in the 1990s to introduce the private sector to the public service delivery landscape were met with mixed success, the OPSI cases highlight that governments today are going beyond public-private partnerships by collaborating with a wider range of partners. Their motivations reflect that in some cases, organisations from civil society may be better placed in terms of local knowledge and

specialisation to deliver services. This reflects that fundamentally partnerships should be based on the relative strengths of a particular partner (rather than any specific ideology). In some cases smaller, local charities or organisations with a history of delivering services to a specific community may be better placed to identify how to meet their needs than a national (or multinational) provider acting on a larger scale and perhaps with greater resources at its disposal.

However, traditional forms of contracting and commissioning may make it difficult for civil society organisations to engage in public service delivery. Smaller voluntary organisations may lack the skills and capacity to respond successfully to tender bids while performance-based payment regimes may entail non- or partial payment risks which are too high for such organisations to bear. If public sector organisations want to be able to tap into the knowledge, experience and networks of civil society bodies, they need to consider how they can engage with them and what tools they can use to overcome these challenges so that these issues do not become a barrier for partnering with them.

The collected OPSI cases highlight a number of innovative funding mechanisms that some countries are experimenting with to support service delivery through and with civil society organisations. Through innovative approaches to social investment, such as social impact bonds, investors' capital is supporting civil society providers to deliver services, while the government pays the investors on a payment by results model. The involvement of the investors provides the up-front funding and bears the non-delivery risk which might otherwise block smaller civil society organisations from delivering the services. The United Kingdom has been piloting a social impact bond to reduce re-offending.

Social Impact Bond, United Kingdom

The six-year Social Impact Bond pilot is working with adult male offenders sentenced to less than 12 months in custody and released from Peterborough prison. These offenders currently receive no statutory probation supervision on release from prison… Social Finance UK Ltd has raised [GBP]5 million of social investment, to fund the delivery of interventions and services to offenders by a range of voluntary organisations…The government will only pay a dividend to investors if the pilot has significant success in reducing reoffending by offenders, measured by the number of times offenders are reconvicted.

In a similar vein, Australia's Social Enterprise Development and Investment Funds (SEDIF) seek to grow social enterprises through seed funding from government and the private sector. These are two examples of

how governments are considering how innovative financing arrangements may be able to support partnerships and collaboration with external partners and leverage their ideas, expertise and networks.

Formal partnerships for service delivery, such as contracting out and commissioning, are also being rethought to support innovative approaches such as co-design and co-production. The People Powered Health Programme run by Nesta focuses on the design and delivery of innovative services for people living with long-term health problems. Nesta highlights the value of a model of "collaborative commissioning" where service contracts are co-designed with service users and local communities. Going further, "co-producing commissioning" establishes a dialogue with providers and stakeholders to agree on objectives, processes and resources (Nesta and Innovation Unit, 2013).

Collaborative commissioning is also about going beyond the competition dynamic. Clearly competition has a role to play through market testing and contestability to drive both internal and external actors to improve performance; however, if it is the only or predominant dynamic, this may ultimately undermine service quality. In the context of complex, multifaceted issues such as long-term health or social care, service providers should be encouraged to share information on cases and performance, and given they have direct knowledge of service users and their needs, they should also feel comfortable to suggest new approaches which may help to support more innovative procurement. In commissioning partnerships characterised by competition, providers may be discouraged to do either of these things (Nesta and Innovation Unit, 2013).

Being innovative does not necessarily mean expanding existing service provision. Once innovations are proven to work, they need to replace the existing status quo. Hence, for innovation to genuinely transform public services it must therefore be accompanied by "creative decommissioning", which means identifying those services which are not performing to expectations and stopping them, while freeing up resources to support new innovative, effective services.

Decommissioning, is seldom easy as it involves challenging incumbent service models and mind sets (Blunt and Leadbeater, 2012). Decommissioning requires having honest policy conversations and good quality data to challenge existing services to demonstrate their efficacy, drawing on a range of individuals' perspectives and experiences from across the public sector and beyond.

Key findings

- Many of the challenges that societies face are interdependent. They touch on many different sectors and levels of the public sector, meaning that no single team, unit or organisation can tackle them effectively alone. Partnership and collaboration are essential.
- Public sector organisations are developing structures and approaches to support this. Within organisations, more collaborative working methods are being trialled to support more effective collaboration internally.
- The public sector is opening up to external perspectives, which can be a source of innovation. Co-design, user-centred design and ethnography are some of the approaches being used to systematically involve citizens in the design of their public services. Structures such as innovation labs are institutionalising these approaches in some cases.
- Many countries acknowledge that the public sector can no longer deliver all the services its citizens require by itself. This means delivering with other parts of the economy, which has the potential to lead to new sources of ideas. But while opening up service delivery can enhance innovative potential, it also entails service risks which must be managed and accounted for.

Conclusions and open questions

There is a need to explore the mechanisms, bridges and platforms required to rise above individual organisations to improve government-wide and societal results:

- What tools can the public sector use to encourage collaborative working practices, both within individual organisations and across the public sector as a whole?
- How can management tools, such as accountability mechanisms, budgeting frameworks and/or performance management systems, impact the ability for organisations to join forces in the development of innovative solutions to common problems?
- How effective are approaches such as co-design, co-production and innovation labs? In which circumstances are they appropriate and how should they be organised to enhance impact and utility for public sector innovation? What are some of the pitfalls and

challenges associated with citizen participation and how can they best be avoided and/or managed?

- How can the public sector engage with external delivery partners to enhance their innovative capacity? What are the risks involved in such partnerships?

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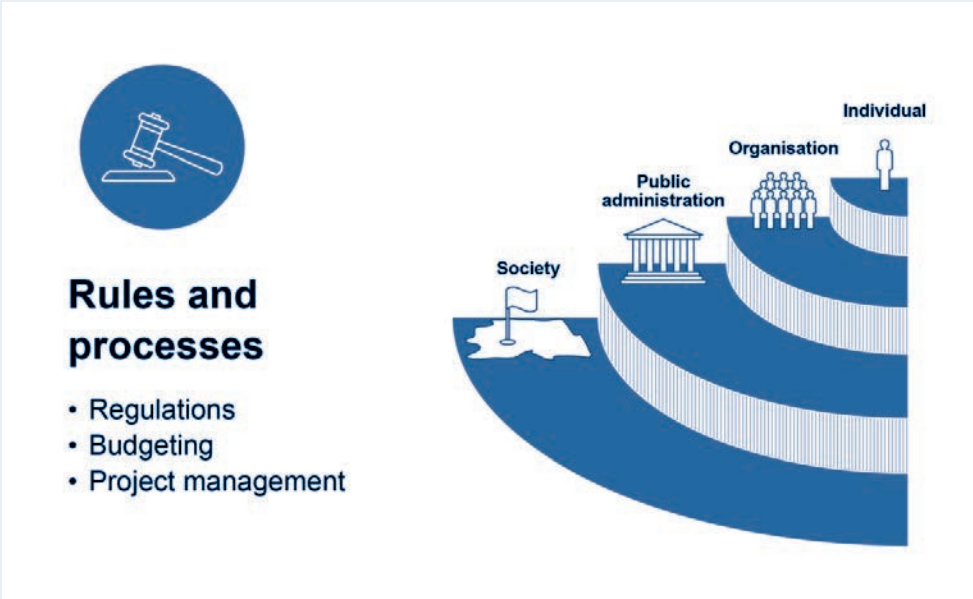
Chapter 4

Innovating within existing public sector rules, processes and procedures

Rules, processes and procedures enable large organisations to accomplish co-ordinated tasks in standardised ways, and therefore have a significant impact on the kind of work and innovation that an organisation can undertake. Clarifying and simplifying rules and regulations, and ensuring a minimum of red tape to ensure compliance with important protocol can open up space for innovation and ensure that employees share a collective understanding of where that space lies. The rules that control spending also have a strong impact on the ability for organisations to resource innovation, with more budget agility assumed to provide more opportunity to finance innovation projects. Additionally, the project management approaches themselves are processes that can either support or hinder effective innovation in public sector organisations. Various experimental approaches to project development that include piloting and prototyping may challenge traditional approaches to organisational transformation and require a different regulatory framework to reap potential innovation benefits.

Box 4.1. **How rules and processes affect public sector innovation**

The rules, processes and procedures in a public organisation can shape its capacity to innovate. Understanding the relationship between rules and processes and innovation also means considering the context in which they are set. At the centre is the individual innovator; followed by the organisation in which they work; the national public sector, made up of numerous organisations; and finally society at large, with whom the public sector partners to innovate. How these different levels engage and interact with each other can shape the opportunities and space for innovation.



Introduction

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, approval processes,

communication protocol and 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.

This chapter looks at the concept of **rules and procedures** in three discreet, but interrelated areas to propose that certain approaches to each can impact the public sector's capacity to innovate:

- clarifying and, in some cases, simplifying the legal and regulatory context to encourage public sector innovation
- looking at the relationship between resource flexibility, budget agility and innovation in a public sector setting
- the innovation processes – how innovation requires more flexible and experimental approaches to project management and public service design.

Clarifying and simplifying regulations internal to government

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 the burden for businesses (OECD, 2003). 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.

The Australian government is one of the few that has conducted a thorough review of its internal regulations which identified two principle findings. First, that the process for developing internal regulations was not sufficiently consistent or systematic. And second, that internal regulatory requirements are often poorly understood by agency staff. Risk aversion leads them to adopt unduly onerous processes that are not actually required by the internal regulations in place. A recent study of the Australian public service suggested that many of the procurement staff were under the impression that some innovation-friendly procurement practices were contrary to regulations when, in fact, they were not (Australian Government,

2010). These examples suggest that when regulations are unclear or apparently contradictory, it is the natural tendency for public sector employees to interpret them in conservative ways to avoid finding themselves on the wrong side of the law. This has immediate consequences for motivation (see Chapter 1).

Legal advice helps ensure that innovations do not expose government to unconsidered legal risk. Lawyers' jobs are to protect the state against legal recourse. Legal advice does not replace the need for management decisions to balance the legal risks of actions against the societal risks of inaction. A report on innovation in Australia's public sector quoted one public servant as stating, "my lawyers always give me multiple reasons why I can't do what I am seeking to, they never seem to give me helpful advice on how I can do what I want to" (Australian Government, 2010).

Clarifying the limits of acceptable practice and ensuring a common understanding of these standards can go a long way in enabling innovative practices and identifying the need for regulatory reform. It can also show where rules and regulations may be overlapping and even contradictory, and how changes to one set of rules and regulations can impact others.

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 (OECD, 2009; 2014). 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.

Updating rules and regulations is particularly important to enable governments to harness the potential presented by some of the new approaches to data discussed in Chapter 2. A pertinent example of this can be found in a number of the cases in the OECD's Observatory of Public Sector Innovation (OPSI) which take advantage of social media tools. Many governments have been slow to embrace these tools due to regulations that were not designed for these new realities. For example, 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 may further limit the ability to interact meaningfully with citizens on these channels, if interactions are classified legally as personal data. 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 regimes 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.

Resource flexibility and budgeting agility for more innovation and experimentation

Budgeting and 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. For example, budgeting policies can influence the available sources of innovation financing in government, as well as the organisational incentives for innovation by determining the possibilities for reinvestment to build innovative capacity and to support organisational priorities. They can also impact organisations' ability and/or willingness to share funding and/or savings across organisational boundaries in support of shared objectives.

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, for example through a dedicated innovation fund, although initial research by the OECD suggests that there are rarely dedicated funding streams for public sector innovation within OECD countries, and when these do exist, they tend to be small reserves managed at the department/ministry level.

Most of the cases in the OPSI were funded by reallocating existing resources within ministries. This implies that resources to support public sector innovation are by and large funded at the ministry level with no or limited investment at a government-wide level. Either by leveraging existing technology platforms, re-using public properties for new purposes, or reallocating staff, ministries were able to reduce the costs of an innovation while ensuring that existing investments and resources were used to maximum effect. In this way, rules that allow for a certain level of resource flexibility appear to enable public sector innovation.

Budgeting rules may also impact the incentives for organisations to innovate. For example, some organisations are able to harvest savings to fund other priorities, whereas others are expected to return savings to the central budget authority and may even have their subsequent years' budgets reduced. In the former case, the organisation can reap benefits from efficiency-producing innovation and may be incentivised to do so. In the

latter case, there may be a disincentive to introduce innovations that result in cost savings and/or that require longer term investments. Organisations may try to hide innovative practices from their central budget authorities so as to not lose savings to fiscal consolidation. In doing so, they may limit the effectiveness, spread and application of innovative practices.

Many OECD countries have recently faced periods of deficit and fiscal consolidation as a result of the 2008 financial crisis. This context gave extra weight to the innovation imperative and governments struggled to consider how best to spur innovation while, at the same time, reducing their overall government expenditures. 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. Unpredictable fiscal consolidation measures, especially when accompanied by a lack of budget flexibility, can lead to cuts that reduce strategic capacity and lead to short-term thinking.

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 innovate. 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 capacity of government 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. The OECD is looking at the impact of different approaches to fiscal consolidation from an innovation perspective. The study will look more broadly at the different ways in which expenditure reductions may be implemented and the consequences for innovation.

Managing risk and complexity through experimental approaches to project management and service design

Another group of processes that relate to the innovative capacity of public sector organisations are those associated with project management and reforms themselves. Most public administrations regulate their approach to project management through prescribed staged methods that specify common steps and requirements *ex ante* for project design and implementation. While some level of standardisation is helpful for good financial stewardship, the nature of the problems that the public sector seeks to address through innovation – ill-structured "wicked" problems

characterised by a high level of uncertainty – can challenge traditional approaches to project management and organisational reform.

The conventional approach to project management possesses some common features:

- First, change comes from the top. The actions are planned against rational assumptions and future projections based on stable current states.
- Second, a change process is initiated against a perceived breakdown requiring corrective actions aimed at reinstalling the previously prevailing equilibrium.
- Third, contractual arrangement is the main instrument in the relationship with other stakeholders.
- Fourth, service design is structured around existing organisational requirements.

Innovative practices require a different approach to project management. It is in this context that governments today are beginning to explore new approaches which move away from command-and-control models. These involve:

- Broadening of sources into decision making, including input from citizens and service users, front-line staff and interaction across organisational barriers.
- Focusing on outcomes – beginning with a desire to improve a service or social outcome and then engineering change through the entire delivery system to align processes to meet these new needs.
- Working across boundaries – collaboration as a mode of interaction (co-design, co-production, co-delivery) within and across organisations and even across sectors.

Box 4.2. **A different approach to managing innovation projects: Evidence from the OPSI**

Denmark's "NemID" highlights the kinds of systemic challenges often faced by innovators in the public sector, which they list as follows:

The scale of the project, including both public and private organisations, resulted in a large amount of interdependencies, which had to be tendered on many levels including technical, judicial and political. Naturally the effects of any issues causing changes or delays would be exponential in relation to project size and complexity.

Adoption of agile development, user involvement, tight supplier management, breaking down the project into manageable chunks and sustained close collaboration with suppliers and stakeholder organisations were introduced as solutions. Identify and fix issues on the go, supported by manageable deliveries and implementations in iterations enabled the project to continuously make any necessary improvements based on second order learning in the project. An investment in stakeholder management should also be singled out, as this project had very influential stakeholders.

Italy's Monza Court innovation illustrates that a vast number of systems are required to work together to make system change happen in the public sector:

Three important lessons can be learned from the Monza Court project: In order to design a user-centered service for the citizen, increasing quality and responding to real needs, you need to design "services" (what you want to deliver), "the delivery system" (how you want to deliver) and the "relationship system" (how you want to relate to the citizen). An integrated design of all involved organisational dimensions is needed: access to the service, use of technology, internal organisation, work processes (service, support, co-ordination), systems of co-ordination and control (planning, hierarchical control, leadership, etc.), microstructures (working groups, including substitutes, offices, clerks, etc.), roles (judges, clerks, etc.), people management systems (remuneration, etc.), control systems (leadership, professional communities, cultures, etc.). As [far as] the voluntary jurisdiction is concerned, services to weak citizens require the involvement of multiple actors and new subjects such as third sector operators and building a multi-level system of governance.

The **Netherlands' PDirekt innovation** is a shared service centre which needed the co-operation of a wide range of actors. Their advice to others also illustrates the complexity inherent in such transformations:

Take control of such an intensive transition as a government itself and be in the lead! Start with standardising the processes. Involve line management with standardised decisions. Big complexity needs a step by step development and implementation (no big bangs). Make use of lessons learned elsewhere. Approach this kind of innovation as a change process (and not as an IT project). Involve the end user directly in development, especially of the user interface. Take care of real commitment at the TOP. Keep track! And move with the winds where necessary. Take real co-operation as a key way of working with all the parties involved.

Source: OPSI database, https://www.oecd.org/governance/observatory-public-sector-innovation/.

Governments do not have all the tools to effect all the changes they aim to create. In this sense, the role of government agencies shifts from one of sole actor to one of convener, facilitator, organiser and knowledge broker. Partnerships – within government, across levels of government, with the private and not-for-profit sectors and citizens themselves – are the new norm. This represents a significant shift from the conventional approaches based on top-down decisions and central planning to a greater focus on interdependencies and citizen-centricity.

An important element of this innovation management approach is that ideas are put into practice either hypothetically or in small and controlled areas to collect evidence of their effectiveness before being expanded to a wider impact area. Starting small and strategically growing enables managers to get a good sense of the impact innovations will have when implemented on a larger scale, and gives ample opportunities to adjust and adapt quickly based on reactions from users. In this scenario, piloting, prototyping and other experimental design tools can be used to implement new approaches safely and minimise the risk associated with innovation. Failures, when they happen, happen early, before large amounts of resources are invested, and act as a learning experience and a step towards eventual success.

Prototyping involves the quick production of samples that can be tested by their end users to determine effective fit. Once a prototype appears appropriate, it can be put into the field in a pilot study to determine whether an innovation will have intended impacts and other consequences. Using tools such as developmental evaluation, the pilot can be continually assessed and adjusted based on a real-time flow of information. Such an approach requires clarity of desired outcomes, but also flexibility to identify and capture unanticipated benefits as they appear during the piloting process. It also requires evaluation tools and capabilities, indicators for monitoring, and the time and resources to ensure that evaluation (and resulting adjustments) are built into the implementation process. (For more information, see Nesta and Thinkpublic, 2013).

These approaches enable continuous learning and allow ideas to be developed and re-developed to ensure a good fit – they collapse the traditional design-implement-evaluate stages into one continuous learning experiment. This ideally reduces uncertainty and risk associated with a larger "big-bang" style implementation, by recognising that complex projects in complex environments will produce unexpected impacts and being ready to respond and adapt.

Box 4.3. **Pilot testing, experimental design, prototyping: Insights from the OPSI**

Pilot testing is mentioned by a great number of the cases collected on the OPSI website. **Spain**, for example, piloted the use of employee performance assessments across its public administrations. Not only does the use of a pilot help them to develop the best tool possible, it also enables a socialisation process to occur in its organisations whereby employees begin to be accustomed to the new approach before it is rolled out in full force.

Testing this tool in a pilot makes the future implementation much more efficient by providing prior knowledge and learning. It also is an opportunity to correct, amend and change the process before real implementation. The pilot will also help to raise awareness about performance management systems among civil servants.

Pilots work best when coupled with a continuous assessment of impacts and the ability to adjust and correct on the go. This requires quite a different approach, sometimes referred to as "**experimental policy design**" (Eppel et al., 2011). This approach to policy development is alluded to in the **United States'** discussion of learning and growth for its innovation "Challenge.gov":

The innovation is in a constant state of testing and analysis. The challenge and prize momentum is growing quickly and our program[me] is adapting with it in order to accommodate more new users and helping advanced users get more out of the program[me].

France has worked with a similar methodology for hospital reform. Its methodology follows a step by step participatory approach engaging relevant staff and stakeholders in various workshops. Once solutions are deployed, they are carefully monitored and readjusted on a continuous basis. Having proven successful, the methodology is now being extended to another 50 hospitals across the country.

The **Canadian** open policy approach also uses a very experimental approach to its innovation – with a focus on continuous revision and tweaking as a key element of its policy design:

The framework underwent continuous revisions and prototyping over subsequent months and years as best practices emerged and experience grew. Open policy development was tested and tweaked within the Strategic Policy Bureau, and clarified and altered through discussions with many collaborators within and beyond the department. The concept evolved over time, and as it became more robust and as experience increased it was promoted more and more to an increasingly captive audience.

Box 4.3. **Pilot testing, experimental design, prototyping: Insights from the OPSI** (*cont.*)

The Canadian open policy approach offers the following advice to other innovators interested in implementing something similar in their own contexts:

Start small. Design a clear narrative. Document your progress. Allies are important at all levels, including senior management. Visibility is important to inspire early adopters. Quick wins are important (i.e. the philosophy was sound but the Policy Planning Bureau needed to show the proof). While some open policy pilot projects may fail, they are designed to encourage a culture of experimentation. Experimentation is about finding out what works and what does not work in order to discover what works best. It entails taking smart risks. Eureka moments are the result of countless experiments that yielded more lessons than results. In order to mitigate the innovation-dampening effects of a risk-averse culture, open policy seeks to emphasise the importance of experimentation and learning rather than failing.

Finland's government has used prototyping to redesign hospital features by using cardboard cut-outs of furniture and tools with a group of hospital employees, architects and patients. Their "Cardboard Hospital" innovation allowed them to experiment with a particular approach to co-creation:

The Cardboard Hospital provides an opportunity for staff and architects to meet the patients as users of the hospital environment and services as co-creators of that infrastructure. The central idea is that by constructing physical spaces, one is situated in the environments through all senses, thus enabling new ideas and their evaluation. Through prototyping activities that aim for a concrete end-result, the cross-disciplinary group has to negotiate differing needs in a constructive way. The props work as representations that can be combined to achieve different elements of hospital spaces (walls, screens, tables, benches, ICT, etc.) and they were coated with a film that allowed writing on them.

Source: OPSI database, www.oecd.org/governance/observatory-public-sector-innovation/.

However, such approaches depend on a greater degree of organisational flexibility than many public organisations are comfortable with. Furthermore, by providing an opportunity to engage with end users early and often throughout the process, they can open up new opportunities for innovation and can inspire new solutions to problems that may have been previously overlooked. For this reason, these methods align well with the use of new organisational models discussed in Chapter 3, and the open data tools discussed in Chapter 2. Finally, it has been pointed out that taking such steps requires an empowered and skilled workforce and a culture shift within organisations (see Chapter 1) – and a shift from the mind-set of "expert" to that of a learner.

Key findings

- Clarifying the limits of acceptable practice and ensuring a common understanding of these standards can go a long way in enabling innovative practices and identifying the need for regulatory reform.
- Updating rules and regulations is particularly important to enable governments to harness the potential presented by new technologies, including social media tools.
- Budgeting rules that allow for a certain level of resource flexibility and for savings to be reinvested appear to enable public sector innovation, while unpredictable fiscal consolidation measures, especially when accompanied by lack of budget flexibility, can lead to cuts that reduce strategic capacity and lead to short-term thinking.
- Innovative practices require an approach to project management that enables continuous learning and allows ideas to be developed and re-developed to ensure good fits; however, such approaches depend on a greater degree of organisational flexibility than many public organisations are comfortable with.

Conclusions and open questions

The organisational capacity to innovate in the public sector is likely linked in some respects to the rules, processes and procedures that an organisation establishes (or has imposed on it) to manage its business.

- How can rules be simplified or eliminated in a structured and prudent way? What kinds of alternative approaches (e.g. instrument choice, managerial and performance systems, cultural and ethical norms, strategic and learning capacity and flexibility) could ensure the desired behaviour?
- How do different organisations review their internal rules and regulations? Could the same approaches to red tape burden reduction applied to external policies also apply internally?
- What kind of funding mechanisms for innovation in government exist? How can they be developed? How can they be calibrated to organisational priorities?
- How can the flexibility of overall funding arrangements enable organisations to reallocate resources to innovate while still ensuring appropriate control and stewardship of public finances? What kind

of link can be established between the use of fiscal restraint mechanisms and innovation? How can organisations be encouraged to innovate in times of tight fiscal restraint?

- What are the implications of reducing regulation for the workforce? Will more evaluation and monitoring mean the need for stronger analytical capacity? Will moving from a highly regulated to a more innovative workplace require more skilled staff? Will it require new skill sets and investments for a higher performing public service?

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Contents

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