



## Welcome

Innovation is key to continuous improvement in government services. This special Innovation edition of NAO Focus highlights the findings from a recent report by the Comptroller and Auditor General on *Achieving innovation in central government organisations* (HC 1447 2005-06), which was carried out by the London School of Economics Public Policy Group. It also summarises the main messages from presentations by a number of guest speakers at an international seminar run by the London School of Economics (LSE) and the National Audit Office (NAO) in the autumn of 2006 to discuss the issues raised by the report.

In this edition of Focus:

- **Professor Patrick Dunleavy** summarises the findings from the NAO/LSE study of *Achieving innovation in central government organisations*
- **Professor Steven Kelman**, Professor of Public Management in the JFK School of Government at Harvard University, talks about “Unleashing change in the public sector”
- **Geoff Mulgan**, Director of the Young Foundation, gives his views on “Public Sector Innovation” and
- **Professor Bart Nooteboom**, Professor of Innovation Policy in the Business and Economic Research Institute of Tilburg University highlights “Private sector lessons for government innovation”.

The National Audit Office is uniquely placed to help promote innovation within the public sector. In recent years it has produced a series of reports encouraging well managed risk taking and innovation to help improve the delivery of public services.

All the published reports in this briefing are available to download from our website at [www.nao.org.uk/publications/index.htm](http://www.nao.org.uk/publications/index.htm) and if you would like to know more about our work please contact Michael Whitehouse (020 7798 7078) or Jeremy Lonsdale (020 7798 7412).

Other related work on innovation that may be of interest to readers of this edition of focus is highlighted on the back page of this briefing.



# ENCOURAGING INNOVATION

## The role of the National Audit Office

### Introduction by Michael Whitehouse

The quest to achieve improvements in quality and efficiency of service provided across the public sector continues apace. There remains considerable potential to develop new ways of delivering services and improve value for money.

Innovation often requires public bodies to take well managed risks; to experiment and develop new ideas where more traditional ways of working are not able to deliver real change. In the past, there has been a tendency for public organisations to be risk averse or not to be aware of the risks they are taking – to be “risk ignorant”.

The National Audit Office supports well managed risk taking. In 2000, we published a report on how to promote well managed risk taking in public services – *Supporting innovation: managing risk in government departments*. This contained many case studies that showed how risk taking could lead to better public services. In 2004, we published a follow up report, *Managing risks to improve public services*, that reported on the progress departments and agencies had made in enhancing their risk management capacity.

Reports by the Comptroller and Auditor General and the Committee of Public Accounts have continued to emphasise support for innovation and for well planned and executed change. Several – including our recent examination of *Delivering successful IT - enabled business change* (HC 33 2006-07) - are highlighted on the opposite page. The report featured in this edition of Focus – *Achieving innovation in central government organisations* – has taken our work further forward and has, for the first time, analysed the factors stimulating and constraining innovation in government. These findings and the insights generated by the distinguished speakers at our international seminar will be of interest to all who are seeking to innovate to improve our public services.

### Just a few of the National Audit Office's reports highlighting innovation

#### NHS Direct (HC 505 2001-02)

NHS Direct was launched in 1998 and provides healthcare information and advice to the public in England and Wales through a telephone helpline and an associated website. Ministers set the NHS Direct project team very demanding targets to introduce the national telephone and website services. Given the innovative nature and scale of NHS Direct, it was a very significant achievement that both targets were met.

#### Some key lessons for managing innovation from the experience of NHS Direct

- Short lines of communication between the project team and those implementing the service at local level enable lessons to be learnt quickly as the projects progress.
- Allowing local site providers to develop their own models of local implementation can be crucial to the successful achievement of a tight timetable.
- Take opportunities to explore other functions that the service can provide. For example, NHS Direct has involved itself in a number of useful initiatives at local level in response to approaches from other healthcare providers.

#### Extending access to learning through technology: Ufi and the learndirect service (HC 460 2005-06)

The Department for Education and Skills established Ufi in 1998 to deliver learning in new ways and help address the skills gap in the workforce. It has grown from an idea to an organisation providing half a million learners a year with the opportunity to improve their skills either at one of a network of learndirect centres, at work or from their home computer.

#### Some key lessons for managing innovation from the experience of Ufi

- A diverse staff collectively has the confidence to try out new ways of meeting policy objectives such as widening participation in e-learning.
- Any innovative development should be based on thorough research of the target population. For a new concept, the up-front marketing costs may need to be substantial.
- Quality should be paramount in developing innovative services, particularly where people need to be persuaded to change their behaviour to use something like IT for the first time. Their first experience must be good – if it is not they may be turned off for life.
- Any innovative development should be tracked using planned reviews and surveys that can inform the development as it goes along. Strategic changes in particular should be based on comprehensive evaluations and reviews of the current position.

### Delivering successful IT-enabled business change (HC 33 2006-07)

To remain efficient and competitive all modern societies need to embrace new technologies to deliver better services more cost effectively. This report draws on 24 case studies from the public and private sector in the UK and overseas and demonstrates that major IT-enabled programmes and projects, including those in government can and do succeed and can deliver real and lasting benefits to citizens.

### Some key lessons for managing innovation from Delivering successful IT-enabled business change

Three key themes, and a number of key success factors, were identified from successful programmes and projects:

#### Ensuring senior level engagement

- Prioritising the programme and project portfolio in line with business objectives.
- Clear decision making structure with agreed lines of accountability so decisions can be made swiftly.
- Senior management demonstrating commitment to change.

#### Acting as an intelligent client

- Building capacity and capability to deliver projects.
- Creating constructive relationships with suppliers.
- Designing and managing the business of change.
- Managing the risks of the IT solution.

#### Realising the benefits of change

- Selling the benefits to users and winning the support of wider stakeholders.
- Optimising the benefits to provide maximum return on investment.





# ACHIEVING INNOVATION IN CENTRAL GOVERNMENT ORGANISATIONS - A REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

## Professor Patrick Dunleavy

This report - prepared by the London School of Economics Public Policy Group for the National Audit Office - is the first independent examination into operational innovation in central government. It examines 125 innovative developments, nominated by 85 government bodies, to improve their administrative and organisational practices. A diverse range of innovations was submitted, with most involving improvements to performance management, new IT or web services or other technological changes. Some of the innovations have taken years to deliver and cost millions of pounds, although the average cost was under £1 million and the timeframe was 28 months. Our findings were published in two volumes: Volume I – Main findings and Volume II – Detailed research findings. These pages summarise the main findings and recommendations from our work.

## Main findings and recommendations

### Pace of innovation

#### Main findings

Central government organisations are far from being the ‘snails pace’ stereotypes of popular commentary, but they do take a relatively long time to develop and deliver innovations compared with the private sector.

#### Recommendations

Departments and agencies should ensure that:

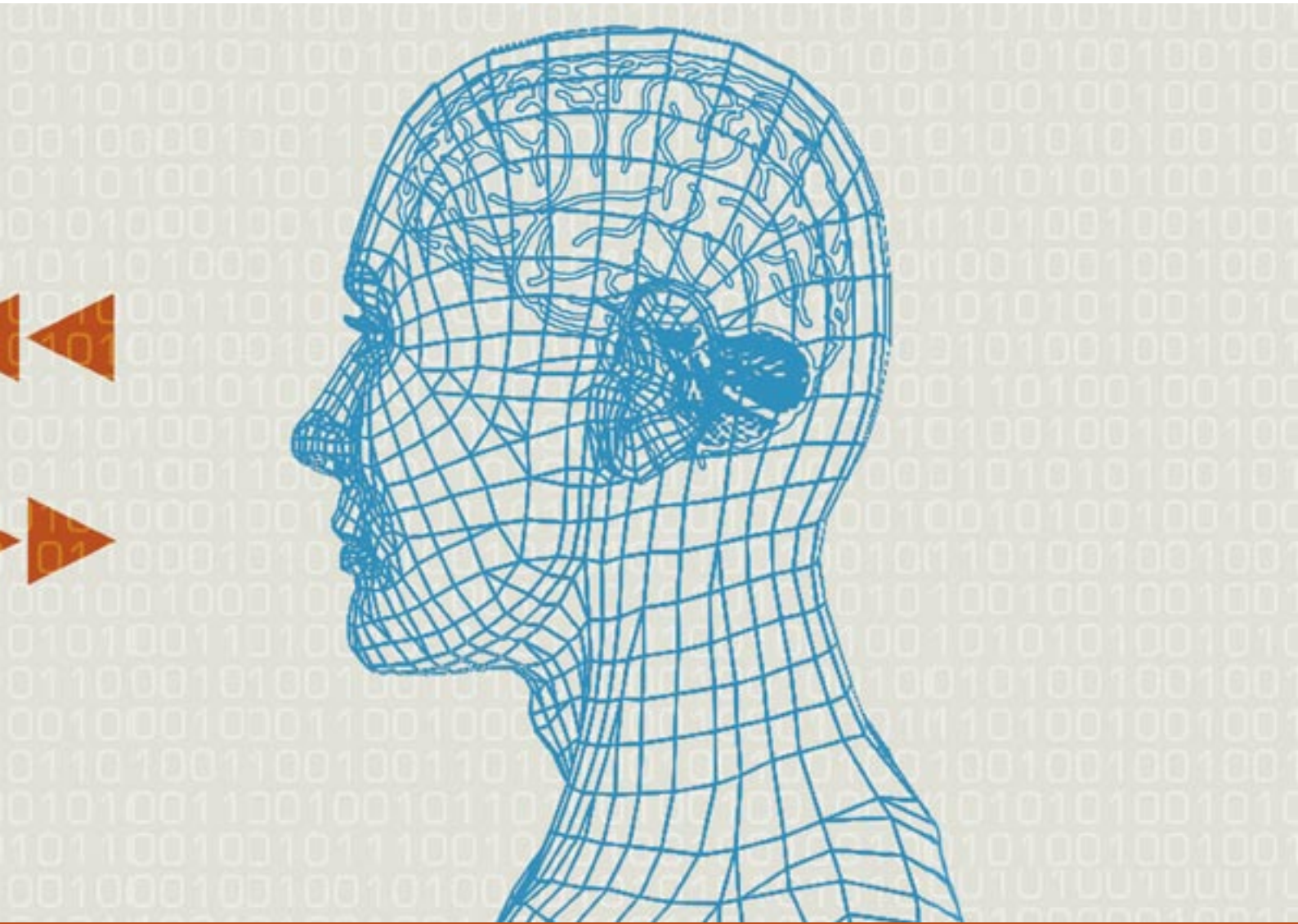
- review processes are purposeful and proportionate to the risks that innovations pose;
- pilots are appropriately scaled for projects and explicitly analysed;

- reversible innovations can be tested speedily and at small scale, before being rolled out more widely if successful; and
- decision-making processes take appropriate account of the opportunity costs of delays, especially the foregoing of expected financial savings.

### Innovation processes

#### Main findings

Current innovations processes in central government organisations are overly ‘top-down’ and dominated by senior managers. Useful suggestions from front-line staff need to be positively sought out, backed by clear leadership interest and supported by excellent internal communications. And departments and agencies must listen hard to customers or clients (including other agencies).



## Recommendations

Departments and agencies should:

- strengthen and simplify the internal 'branding' of their innovations policies and approaches, so staff can see clearly where they might contribute to successful innovation within the organisation;
- ensure leaders make clear to staff that achieving continuous innovation matters to the organisation's mission and to them personally, and consider renewing or refreshing their suggestions schemes and strengthening the internal communication of innovations;
- ensure managers are trained to respond constructively to suggestions, to route them upwards, and provide feedback to staff on what happened to them;
- find productive ways to allow senior staff to regularly refresh and broaden their direct experience of front-line work, to bring together staff of different grades and divisions into productive thinking and discussion sessions with senior managers; and
- strengthen their capability to regularly learn about possible innovations from customers' views (via focus groups, surveys and other forms of market research), to analyse in detail customers' behaviour and to respond to both in a more agile fashion.

## Sustaining innovation

### Main findings

The availability of funding is cited as a key factor sustaining innovations, but using means to search for innovations such as specific innovation units can also play an important part. The main barriers to innovation are a reluctance to embrace new ways of working and silos in government. Individual incentives to encourage managers in central government organisations to develop or promote innovations need to be improved.

### Recommendations

Departments and agencies should:

- ensure that policy documents and guidelines emphasise the importance of recognising and rewarding innovation and better incentivising managers to propose and promote changes;
- review their procedures for appraisal and promotion to strengthen an emphasis on continuous innovation and boosting productivity; and
- encourage innovations by expanding their use of project teams and project management techniques and making more systematic use of staff with a track record of designing and progressing innovations.

## Cultural change

### Main findings

In recent years, departments and agencies have successfully addressed a previous culture of 'risk passivity'. But a lower-scale risk averseness is still common. The recruitment of people from outside the Civil Service is spreading knowledge and awareness of alternative methods of working but new incentives to encourage staff to develop or promote innovations are needed.

### Recommendations

Departments and agencies should:

- strengthen their ability to learn the lessons of successful innovations made by others – for example, by scanning systematically for relevant innovations that they might adopt; holding joint seminars or conferences with others in related policy fields; and pooling information on innovations more within departmental groups;
- invest in fostering the innovativeness of their middle and senior staff via education and training;
- ensure that research is better collated and more purposefully directed to improving innovation, increasing knowledge of where costs are being incurred, and exploring where productivity benefits might be realized through applied innovations; and
- make more use of 'counter-cultural' processes, events and methods of innovation such as innovation units, brainstorming sessions, conferences and awaydays.

## Cost and productivity data

### Main findings

Compared with private sector service firms, the cost data available within central government is limited. In addition, central government organisations have also not made as much progress as local government and NHS bodies in developing comparative costs and performance information.



**Recommendations**

Departments and agencies should:

- improve their information on where costs are incurred in their operations and how they are distributed over different types and ranges of outputs.
- develop and publicise widely metrics and average costs data for their key operations, so that staff have a clear picture of where costs are incurred and hence where innovations can potentially contribute to cutting core costs.

In addition, the Treasury and the Cabinet Office could foster the development of improved costing information amongst central government organisations by researching, developing and regularly updating ‘industry standard costs’ data for the most widespread administrative tasks across the central government sector.

**Benefits of innovation**

**Main findings**

The innovations that are being introduced are delivering benefits, in particular, improvements in productivity and effectiveness, although less in terms of cutting costs or improving staff working conditions. Levels of improvement are restrained by the small scale and generally conservative nature of the design and implementation, and an often hierarchical approach of imposing initiatives on staff without enough effort to securing their buy-in.

**Recommendations**

The Government should aim to:

- (i) foster a greater rate of applied innovation in central government organisations;
- (ii) give more focused support to the feed through from innovations to better labour productivity; and
- (iii) improve the amount and the usability of information available on departments’ and agencies’ productivity.

Current arrangements already give some attention to these objectives, but information is generally handled in rather qualitative, judgemental or informal ways, and central policy for linking applied innovations with productivity change is fragmented. To go further:

- the Cabinet Office, Prime Minister’s Delivery Unit and Treasury should consider how these three objectives can be built into the new Capability Reviews of departments, and strengthened within the Comprehensive Spending Review process and an emphasis on applied innovation should be more directly, explicitly and publicly incorporated into existing methods for assessing central departments’ performance;
- the Office of Government Commerce should continue to promote the idea that allowing for innovative procurement solutions can improve value for money;
- the Cabinet Office should develop the importance of innovations as an element of its Professional Skills in Government agenda and examine how training support to foster innovativeness can be developed; and
- departments should themselves consider how they can build these three objectives into the performance targets and methods they use for regularly reviewing the performance of their major executive agencies and non-departmental public bodies.



innovation, n. 1 new idea or method  
introduction of new ideas or methods  
innovate v innovative adj innovator

## Professor Steven Kelman, Harvard University

### Unleashing change in the public sector

Many discussions of public sector change and innovation are tinged with a pervasive pessimism founded on the idea that officials and departments will be foot-dragging and reluctant to alter their established ways of doing things. Perhaps especially in the government sector 'people resist change' is the underlying position, so that we should expect the change process to be lengthy, conflictual and fraught. I want to challenge this conventional wisdom and to suggest that organizational leaders who concentrate on 'unleashing' rather than 'forcing through' change have a better chance of succeeding.

In support of this proposition, let me cite the changes accomplished in the last 15 years in how the US Federal Government organizes procurement, a function that accounts for two-fifths of the US government's discretionary spending. Procurement may seem a particularly challenging area in which to do sustained organizational change, since

procurement officials have tended to be conservative folks with a strong attachment to traditional procurement practices and an established culture of strong normative value – like 'Don't take bribes', 'Treat vendors fairly', 'Use correct process'. This traditional set up had many virtues but its key aim was to ensure that a contractor did not make too much money out of a procurement. And so it rather neglected other important values, especially achieving value for money or achieving government agility in the market-place.

Yet in a programme begun under President Clinton there have been large-scale changes in US government procurement, notably the increased spending channelled via the US government purchase card, which has increased from \$0.5 billion to \$17 billion over the last decade and a half. A wide range of other practices have also introduced greater flexibility and enhanced speed and customer responsiveness into US procurement practices.



What this example prompts me to ask is: Do people in general really resist organizational change? During the *initiation* of changes many people may actively resist innovations. However, at the same time, many change programmes will attract support from a 'change vanguard' of officials who are strongly mission-committed and unhappy at what they see as their department's or agency's underperformance. Often these officials are critical of accepting historically applied constraints. They are looking for a way to secure improved performance in their part of the organization and are idealistic and relatively risk-tolerant. I found in the survey done for my research that the best ways of identifying resisters and potential change vanguards is to ask people general questions about their risk attitudes – such as: Is rock climbing a sensible or a pointlessly risky sport? Do you ever visit a strange city and try to find your way around without a map? People classed as a change vanguard using such questions were much more likely to be positive about reinvention than those classed as sceptics or critics.

Somewhat under two-fifths of US officials in our surveys could be classed as potential early supporters of a change process (either change vanguard seeking change even before introduced, or early supporters, supporting the change programme when it was begun), and their presence meant that leaders pressing for innovations have significant potential allies. Leaders cannot initiate change by themselves, nor carry through the detailed work necessary to embed changes on the ground inside government organizations. But by tapping the energies of change vanguard officials, and working to overcome the resistance of a minority of officials and the passivity of a middle group of officials who 'wait and see', organizational leaders can have wider and more intensive impacts. The job of leaders is to project a clear

and loud message about the need for and the timetable for changes and to get people acting so that changes get started. The most important thing for leaders in the initiation phase is to overcome the inertial weight of organizational practices and to get something started. Getting people to make small starting changes can have good effects in opening them up to countenancing more extensive changes later on, so leaders should pay special attention to getting first steps accomplished.

Once change has got going, we move from initiation into a consolidation phase. Here achieving interim successes and some quick wins can be very important in helping leaders to expand the number of change vanguard people and to show resisters that concrete benefits can be achieved. But again during consolidation the fact that only a minority of people will actively resist change, and that most officials are primarily committed to getting their jobs done better, all mean that change feed on itself. Leaders at this stage need to be persistent, to keep their messages reaching staff consistent, to show consistency and stamina in pushing forward innovations – rather than getting bored or letting their attention flit onwards to some other topic. For most government officials and agencies the social influences from your work group are the most important factors shaping how people view a change process. Leaders who can follow through on initiatives in a sustained way will reap a gradual but often ineluctable embracing of change, first by the change vanguard and later by the large body of professionally committed staff. And when this tipping point is reached, resisters themselves will often come on line as the organizational consensus strained or even ruptured by change is rebuilt and swings behind the new template of how the organization should operate.



## Geoff Mulgan, The Young Foundation

### Public sector innovation

It is surprising how little we know about innovation in the public sector. I have several times been involved in literature reviews of what is known and found just how little serious analysis there has been, despite promising approaches in various governments. I also remember in 2000 (when I was head of the PM's Strategy Unit) asking many of the Permanent Secretaries what their approach to innovation was, and few could give a remotely coherent answer. One reason some suggested was that it was the job of politics and politicians to provide the innovative ideas; their job was to implement.

So I welcome the NAO study of innovation. I do, however, have some questions about both the methods and the conclusions. On methods I am sceptical about whether surveying top decision-makers is the best way of identifying innovation. Generally, the sources of innovation come much further down, and some more objective measures are needed before deciding which innovations to focus on – for example impact on the public. But in these comments I'd mainly like to focus first on some barriers to change and then on what practical steps central government agencies can take to improve their innovation performance.

### Barriers to change

A main reason why there has been relatively little progress in the understanding of innovation is the widely held view in academia that in reality innovation in government is about very small incremental changes, and that anything more radical just doesn't work. Most people involved in the academic study of public management/public administration fields feel this in their bones – despite the many radical changes that have happened in recent years in welfare, public services, taxation not to mention huge projects like the development of the European Union. In addition, of course, over the last twenty years a set of ideas mainly drawn from business around performance management and efficiency have dominated the scene and squeezed out serious thinking on innovation, as well as its practice.

There are also many barriers that stand in the way of more effective approaches to innovation, and many of these have been identified in the broader literature on innovation in technology and business.

- i) The first is **efficiency**. It's well known the main reason that changes are resisted is that at least in the short term they will lead to diminutions in productivity and efficiency. Existing administrative systems have become optimised around a particular ways of interlocking elements and if you take one of those out you will get some reduction in performance, at least for a short time.
- ii) The second is **interests**. Around any body of practices there will be interests, for example, around the professions and change is likely to shift the balance of those interests.
- iii) **The psychology of change**. Particular mental habits lock people into ways of working, and so a wider cultural shift is often needed to get them to embrace new methods.
- iv) **Social relationships**. Powerful people in public management get to know each other and do favours for each other within current arrangements. Social capital often makes them unite against newcomers and new methods.

### Practical steps to boost public sector innovation

How can these barriers be overcome? We at The Young Foundation have set out in much more detail this year some of the methods that can be used to promote innovation – and indeed this month are holding a conference with people from some 20 governments around the world in China to talk about them. Here I will just highlight a handful of them:



- i) **Culture and leadership** is key, as has been shown in Denmark, Singapore or Finland. This is often easier in smaller agencies or arms length ones rather than in mainstream bureaucracies.
- ii) **Money.** I was surprised at the lack of attention to money in the NAO survey. The British government has tested lots of ways of providing funding for innovation – new budgets, competitions etc. There is also a broader question about how much should go into innovation. At the moment the thinking is about 3 to 4 per cent of GDP is about right for R&D in economies as a whole but we lack good research on what a comparable figure might be for public services.
- iii) **Freedoms.** Giving people the right to ignore national legislations and rules so as to experiment in all sorts of way can be important – as for example in the various ‘zones’ the UK has experimented with.
- iv) **Risk management.** If you innovate you have to be ready for some failure, and be explicit in communicating to the Public Accounts Committee and others what your portfolio of success and failures are likely to be. Avoiding the most sensitive areas for innovations makes sense, as does linking innovation to choice rather than compulsion. As a general rule it is better to test things out on 1 or 2 per cent of the population rather than the whole population at once, which has been the past British tradition and a disastrous one.
- v) **Devolution.** In principle more decentralised systems are generally better at innovation because they give us laboratories of experiment.
- vi) **Structures.** Other things being equal, some contestability, some opening up of functions will encourage innovation, although not always. In the private sector, the market structure that often seems to be best at radical innovations is a small number of large competing organisations and a larger number of smaller innovative ones, as you get in biotech or computing. The public sector has exactly the opposite structure, in that it is often a monopoly department with a number of small units, which aren’t big enough to see through radical innovations.
- vii) **Bottom up drivers.** User networks, such as patients groups, mean that users can play a decisive role in innovation. As we move towards co-production being much more important in public services and the relationship between platforms and service delivery becoming more important, then we will need platforms that allow users to individually shape services more to their own needs.
- viii) Finally there need to be some ‘**licensed**’ **change agents.** In business, innovation units are not usually seen as a good idea except as a transitional device to change behaviour. In the wider public innovation field, there are many sectors now claiming useful insights – from social entrepreneurs to technologists and designers. All have the virtue of often getting a license to be innovative – a freedom to think and act in different ways – but the strengths and weaknesses of their ideas have yet to be fully assessed.

Any agency concerned with productivity and efficiency should recognise that everything we know from economics suggests that between 60 and 80 per cent of productivity gains do not come from whipping the machine harder - they come from innovation. Innovations are not measured on whether they are fun or exciting; ultimately they need to deliver greater value and productivity. That’s why this agenda needs to become more mainstream – and I hope that this report will help in that process.



## Professor Bart Nooteboom

### Private sector lessons for government innovation

The NAO report is a very welcome one – the first that I know of which brings systematic social science data to bear on the issues of how to do innovations in public sector agencies. Innovation within government has been little studied previously, but it is quite clear that it has its own distinctive characteristics. None the less, most government initiatives will be *services innovations* and hence the experience of private sector services may offer useful insights and lessons.

We can think of innovation in private services in terms of two kinds of origins:

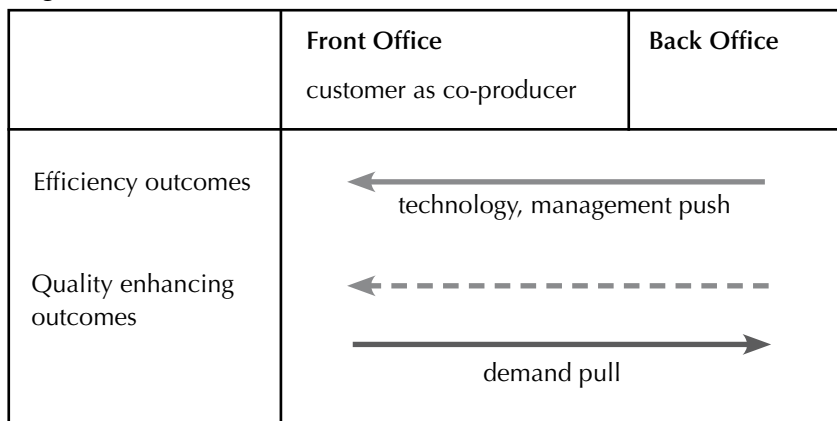
- the *front-office* of firms that is concerned with researching, marketing and delivering services to customers; and
- the *back-office* that is concerned with production and making things happen (for example, providing IT and accounting systems, managing human resources, investing in production etc).

In services firms the front-office is large and in some senses it closely involves customers because in many cases they have to be there and to make detailed delivery choices when

the service is delivered. Innovations themselves are targeted on two kinds of outputs, improving efficiency or improving quality. Figure 1 shows this key inter-relationship.

The main drivers for efficiency innovations have been technology changes, especially the progress of IT and web-based changes, and a strong push from firms’ managements to cut costs and improve the impacts of given spending. Most innovations in the upper row here have been **back-office initiated**, achieved by increasing the division of labour inside firms, pushing through new technologies, changing the sourcing of products and exploiting new synergies between activities. In the bottom row, the push for quality innovations has mainly come from the **pull of customer demands**, the need to introduce new services or provide a faster response in a better location and in a more differentiated and convenient manner for customers. But there is also a pressure for quality innovations within private firms from staff keen to try out new products or new ways of doing things, or to exploit new capabilities, and here again the back office plays some role.

Figure 1



Thinking about government services in these terms, one might predict that the bulk of innovations will be initiated by the back office and will focus on efficiency rather than quality. The *Achieving Innovation* report offers many indications that this is indeed the case, pointing to processes that are very top down, influenced by an over-emphasis on hierarchy and rank and leaving much scope for better internal communication to government department and agency staffs. The report also shows that around two-and-a-half times as many innovations in the data set covered related to efficiency matters as to quality improvements.

The report suggests that government organizations lag behind the best private sector firms in terms of becoming serial innovators, with key problems in sustaining activity-based learning. Some characteristics of the government service may account for current limitations. As the report suggests (page 19) there are:

- **weaker evolutionary pressures** for organizational change in the government sector compared with those arising from competition in the private sector. Most innovations fail and most radical changes are not attempted within established firms, but take place via people leaving firms to launch start-up businesses;
- **equality under the law may also pose limits** – can government services be differentiated in the way that underpins many private services innovations? In business, market segmentation entails that certain segments are not served. Can government deny access to its services to some groups?; and

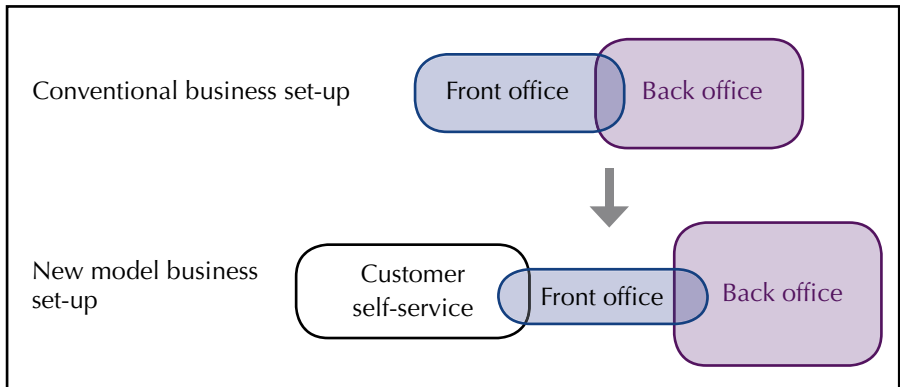
- **public accountability requirements** are restrictive, requiring constant measurement and control and raising challenges of whether we can de-bureaucratize enough to allow front-line staff in government service more space for experimentation and improvisation. Again the report highlights findings that civil servants are over-cautious and that their influence on provision has in recent years narrowed down to service delivery and organizational issues. Departments and agencies often know of opportunities to make improvements but they can be reluctant to act on them until they are pushed. These barriers may take time and persistence to counteract.

Yet these are exciting times in the private services sector and there are read-across lessons that seem highly relevant for the government service also. A switch in organizational style already well advanced in private services may also be feasible for government, illustrated in Figure 2 below. The old form of organization involved very substantial back-offices plus substantial front-offices, because product development was seen as involving delivering full-specified products to the market-place. For the provider firm, seeking to meet the needs of many different customers with different needs and interests, it has previously been very costly and labour-intensive to research and then minutely design and deliver products exactly in the form that would find a successful market. This conventional business process is a rather roundabout way of doing things and firms face high information costs.



But a switch is already extensively apparent in the private sector services towards firms not delivering fully specified products, but instead access to internet-based facilities such as databases or admission to a particular network. Customers can then use these databases, websites or other facilities in a wide range of different ways, which the provider firm does not have to fully anticipate in the initial design of the service. A company like e-Bay, for instance, hosts many different types of users, some fully-fledged businesses, some family firms, and other amateurs or enthusiasts. This kind of change builds on customer *self-service* and *co-production* of services, allowing the firms involved to shrink down their front-office – because they are no longer seeking to deliver fully-specified traditional services. In these kinds of firms also the back office *grows* relatively in size, because the extended high tech facilities involved needs close support and continuous technical innovation and development.

Figure 2: The systems switch in private services – is it feasible for government?



Could the same kinds of trends become as important in the government sector as in private services? I believe they can and will. In areas like pensions planning or the administration of taxes and subsidies the scope for co-production of government services is immense. The key will be to put the right facilities in people’s hands to let innovative changes develop.

## AFTERWORD: THE CHALLENGE OF SUSTAINING INNOVATIONS

Patrick Dunleavy

*'He [or she] that will not apply new remedies must expect new evils; for time is the greatest innovator'.*

Francis Bacon

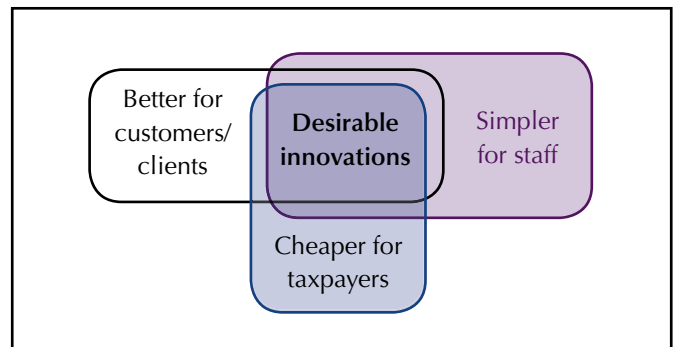
Government departments and agencies are enduring organizations with stable functions and many are also relatively large and their staffs risk-averse. So they do not experience the stimulus and competitive pressures of those private sector areas where new firms are constantly being born and going out of business. Some pessimistic voices argue that even large private companies are too conservative and risk-averse to sustain very effective innovation processes. Instead large firms must often look to gain or renew their innovative impetus by acquiring small start-up or break-out companies, who alone seem able to pioneer good ideas for new products or services. On this view the outlook for government sector innovations would always be bleak.

The more optimistic view we take from our research is that large, established organizations (both large firms and government agencies) can sustain continuous changes, but only by constantly renewing their efforts to improve and to keep up to date their processes and products. As yet few government organizations are able to match the best large companies in becoming 'serial innovators', sustaining a whole series of changes year after year. But there are optimistic signs that the culture of the senior civil service is changing to reflect its 30 per cent of new entrants who come from the private sector, local authorities or the NHS. This could easily secure some quick wins. For example, our survey highlighted the importance for achieving innovations of a range of simple-to-use methods, especially actively looking for innovations via special units, or 'awaydays' or brainstorming sessions. And the results showed that departments and agencies often have a considerable stockpile of possible changes they can put through. The trouble is that at present government organizations too often wait for an external stimulus from ministers or an efficiency drive before acting on potential changes.

A more pro-active stance will depend on strong leadership signalling to all staff that the organization is seriously interested in innovation and change. Our research shows

that currently departments and agencies look for changes in very top-down ways, and that internal communication policies rarely signal to middle-managers and front-line staff how they can contribute to innovation. Excellent private companies sustain their innovations through many small changes, constantly elicited via excellent communications policies and sustained by counter-cultural initiatives (e.g. top managers spending a week in stores). Managers need to spell out, in terms that all staff can understand, what kinds of innovations are needed – such as the diagram below (modelled on Tesco's 'Better, Simpler, Cheaper' criteria). So if your staff suggestion scheme has withered on the vine (and many have), now would be a good time to modernize it and put it prominently on your staff website, tasking a key manager to make it viable and a real source of ideas for change.

**Figure 3: How the most desirable innovations are better for customers, simpler for staff and cheaper for taxpayers?**



The importance of innovations for private sector growth and productivity is universally acknowledged and much studied. Our research shows that innovations can also strongly contribute to improving the productivity of government services, delivering more outputs for fewer inputs, but also creating new inputs, new outputs and new outcomes. Top-level innovations also improve how agency outputs feed through into policy outcomes. And with 25 per cent of UK final consumption spending being undertaken by public agencies, the time is long overdue for paying the same attention to innovations within government.

## Further reading on Innovation

Readers of this edition of "Innovation Focus" and the Comptroller and Auditor General's report on "Achieving Innovation" will be interested in other work on innovation.



### Organisational Change

"Unleashing change: a study of organizational renewal in government" (2005) by Steven Kelman, Brookings Institute Press.



### Social Innovation

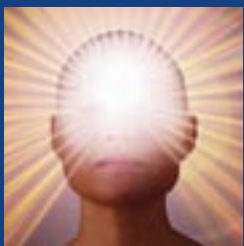
"Social Innovation: what it is, why it matters and how it can be accelerated" (2006) by Geoff Mulgan, The Young Foundation, available at [http://www.youngfoundation.org.uk/wp-content/social\\_innovation.pdf](http://www.youngfoundation.org.uk/wp-content/social_innovation.pdf)



### Innovation Systems

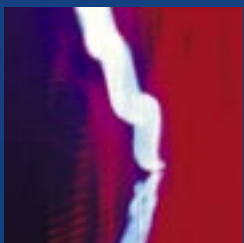
"Learning and innovation in organizations and economies" (2000) by Bart Nooteboom, Oxford University Press.

"Governance of Innovation Systems: Volume 1: Synthesis Report" (2005) by the Organisation for Economic Development (OECD) available at [http://www.oecd.org/document/25/0,2340,en\\_2649\\_37417\\_35175257\\_1\\_1\\_1\\_37417,00.html](http://www.oecd.org/document/25/0,2340,en_2649_37417_35175257_1_1_1_37417,00.html)



### Innovation and Improvement in the Public Sector

"Innovation and its Contribution to Improvement: A Review for Policy-makers, Policy Advisers, Managers and Researchers" (2006) by Professor Jean Hartley, Institute of Governance and Public Management, Warwick Business School, available at [http://www.communities.gov.uk/pub/177/InnovationanditsContributiontoImprovementAReviewFullReport\\_id1500177.pdf](http://www.communities.gov.uk/pub/177/InnovationanditsContributiontoImprovementAReviewFullReport_id1500177.pdf)



### Innovation and Risk

Between January and December 2005 the National School of Government led a consortium study to research, identify and promote outstanding practice in achieving extraordinary performance through innovation and effective risk management. There are six reports arising from the study available at [http://www.nationalschool.gov.uk/publications\\_resources/irers.asp](http://www.nationalschool.gov.uk/publications_resources/irers.asp)



### Local Government

The Audit Commission is due to publish a National Report on innovation in local government in 2007. The study aims to identify the processes by which councils have formulated, implemented and disseminated innovative practice. It examines, in particular, the key drivers, enablers and barriers to successful innovation.