Seminar Four

Innovations in public services

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- **The third sector as a public service provider**
  with the Centre for Market and Public Organisation (CMPO), University of Bristol

- **Social enterprise and environmental sustainability**
  with the Centre for Business Relationships, Accountability, Sustainability and Society (BRASS), Cardiff University

- **Entrepreneurial philanthropy and social investment in the 21st century: implications for social entrepreneurship and social innovation**

- **Innovations in public services**
  with the Innovation Research Centre (IRC), Cambridge University, and Imperial College, University of London

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One of the most interesting developments in the study of innovation has been the extension of the field of research from the private to the public sector. At the same time the study of innovation in the private sector itself has increasingly moved away from the analysis of product and process innovation to wider or softer innovation issues concerned with the organisation and delivery of innovations to the market and the importance of value chains in extracting value from innovation. Finally, the analysis of innovation policy has increasingly focused on system-wide approaches as opposed to policy approaches based on various manifestations of ‘market failures’. Each of these developments is reflected in the rich set of papers presented at the seminar.

A key feature of Stephen Osborne’s paper is the drive to focus upon effective delivery in terms of the needs of service users and local communities rather than to focus on process driven efficiency in the development of a policy design itself. This raises in an acute way the development of processes by which these needs can be articulated and responded to in terms of innovation in policy design and delivery. Equally, in the paper by Fergus Lyon and Ian Vickers, the articulation of user needs is again at the heart of the analysis, but in this case alongside the emphasis on the importance of changes in organisational form as an example of innovation in the public sector. The emphasis here is on the design of appropriate incentive and communication mechanisms which go beyond concepts of market solutions. The paper is important also for emphasising the importance of incremental innovations. In the wider private sector innovation literature there has been the tendency to focus on the importance of so-called radical or breakthrough innovations in recent years. There is of course a much longer tradition of emphasising the importance of incremental change in driving forward steady improvements in efficiency and productivity. It is interesting that these forces apply with equal strength in the public as well as in the private sectors.

The significance of understanding what would in private sector terms be called the value chain is well illustrated by James Rees in relation to the delivery of the Work Programme. He shows that a key factor in interpreting the effectiveness of a particular policy innovation hinges critically on the role and motivation of the ‘prime’ organisation managing the chains of sub-contractors. This significantly alters both the incentives for innovation and the prime movers in the innovation process.

The system based approach is more generally manifested in the variety of projects discussed by Laura Bunt in relation to the NESTA programme of activities and also by Paul Windrum in the paper covering the development of public services innovations by ServPPINs. Here, once again, a system based insight emerges in emphasising the role that bringing together and integrating dispersed knowledge amongst network participants and the sharing of risks plays in the way that innovation is organised. The study of innovation in the private and public sectors have much to learn from each other as the papers presented at this seminar amply demonstrate.
This paper explores the challenges that the New Public Governance presents to innovation in public services. The paper commences most broadly, tracing the development of public services delivery - from Public Administration, through the New Public Management and to the New Public Governance (NPG). It delineates the key characteristics of the NPG - in particular how it moves beyond inter-organisational and network governance to embrace the concept of complex public service delivery systems. At the heart of this is the Public Service-Dominant Logic. This paper also considers the implications of this approach for public services delivery in general before going on to outline the key challenges it poses for successful innovation in public services. A key challenge here is to move from innovations focused upon improving internal efficiency alone to ones that address directly the needs of service users and local communities. Without such a clear external focus on effectiveness we risk creating internally efficient but permanently failing public service organisations. This is the central challenge for innovation in public services over the next decade.

The contribution of social enterprise (SE) spin-outs to innovation in public services is an important new space for innovation that has received little previous attention from researchers. The Government’s Right to Request and latterly Right to Provide policies have encouraged organisations which are owned and run by their employees and users/beneficiaries, to spin out of the public sector with an expectation of increased rates of innovation and cost effectiveness. This study explores the processes of innovation within a range of SE spin-outs from the public sector, the key facilitating factors and influences involved and the questions raised for policy. It draws on evidence from 30 detailed case studies in the health/social care and leisure services sectors, including interviews with directors/leaders, staff, volunteers, service users, commissioners and trade unions.

The preliminary findings show that innovative actions and processes have been driven by highly entrepreneurial SE leaders and empowered staff/users.

- The most significant innovation process has, in most cases, been the transition to the new organisational form itself, often arrived at following high levels of staff engagement, contestation and opposition from some stakeholders. In many cases the new organisational forms have involved specific mechanisms (e.g. staff councils, user forums, community asset locks) that give greater power and voice to staff and user communities.
- New services have been focused on meeting under-addressed health and well-being needs and related preventative activity (including through novel forms of outreach and engagement within local communities) and rehabilitation (e.g. through activities to help people with disabilities with independent living and employment/training schemes).
- The third main area of innovative activity identified relates to incremental changes, often resulting from the more flexible and responsive organisational forms and cultures involved i.e. re-designed and more integrated services, and small improvements to systems and processes. For many interviewees, such changes could not have happened if they had remained in the public sector or would have happened at a slower pace. However, in some cases ongoing significant innovative activity appeared to be a continuation of what had been initiated within the public sector some years previously.
The future prospects for SE spin-outs and outcomes for public services need to be understood in relation to the increasingly competitive markets faced, with the dynamics of the relationship between the private sector and SE spin-outs being particularly important. Although most SE spin-outs have secured guaranteed contracts for their first two to five years of operation, they are increasingly required to enter into competitive bidding against private sector providers in order to continue their services.

This raises a number of issues:

- **Capabilities and support needs** - in order to compete, these organisations require varied resources and a high level of entrepreneurial/leadership skills. Questions remain over how these can be nurtured and developed over the longer term.
- **Cooperation and competition** - there are tensions around the need for cooperation and the sharing of innovative ideas in a public service context that is increasingly competitive, posing a challenge for the development of integrated local infrastructures and support for innovation (including relationships with other health-related providers, social economy organisations and volunteers).
- **Commissioning for social value and innovation** - commissioners of public services play a key role in the innovation processes but contributions to social value are difficult to quantify and represent within existing commissioning frameworks.

Under conditions of public sector austerity, there is a danger that short-term financial savings are prioritised over experimentation/innovation and potential long term benefits.

**Note:** This work is part of an ESRC funded project on the role of mutuals in public service innovation, with Fergus Lyon, Leandro Sepulveda, Ian Vickers, Dan Gregory and Caitlin McMullen. This is part of the ESRC Innovation Research Initiative funded by ESRC, BIS and NESTA. The views expressed here are those of the authors.

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**Paper Three**

**Is innovation possible in contracted out public services?**

James Rees, TSRC, University of Birmingham

This presentation explored recent research on contracted-out employment services and some related public services that are commissioned by the public sector.

In the current climate of austerity and the political juncture created by the Coalition government there has been renewed emphasis on contracted-out services that bring in a more diverse range of suppliers including those from the third and private sectors, under the banner of ‘Open Public Services’.

A general claim made for contracting-out internationally is that it improves efficiency and quality of services, and a key claim made about contracted-out services in the UK is that it promotes greater innovation and tailoring of services to the individual service user (a so-called ‘black box’ approach). This is particularly true of the Work Programme in which the government and the commissioning agency, DWP, claimed providers would be given much more freedom to innovate and provide services in the way they see fit.

However, a range of research (at an admittedly early stage in the Programme’s life) suggests that there are a number of contradictory or countervailing pressures that strongly inhibit innovation. One is the apparent lack of resources that flow into the system (due to the specifics of the funding model of the Work Programme) which means that providers appear to converge around a narrow range of interventions that are both low cost (and therefore reduce risk exposure) and which can, arguably, be proven to work.

A second is that large ‘prime’ organisations manage supply chains of sub contractors so it is not clear that the majority of providers have the scope for innovation (as they are managed by primes who generally employ tight performance management regimes). Arguably, the locus of innovation might rest somewhere in a dialogue between primes and subs, but this is a matter for further research.

Finally, from a different standpoint what is being attempted in programmes like the Work Programme is an experiment in the re-design of a part of a public service field. There are indications that policymaker’s intentions were to re-shape the rationale for a part of a public service as well as to reshape, from the top down, a (quasi-) public service market, including the rationalisation/intensification of the market structure. The system itself can therefore be seen as an object of innovation. The question is whether such experimentation at the meso-scale can rightly be seen as a form of innovation.
Nesta is the UK’s innovation foundation. For almost fifteen years, Nesta has championed and supported innovation in the UK through a combination of policy and research work, practical interventions, diverse networks and investment. Our work focuses on both social and commercially focused innovation, to address the UK’s major social and economic challenges.

This presentation gave an overview of our research and practical work on innovation in public services, explored two research projects in detail and offered suggestions for future directions for research.

Underpinning our research is an appreciation that innovation in public services is often a challenge of coordination or systems change rather than a linear process of development. We start from the perspective that innovation is in itself not a linear process, but made up of different stages with different methods appropriate at each stage. Public services in particular are often diverse organisations working within a wider system of protocols and cultures that inform approaches to innovation. Therefore our research explores the interconnected elements to make public services innovative, including: structures to drive and promote innovation; processes that embed innovation in key aspects of decision making such as commissioning or procurement; combining willingness towards experimentation with close attention to evidence; exit tools and processes for decommissioning; how cultures can reward creativity and sensible risk; and the skills that can be widely shared.

Firstly, ‘Who are the Super adopters?’ This is a study to identify public service organisations and individuals that take up innovations rapidly, to understand their characteristics and behaviours and to see how this insight can be used to speed up the diffusion of innovation in other public services. The first phase of the research explored patterns of adoption of new drugs in primary care in England (using GP prescription data, NHS Quality Outcomes Framework (QOF) and Indicator Portals). The preliminary findings show that the most significant factor that made a practice more likely to adopt a new drug was whether nearby practices also adopted it, although most new drugs introduced in the period studied were not adopted by most practices.

Secondly, ‘Managing Public Sector Innovation’ is a major new research project to discover the most useful and effective structures for managing innovation in Government and the public sector, including labs, units, teams, funds and so on. Through a combination of primary and secondary research, we hope to develop a comparative typology of different models for supporting innovation in Government as well as recommendations for decision-makers in what might be the most impactful.

Finally, some key points were suggested as areas and opportunities for future research, for example to gather more evidence about cultural and behavioural factors involved in public services’ innovation; the opportunity to use new data sources - both structured and unstructured - to learn more about the process and effects of innovation in public services; and finally to develop research and practical skills in systemic innovation.
Public-private innovation networks in services (ServPPINs) are an important means of organising the development, production, and delivery of new services across public sectors. This mode of organising innovation facilitates the bringing together, and integration of, dispersed knowledge amongst network participants, and the sharing of risk.

Three aspects differentiate ServPPINs from other types of innovation network. First, they are co-operative innovations between public and private organisations. Each partner brings a distinct set of competences and funding to the development of a new/improved public service. They are thus distinct to PFIs in the UK and similar infrastructure agreements in Europe. Second, public sector service providers are the key knowledge providers, and tend to be the central actors that organise the formation of a ServPPIN, and integrate the inputs of other partners to develop a new service innovation. Third, the innovations produced by ServPPINs may have a technological aspect, but many are concerned with the development of public service innovations whose novelty in specification and delivery does not depend on new technology breakthroughs.

Paul’s presentation addressed a number of key factors that affect the successful development of new public services by ServPPINs. He used two case studies to illustrate this. The case study on portable automatic external defibrillators (AEDs) in Austria is an example of a successful innovation. The other case study, that of the Transport Innovation Fund (TIF) bid in Manchester, is an example of a failed innovation. These case studies, together with the conceptual framework which underpins the discussion, are drawn from research by Paul and Doris Schartinger (to be published in a forthcoming edited book on ServPPINs, Gallouj, Rubalcaba and Windrum 2013).

Public sector innovations improve social welfare by developing new/improved services. Radical public sector innovations are those that address institutional failures. An institutional failure is a combination of market failure and political failure (Birchenhall and Windrum 2013). We are familiar with the rationale of public service provision based on market failure. Less discussed is political failure, and its influence on the successful development and diffusion of public sector innovations. The TIF transport case study is an example where political failure by local authorities in Greater Manchester led to a failure to deliver a successful £2.75 billion bid that had been made to national government for a new, integrated transport infrastructure across Greater Manchester. By contrast, a key success factor in the development of portable AEDs was the active engagement, within the ServPPIN, of key national and local political actors. These political actors were actively involved in drafting legislation and providing subsidies for programmes to educate the general public in the use of portable AEDs, and providing economic incentives for the local manufacturing of AED devices.

With ever increasing specialisation and the division of labour in the knowledge economy, interdependencies between public, private and third sectors increase. Successful ServPPINs are founded on commensurable and non-rivalrous interests amongst the public, private and third sector partners. Public sector organisations are innovators in their own right, e.g. the internet and worldwide web, GPS navigation systems, biotech and nanotech, and major surgical breakthroughs. However, it is not necessarily in the interests of public sector organisations to produce all the artefacts or services required for a new service innovation. In the AED case study, for example, health professionals were not interested in starting up manufacturing companies to produce portable AEDs. They were, however, very involved in the specification of the features of the portable AED devices and in designing the user functionality. This mutual interdependence within ServPPINs requires a new approach to policy if a supportive environment is to be created for ServPPINs.
References


Biographies

Laura Brunt, NESTA
Laura is Nesta’s lead policy advisor for public and social innovation. Nesta is an independent charity with a mission to help people and organisations bring great ideas to life. Laura joined Nesta’s policy and research team in 2009 to focus on social innovation and innovation in public services. Since joining Laura has worked on a range of projects exploring innovation trends and imperatives within social policy, and on the methods and policies that can strengthen the impact of innovation in these fields. Prior to joining Nesta, Laura was project coordinator and networks manager at the RSA, building and supporting the RSA Fellowship to become an active, connected network for civic innovation. Laura has previously worked with the think tank Demos; developed a range of independent creative projects; and managed a busy London restaurant. Laura holds a BA (Hons) in Classics from the University of Oxford.

Alan Hughes, UK-Innovation Research Centre (IRC), Cambridge
Alan is Director of the UK-IRC, a joint venture between Cambridge and Imperial College London. He is also Margaret Thatcher Professor of Enterprise Studies at the Judge Business School. He is Director of the Centre for Business Research at the University of Cambridge where he is also a Fellow of Sidney Sussex College. He was from 2000-2003 Director of the National Competitiveness Network of the Cambridge-MIT Institute, a joint venture between MIT and the University of Cambridge. Professor Hughes has held visiting Professorships in the USA, France and Australia. His research interests, on which he has published extensively, are concerned with industrial and technology policy; the measurement of innovation; growth, innovation and financial and acquisition characteristics of small and medium sized enterprises; analysis of the relationship between corporate takeovers, corporate governance, executive pay and business performance; training and business performance; measurement and evaluation of industrial and business support policy; the relationship between law and economics in the analysis of corporate organisation and performance. In the past ten years he has published over 200 books, articles, and chapters in books on these topics. His most recent work on innovation (carried out with Andy Cosh and Richard Lester) has been concerned with benchmarking university industry innovation activities in the UK and the US.
Fergus Lyon, Middlesex University
Professor of Enterprise and Organisations, and Director of the Centre for Enterprise and Economic Development (CEEDR), Middlesex University. Fergus leads the social enterprise research Capacity Building Cluster funded by the ESRC. He is responsible for the social enterprise research stream of the ESRC funded Third Sector Research Centre. He has been researching social enterprise issues for the past 15 years in the UK and internationally. Recent work has been focused on how social enterprises can scale up in different ways and how organisations are currently measuring their impact. He has published in a range of entrepreneurship, management and geography journals, and is editor of the Handbook of Research Methods on Trust. He is also a co-founding director of a small early years social enterprise.

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Stephen Osborne is Professor of International Public Management in the University of Edinburgh Business School, and Deputy Dean of the Business School. He is also Director of the Centre for Public Services Research in the University of Edinburgh Business School. He is editor of the journal Public Management Review and the founder and immediate Past-President of the International Research Society for Public Management. He had fifteen years’ experience of working as a social work practitioner and manager before moving to work in the higher education sector in 1990. For the past twenty three years his research has focused on three areas: the role of the third sector in delivering public services, innovation in public services, and latterly the development of a Public Service-Dominant business logic for Public Service Organisations. This latter work has shifted public management theory and practice away from manufacturing and product-dominant business logic towards one that recognises the special challenges of services management for public services. His most recent paper (with Professor Zoe Radnor) is a critique of the failure of ‘Lean’ reform initiatives in public services - resulting in these initiatives producing highly efficient but permanently failing public service organisations. It presents an alternative rooted in the Public Service-Dominant business logic and that has significant implications for policy makers and managers. He is also the editor, with Louise Brown, of the recently published Handbook of Innovation in Public Services.

James Rees, University of Birmingham
James is a Research Fellow at the ESRC funded Third Sector Research Centre (TSRC). His research concentrates on transformations in UK public services especially the role of the third sector. Recent research at TSRC has focused on cross-sector partnerships for public service delivery; the role of the sector in employment services, especially the Work Programme; and currently the implications of new commissioning arrangements. He also has long standing research interests in urban and regional governance, with a particular focus on the politics of city-regionalism, critical perspectives on urban housing market restricting and housing policy, and more broadly on issues in urban regeneration, neighbourhoods and community. The Work Programme research was published on the TSRC website in February 2013. The commissioning research will be published in autumn 2013, www.tsrc.ac.uk

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