

AWT advisory report 73

Let it happen!

Innovation policy for the public sector

Summary

Request for advice

The question this advisory report answers is: how can the government stimulate innovation in the public domain? Specific issues are:

- What policy ensures that the public sector better utilises (new) knowledge to improve its service?
- How can the government ensure that successful improvements spread faster within this sector?

Scope

This advisory report deals with innovation in public services. This is a broad field, which includes diverse issues such as health care, education, public safety, provincial and municipal services, labour market reintegration and civic integration. The advisory report discusses services provided by government institutions or bodies under private law. It does not concern innovation in public administration or policy development, innovation in law enforcement or supervision, nor launching customership or innovative tendering.

General analysis

The government provides a wide range of services to citizens. Citizens expect high-quality service from the government, as well as fairness, responsiveness, accessibility and efficiency. In the process, the government has to keep an eye on costs and be accountable.

The initial focus of the development of public services in the welfare state was to guarantee citizens access to a standard package of services. That was in line with the social development at the time, when – thanks to mass production – business and industry were able to provide consumers with a range of standardised products. Technological development and innovation in the private sector have since then brought about enormous improvements in quality and tremendous differentiation. Consumer demand for goods and services has become more heterogeneous over time, and companies have responded to this with an increasingly diverse supply.

In the public sector, quality increase and service differentiation have not seen such a steep development. Innovation processes in the public sector take up more time, especially scaling up and diffusing best practices, and abandoning outdated routines ('creative destruction'). The government has a tendency to focus on controlling costs and risks and increasing productivity, whereas citizens expect more attention to be paid to quality and the fulfilment of personal wishes and needs.

There are good reasons why the government is somewhat more reserved with respect to change, and thus to innovation as well. When it comes to public services, the risk tolerance of citizens is relatively low. Often, issues of vital importance (e.g. health care, safety, education) are at stake and citizens face a monopolist provider. Moreover, there is a tension between various performance criteria: customised service and quality versus accessibility and equal treatment, and individual focus versus accountability. Finally, a predictable and reliable government and stability in the public domain are valuable in themselves.

On the other hand, there are also factors that unnecessarily delay innovation in the public domain. The main focus is on controlling costs and risks and making incremental improvements. Little effort is spent on real innovation. There are few incentives to be innovative. In contrast, there are strong incentives to play it safe. Risky experiments are thus avoided and there is no room for a trial-and-error strategy that could produce innovation.

Problematic for the government is also that the needs of citizens are often complex and that the government itself is rather fragmented, making an integral approach difficult. Professionals do not focus on meeting the needs of the client, but on achieving pre-assigned business objectives. Compartmentalisation within the government results in gridlock and internal conflicts of interests. Fragmentation and separation of professional activity on the shop floor from management, policy development and supervision lead to institutionalised distrust. This is accompanied by detailed requirements of registration, monitoring and accountability, as well as supervision upon supervision. This unfortunately also leads to an inadequate circulation of knowledge and undermines the ability of the system to learn.

To achieve public services that offer more quality and are better tailored to the individual needs of citizens, more room for self-organisation seems to be necessary. Sometimes this entails giving more room to citizens, while in other cases professionals and lower levels of government need more freedom. Self-organisation mobilises complementary knowledge and experience of all those involved, professionals and citizens. It gives rise to a process of Open Innovation in public services. If the government wants to encourage innovation, creating institutional conditions for self-organisation should be its primary task. This may require innovation at the system level, e.g. in health or in education.

In general, facilitating self-organisation is the best way to stimulate innovation. It creates room for entrepreneurial behaviour and creativity among professionals and citizens. An important condition for this to work, is that there are sufficient incentives to improve services. However, self-organisation does not always result in innovation. Coordination problems sometimes occur. In such cases, more top-down control and political persistence are needed. These problems arise, for instance, when well organised, strong interests manage to block innovation, or when the coordination of interests is so complex that deadlock occurs, or when self-organisation results in a concentration of power and monopoly. In such cases, the government has to intervene.

Often the best way for the government to create space for self-organisation and incentives for innovation, is by organising public services via a quasi-market. This is a market, in which citizens can choose from competing service providers, while their budget comes from public funds. This has the advantage that the autonomy of professional organisations is combined with a strong incentive for providing the best possible services. However, organising a quasi-market is not always possible. Sometimes a 'natural monopoly' exists. When this is the case, using benchmarking and yardstick competition can stimulate innovation.

For a quasi-market to function well, it is necessary that at least a part of the citizenry wants to choose and is able to choose. The quasi-market must be transparent and citizens have to be supplied with the information necessary to make a well-informed choice. There have to be various providers to choose from. New service providers must be able to enter the market. Service providers must not have the opportunity to engage in 'cream skimming' or 'cherry

picking'. Citizens must be able to choose between service providers, and not vice versa. For citizens who are unable to or do not want to choose, there must be good default options.

Recommendations

To ministries looking to encourage innovation in their part of the public sector, the AWT issues the following recommendations:¹

1. *Create conditions*: give public organisations full autonomy within clear boundaries, provide room for experimentation, encourage competition among public service providers (and perhaps private providers as well) wherever viable. Specific points of concern: keep entry barriers low, safeguard fair competition, disclose performance data, give citizens more options to choose from, help them with tools and rights, and support them in making choices.
2. *Provide incentives*: avoid perverse incentives that hamper innovation or stimulate it in an unproductive direction, strengthen incentives to innovate that professionals in public sector organisations experience: offer more support and (political and managerial) backing to innovators and reward them, and do not immediately cut the budgets of organisations that successfully innovate and thus save on costs.
3. *Offer guarantees*: safeguard high-quality service provision by setting minimum standards (quality, accessibility, equal and proper treatment) and monitor compliance, provide default options that guarantee adequate service levels for those who cannot or do not want to choose for themselves, ensure that services are offered from an integrative perspective, and reduce the present administrative pressures by organising accountability in a different way.
4. *Increase the ability of the system to learn*: develop better mechanisms at the national level for circulating knowledge in sectors such as education, health care, youth care and welfare: set up sector-oriented or issue-oriented network and platform organisations where they do not yet exist and ensure that they learn from each other. In addition, provide better training for professionals in the field to accompany changes to laws and regulations, ensure a greater exchange of knowledge as well as domestic and European benchmarking, and develop an innovation voucher for public institutions to help finance the elaboration and testing of innovative ideas for public service provision.

¹ The recommendations are presented here in outline only. They are given in more detail in the report itself.