

# 1 Enhancing Public Innovation by Transforming Public Governance?

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## 1.1 Introduction

Innovation has recently moved to the top of the agenda in many public sectors around the world. Innovation may be regarded as a magic concept with a strong normative connotation (Pollitt and Hupe 2011). Thus, the innovation discourse in policy circles implicitly assumes that innovation equals improvement and that it is good to be a frontrunner, bad to be a laggard and even worse to forego the chance of innovating. You do not want to fall behind when it comes to innovation since it prevents you from saving money and delivering better results. A lot of high hopes and promises are ascribed to the notion of ‘innovation’, which is often considered as a silver bullet that can solve societal problems by producing new and smart solutions. Not surprisingly, the current quest for innovation is sometimes criticized for promising more than it delivers. However, the interesting thing about innovation is that it has the potential for delivering more than it promises because it is potentially a creative process that opens up for and embraces the emergence of the otherwise possible. Innovation often sends its participants to an uncharted territory where solutions are often encountered and results achieved that we could not even dream of because they are unknown or unthought of. Innovation is a heuristic and pragmatic search for and realization of new and emerging solutions that disrupt the current ways of thinking and doing things and, at least potentially, give us more than we hoped for. It is this potentiality that for better or worse has turned innovation into a magic concept.

Today, innovation challenges the narrow focus on administrative rationalization as the top priority of public organizations and public leaders. Political challenges such as demographic changes, increasing public health expenditure, unmet social demands, a growing number of wicked problems and the presence of numerous policy deadlocks cannot be solved by simply cutting public expenditures and making the public sector

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leaner. After 30 years of cost-saving rationalization efforts, such as privatization, contracting out public services and eliminating slack in public service organizations, we need to raise our ambitions by seeking to create more and better public solutions for the same or less money, and innovation might be the tool for achieving exactly this.

At first, the growing interest in public innovation primarily led to symbolic changes. From the 1990s onwards innovation was added to the long list of strategic goals in public organizations. External experts and consultants were hired to stimulate innovation, special development and innovation units were established and some countries saw the creation of national innovation labs such as the American OPM Innovation Lab, the British NESTA, the Danish MindLab and the Mexican Laboratorio para la Ciudad. Later, the strategic and symbolic embrace of the public innovation agenda has been followed by more practical and operational attempts to spur innovation by means of training public managers and employees and by encouraging them to develop and test new ideas in practice. To support this endeavour, we have seen the development of new methods for how to uncover user demands, stimulate knowledge exchange, generate innovative ideas, test prototypes and manage the risks associated with innovation. In some countries the new design thinking has played a key role in developing new methods for stimulating innovation (Bason 2010). Gradually, the strategic and practical efforts to spur public innovation have come to fruition. An important indication is that national innovation award schemes receive an increasing number of applications, and a recent study of the American Government Innovation Award programme shows that the innovation agenda has expanded in every policy area from 1994 to 2010 (Borins 2014). Another indicator is the growing number of surveys and measurement programmes that report an increasing number of public innovations (Arundel and Hollanders 2008; Arundel and Smith 2013; Kattel et al. 2014). One recent survey shows that two-thirds of public administration institutions at the EU level have introduced a new or significantly improved service in the last three years. Conversely, only 4 per cent of the public managers who participated in the survey reported that no positive effect had resulted from the innovation that had been implemented (European Commission 2011).

Innovation strategies and activities seem to be growing rapidly in the public sector. Yet public innovation continues to be rather episodic and is often triggered by accidental events such as economic crises and large-scale budget cuts, scientific or technical breakthroughs, access to special purpose funding, public criticism and negative evaluations, etc. There is still quite some way to go before public innovation becomes a permanent

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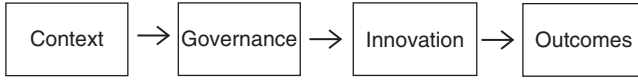


Figure 1.1 The connection between governance, innovation and public sector outcomes

and systematic activity pervading all aspects and levels of government. The key question today then is: How can we transform the institutional structure, the organizational designs and cultures, the steering systems, the management practices and more generally the entire system of public governance in order to further stimulate and enhance the production of innovative solutions to both deep-seated and emerging problems? This book is devoted to answering this pertinent question.

The overarching idea of this edited volume is that the way we shape the institutional forms of governance in the public sector affects its capacity for innovation. If we transform public governance in the right ways, public innovation may be boosted to the benefit of users, citizens, public employees, private stakeholders and society at large. How the system of public governance is reformed obviously depends on the context and varies between countries, levels and policy areas. Accordingly, we believe that context-sensitive governance reforms that change and adjust the balance between different governance paradigms will spur the production of public innovation and bring about new solutions that will outperform the existing ones. The analytical model informing our study of the link between governance and innovation is depicted in Figure 1.1.

Figure 1.1 indicates that the political, socio-economic and administrative context will affect the forms and content of governance reform, which in turn will help to spur innovation that may lead to better outcomes. These are the causalities that are further explored in this volume.

So far there have been few attempts to reflect on how the system of public governance affects the ability to innovate (see Eggers and Singh 2009; Hartley, Sørensen and Torfing 2013; Ansell and Torfing 2014). As a result the burgeoning literature on public governance and the expanding field of public innovation research remain largely unrelated. This book aims to close this gap in public management research and draw together these two strands of research by focusing on the attempts to transform governance in order to enhance innovation. Our hypothesis is that a further strengthening of governance practices associated with New Public Governance may help to further enhance public innovation. However, the existing governance paradigms (in terms of Classical Public Administration and New Public Management) are likely to

continue playing an important role in the public sector. Moreover, they contain indispensable drivers of public innovation that in some cases might help to compensate some of the inherent problems in the governance practices associated with New Public Governance. Hence, the general argument pursued in this book is not that we are seeing or even need a wholesale transition to New Public Governance. Rather we are likely to see the addition of a new paradigmatic layer of governance on top of the existing ones that in some areas will continue to be predominant and contain important drivers of innovation. However, since New Public Governance is ‘the new kid on the block’ and tends to focus explicitly on innovation, we are particularly interested in how this way of thinking about public governance can stimulate public innovation.

With this book we take an important step in creating a scholarly *rapprochement* between governance and innovation theory. Our goal is both to contribute to the scholarly discussion about the effect of different governance paradigms on the innovation capacity of public organizations and to provide new inspiration to practitioners who are aiming to enhance public innovation by rethinking the way that that public sector is organized, governed and managed. Finally, we hope that this book will stir public debates about the future development and reform of the public sector. The stakes in these debates are high as there is much to gain in terms of efficiency, quality, effectiveness and perhaps even democracy from finding new ways of spurring innovation through reflexive and context-sensitive governance reforms.

The chapter is structured in the following way: Section 2 explains why we are witnessing a new focus on public innovation. Section 3 defines the concept of innovation and reflects on the key features of innovation in the public sector. Section 4 defines the notion of governance and analyses how different governance paradigms drive and hamper innovation respectively. Section 5 presents the theoretical framework that informs the studies presented in this book. Section 6 explains the structure of the book and briefly introduces the chapters.

## 1.2 A New Focus on Public Innovation

For more than a century innovation has been considered as the main source of economic growth and profitability in the private sector. According to the pioneering works of Schumpeter (1934), innovation is driven by cutthroat competition between private companies and propelled by individual entrepreneurs and large-scale research and development departments. When it comes to the public sector, the lack of competition and entrepreneurship seems to have nurtured the belief

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that innovation is both unnecessary and irrelevant. Many people perceive public innovation as a contradiction in terms since, unlike the dynamic private sector in which innovation is spurred by forward-looking and risk-taking entrepreneurs, the public sector is a large ossified bureaucracy based on hierarchical command and control and a growing number of rules and red tape.

This negative perception of public innovation has changed considerably over the last 30 years as public innovation has received steadily growing attention among both public administration researchers and practitioners (Damanpour 1991; Rogers 1995; Borins 1998, 2008; Hartley 2005; Eggers and Singh 2009; Steelman 2010; Mazzucato 2013). In the mid-1980s, there was a growing interest in publicly funded innovation in science and technology, which was seen as a vehicle for enhancing the competitiveness of national economies in an increasingly globalized world market (Porter 1985). Public innovation can be spurred, it was argued, by creating national innovation systems that bring together relevant public and private actors in networks that facilitate coordination and knowledge exchange (Lundvall 1985). However, it should be noted that the purpose of stimulating public innovation in science and technology was not to improve the public sector itself but rather to enhance profitability of private firms. In short, public innovation was meant to create private rather than public value.

If public sector innovation was initially seen as a lever for enhancing the economic competitiveness of private firms and national economies, private sector innovation in terms of new computer technology was increasingly seen as a driver of public sector innovation. As such, an expanding stream of research from the 1980s onwards focused on the conditions for introducing and exploiting new information and communicator technologies in the public sector (Perry and Danzinger 1980; Perry and Kraemer 1980; Kraemer and Perry 1989; Perry et al. 1993). Computers were considered as an instrument for the rationalization of administrative procedures, and the drivers and barriers to the diffusion of computer technology were a great concern.

From the 1990s onwards the US Reinventing Government Movement successfully promoted the idea that the efficiency of public service organizations could also be dramatically increased through an infusion of entrepreneurship and innovation and other core features of private firms (Osborne and Gaebler 1992). The Reinventing Government Movement, and its European counterpart the New Public Management reform programme (Hood 1991), criticized the rule-governed public bureaucracies for delivering poor and costly services and called for administrative reforms that would create a result-driven public sector in

which public managers would enhance service innovation in response to competitive pressures from private contractors and incentives emanating for the systematic use of performance management and performance-related pay systems (Ansell and Torfing 2014).

However, as the administrative use of computer technology became more and more common in the public sector and the Reinventing Government Movement gradually reduced service improvement to rationalization efforts based on cost-reducing LEAN technologies, the innovation rhetoric almost died out. At least, the public innovation discourse seemed to have lost its momentum by the beginning of the new millennium. The recent revival and expansion of the public innovation discourse that has captured the mindset of many public leaders around the globe can be explained by several important factors. First, the economic and fiscal crisis, the growing pressures from the global market economy and the ageing populations in the Western world together put a squeeze on public budgets and seem to have generated a growing need for innovative solutions that can provide an intelligent alternative to across-the-board cuts. Second, there is a growing academic and political recognition of the increasingly complex and unruly character of public problems and challenges. Many of the problems that the public sector is supposed to solve are so complex and conflict ridden that they defy standard solutions, and if there are no adequate solutions, increased public spending will not solve the problems but only throw good money after bad money. Innovative solutions are needed in order to break policy deadlocks and political stalemate. Third, the attempt of politicians and professionally trained public employees to meet the calls for more individualized and personalized services, and the future challenges posed by ageing populations, climate change and other long-term systemic changes. With the growing wealth of Western societies the political and professional service ambitions seem to increase, while, simultaneously, the demand for individualized and tailor-made services enhances and the visibility of socio-economic problems and unmet social demands is increased. The combination of growing ambitions and expectations with austerity and scarce resources has stimulated the search for innovative solutions that can give us 'more for less'. Fourth, the emergence of a new generation of digital technologies has enabled novel forms of communication and interaction with users and citizens in the 'front office' and enabled the handling of huge amounts of behavioural and other data in the 'back office'. New breakthroughs in robotics have further stimulated the development of welfare technologies. As such, technological development is once again a driver of public innovation.

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More studies are needed in order to pinpoint the relative impact and timing of the different factors that seem to have contributed to the current surge of interest in public innovation. Nevertheless, the combined effect of the economic, political, social and technological factors is that public innovation has become a strategic goal pursued by local, regional and national governments as well as by international organizations such as the EU, the OECD and the World Bank. A report from the European Commission indicates that there are still considerable obstacles to public innovation in terms of the lack of management support, staff resistance and a risk-averse culture (European Commission 2013). Nevertheless, the report also shows that there is a broad consensus about the conception of public innovation and the need to enhance it in the light of political ambitions, public demands and tightening resources.

### 1.3 Defining Public Innovation

Innovation involves the development and realization of new and creative ideas and practices. Innovation is often intentional and designed to significantly benefit a particular individual, group, organization or wider society (West and Farr 1990: 3). The innovation process is an open-ended and heuristic process that relies on imagination, intuition, chance discoveries and unacknowledged conditions that make it extremely difficult to plan and control and impossible to predict the result. Consequently, there is no guarantee that innovation leads to improvement. Innovation involves a break with established practices and conventional forms of knowledge, but whether it is deemed successful in producing additional public value depends on an ex post judgement that is based on subjective evaluations of relevant and affected actors. Therefore, the definition of innovation should not include any reference to successful outcomes and should not be defined as ‘the successful exploitation of new ideas’ (Bessant 2003). Hence, we shall here define innovation as *an intentional, yet inherently contingent, process that involves the development and realization of new and creative ideas that challenge conventional wisdoms and break with established practices in a particular context* (Sørensen and Torfing 2011). Innovation may ex post be considered as more or less successful and the successful innovations will tend to be consolidated, upscaled and diffused within and across organizations (Rogers 1995).

Innovation gives rise to a particular kind of discontinuous, or disruptive, change that is commonly referred to as ‘step-change’ (Hartley 2005). As such, innovation is more than a ‘continuous improvement’ of public services pursued in the day-to-day operation of public service organizations and less than a ‘revolutionary transformation’ that replaces an entire

system of action with a new one (Hartley 2006; Osborne and Brown 2011). Innovative step-changes combine existing ideas and practices in new ways, while frequently adding new ones, and thereby amount to a change of the overall design, functionality, logic and impact. The steps can be small and incremental in the sense that they merely change the form and content of particular artefacts, practices and strategies, but they can also be large and radical and change the goals, character and operational logic of a particular organization or organizational field.

The more or less radical innovations might be a result of an invention of something entirely new that has never been seen on Earth, but they may also result from the diffusion and imitation of innovative solutions from elsewhere through complex processes of adoption and adaptation. Hence, it is not the source of innovation but rather the context of implementation that determines whether something is an innovation or not. If an artefact, practice or strategy is considered as new in a specific context, it is an innovation even if it can be found in a different context (Roberts and King 1996). As such, innovation is contextual and partly based on subjective perceptions of ‘newness’.

Schumpeter (1934) distinguishes between technological innovations that include process and product innovation, organizational innovations that transform the structure, form and operation of private enterprises, and market innovations that either change the composition and use of raw materials or create new ways of marketing products. In the public sector there has been a lot of focus on process innovation and organizational innovation but less focus on product innovation and more focus on service and policy innovation (Polsby 1984; Roberts and King 1996; Albury 2005; Osborne and Brown 2013). There are also examples of democratic innovations aiming to create new arenas for active citizen participation (Smith 2009), governance innovations seeking to change the role and image of public authorities and the public sector at large (Hartley 2005) and discursive innovations aiming to transform the way that public problems and challenges are framed (Hajer 1995).

Public sector innovation not only seems to have a somehow different focus than private sector innovation but also seems to differ from private innovation in terms of the value that is produced through innovation. Whereas private sector innovation tends to produce private value in the sense of value that is created and appropriated by private firms and commercially protected by patents, public sector innovation aims to produce public value that is appropriated by society at large and bound by a political and moral obligation to spread new and better solutions throughout society enabling as many as possible to benefit (Moore and Hartley 2008; Hartley 2012). However, the distinction is not clear-cut



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since, for example, public universities also tend to patent scientific and technological innovations in order to control and benefit financially from their commercial exploitation.

The stubborn myth that public bureaucracies are virtually incapable of innovating due to the lack of market-based competition and the stifling effects of centralized control, red-tape rules and political stalemates is not correct. Empirical studies suggest that the public sector is much more innovative and dynamic than its reputation. Thus, a recent study that compares the contribution of public and private employees in the Scandinavian countries to the creation of service innovation in areas puts the public employees slightly ahead of the private employees (Bysted and Hansen 2015). More importantly, however, the study reveals that the real difference is not between the public and private sector but rather between different service areas. Hence, the employees in the technical and authoritative service areas tend to contribute less to the creation of innovation than the employees in the social service regardless of sector affiliation.

People who contrast the innovative private sector with the apparently ossified public sector often forget that public bureaucracies can actually stimulate innovation through the exercise of political and administrative leadership, the mobilization of public resources, the creation of rules and procedures for exploring and exploiting new ideas and fostering a supporting cultural environment (Jakobsen 2013). True, many public organizations – at least until the mid-1980s when the contracting out of public services became more frequent – lacked external competitive pressures that could help to spur innovation. However, it should be recalled that this deficiency is largely compensated by the presence of high political ambitions, strong public demands and fiscal constraints that together produce a strong impetus for innovation. We should also bear in mind that while competition may provide a strong incentive to pursue innovation in the private sector, it does not in itself provide any methods for actually creating innovation. When private firms recognize the need to innovate in order to maintain or improve their market position and begin to search for innovative solutions, they confront many of the same barriers that public organizations are facing since especially large firms are organized as bureaucracies in much the same ways as public organizations (Hartley, Sørensen and Torfing 2013). As such, big private corporations are hierarchically organized, contain organizational and mental silos and are bound by a large number of internal and external rules and regulations. In sum, we should be careful not to exaggerate the difference between the public and private sector in terms of their relative capacities to innovate.

In the wake of the current innovation hype, it is important to maintain that the enhancement of public innovation is not a goal in itself but rather a means to reach other important goals such as efficiency, effectiveness, quality improvement, removal of policy deadlocks, democratization, etc. (Bason 2010). We should not innovate for the sake of innovating but use innovation as a tool for enhancing public value production and achieving the many goals of the public sector.

It is also important to avoid the pro-innovation bias that readily asserts that public innovation is always called for, always successful and always leads to improvement (Abrahamson 1991). In countering this bias, we should, first and foremost, insist that innovation is not an all-purpose tool that should be used at all times and in all situations and contexts. Hence, well-functioning public programmes that produce and deliver desirable outcomes should not be innovated for the sake of innovating. Moreover, in the aftermath of large-scale policy reforms, there will typically only be a need for minor adjustments and small improvements while people are trying to learn and adapt to the new rules and procedures and are waiting for the expected effects to materialize. Stability is also in high demand among welfare recipients who want to be sure that they can rely on getting the same benefits and services the day after tomorrow, and among private contractors who need to be able to plan ahead knowing the conditions for their service delivery will not be drastically changed. Moreover, in some areas such as traffic regulation, control of nuclear power plants and the taxation of private pension schemes experimental change and radical innovations would even be considered as unwelcome and perhaps even dangerous (Mulgan 2007).

Second, it is important to remember that despite good intentions, brilliant ideas and many innovations born out of hard work often fail to consolidate step-change and achieve the stated objectives of the innovative endeavour. A review study suggests that as many as four out of five innovations result in failure (Van der Panne, Van Beers and Kleinknecht 2003). Iterative rounds of design, testing and re-design might help to turn an initial failure into subsequent success, but the positive effects of diligence and perseverance do not hide the fact that the failure rate in innovation is exceedingly high and success cannot be taken for granted.

Last but not least, it is well demonstrated that just as improvement might be a result of learning and small adjustments rather than innovation, innovation does not always lead to improvement (Hartley 2006). The implementation of new and innovative policies or services might not deliver the expected benefits, or the benefits might be overshadowed by some unintended negative effects. There might also be conflicting interpretations of the outcomes. What one actor perceives as a benefit might be