

# 9

## Adjusting to change: The role of innovation

### 9.1 Introduction

A central theme of this discussion is the need for organisations to constantly adjust to change. Whether expressed in the management literature in terms of balancing exploration and exploitation, or in terms of the application of the tools of design thinking; in the organisational literature in the concepts of the learning organisation and the notion of ambidextrous organisations; or in the strategy literature in a discussion of transient advantage and the divergence between deliberate and emergent strategy, the focus is on change and the central question of how organisations systematically change. Whether this challenge is explored in terms of capability development, organisational design, or the identification (and resolution) of mysteries, the various proposals necessarily involve a systemic view of and response to the challenge.

Organisations are living entities in which substantial change in one part will impact on other parts. More importantly, the major reason for a systemic approach is that successful change must be led, encouraged and allowed, across all levels, functions and businesses of an organisation. It cannot be contained to the top, but if it is not led from the top, systematic change will not occur. It must be encouraged in every part of the organisation. In a corporate world in which the pace of market change is seen to be accelerating, organisational and bottom-line growth is increasingly regarded as coming from disruptive change arising from market growth no longer

delivering bottom-line growth. As a consequence, innovation has emerged as a management-adjustment mechanism to manage this change. If competitive advantage determines the primary location of an organisation's businesses, then innovation is the mechanism that enables this positioning to be continuously adjusted at many levels across the organisation. In this way, properly monitored and managed, organisations can integrate change with positioning and successfully balance deliberate with emergent strategy.

Empirical and theoretical research into the role played by innovation in the management of the public service is in its early stages of development. It is apparent from a recent stocktake of the empirical research, asking what it was we knew about public sector innovation, that there is no integrated body of theory and practice to draw on (Arundel et al. 2016).

Whereas the empirical research focuses on innovation activities as relatively lower-level matters of process, the emerging focus in the public sector management literature has been to elevate innovation to the level of strategy. This divergence – between the framing of existing empirical research into public sector innovation based on innovation process dimensions, and the strategic management of innovation – is important, as an understanding of how organisations engage with innovation (i.e. manage it) provides the foundations for government interventions to impact on innovation levels. In addition, both streams of research are concerned with 'public sector' innovation in the broad, often conflating the activities of government and public service and failing to distinguish the separable roles of politicians and public servants. It is equally not possible to automatically apply private sector experience of innovation to the public sector because of the imperative of contextual differences.

Sound public policy foundations can only be developed out of an understanding of what public sector innovation is, what part the public service plays in it, and how, through sound public policy, more innovation can be encouraged. One point that can be drawn from the developing literature on public sector management is the importance of the surrounding institutional, organisational, and management settings that frame research into public sector innovation activities. For example, for public policy purposes, lower/middle-level departmental innovation that occurred in an incidental manner – what is described in the public sector management literature as incremental or random innovation – can be viewed differently from similar occurrences taking place within a senior management-led whole-of-organisation strategic approach to innovation (e.g. in the presence of a whole-of-organisation innovation strategy).

The emerging literature on innovation as strategy follows a period in which the primary focus in the public sector literature was on process-driven collaborative innovation. Whilst collaboration is likely to be an important ingredient of a more innovative public sector, a number of the organisational and institutional elements – the culture, the organisational structures, the capabilities, the resource allocation processes, the governance and supporting management systems (including performance management and measurement), and the authority to innovate – are key determinants of an innovative public service and should be the primary focus of public sector innovation analysis. These are all properly matters for the strategic management of any organisation, providing a framework through which managerial behaviour may be influenced in the interests of public policy. If public service innovation is to play the central role of the umbrella environmental-adjustment mechanism for the public service, and be manageable in public policy terms, then it must be strategically conceived and actively managed, neither of which applies today.

A further challenge to the exploration of the notion of public sector innovation is that there are many alternative definitions, and numerous taxonomies and typologies of innovation that can be employed but none, it seems, readily able to meet strategic management and public policy requirements. By reconsidering these definitional and classificatory elements, however, it is possible to arrive at a definition through an examination of the separate contributions of the political and administrative arms of government, emphasising the organisational and management dimensions of the latter. Related questions – such as the ‘manageability’ of innovation from the point of view of the public service, and public service ‘innovation readiness’ – are also relevant.

## 9.2 Methodological issues

### 9.2.1 What is public sector innovation?

There are a number of definitional challenges to public sector innovation that revolve around the domain, the actors, and the context for innovation. The ‘public sector’ is a broad canvas on which to paint a picture of innovation, housing as it does many different sorts of entities (e.g. government departments, government business enterprises, statutory authorities, executive agencies, watchdog and integrity bodies, the institution of parliament), with a variety of different goals (e.g. service

delivery, regulatory, profit-making, advisory), involving a broad range of fields (e.g. defence, health, transport, economic policy, public administration integrity), and reporting to a range of different bodies (ministers, department heads, government boards, and parliament).

### 9.2.1.1 The activities

Most writers define innovation using the novelty criterion – the assumption that change introduced to a new environment for the first time is innovation – and then progress to discuss a number of other dimensions of innovation, including impact, type, scale, process, and context (Fagerberg 2005; Hartley 2005).

A notable and important difference between the public and private sector literature is that, in the private sector literature, ‘success’ tends to be assumed in the definition of innovation, whilst in the public sector case, endeavour alone is the common starting point. This is ultimately inadequate for our own purposes because the public policy dimensions of public sector innovation must envisage effective use of public resources, therefore a definition of innovation must incorporate not just endeavour but also ‘success’. If public sector innovation is to prove its worth, it must earn its keep.

Geoff Mulgan and Bason provide comparable workable definitions based on the two concepts of novelty and success. Mulgan defines public sector innovation as ‘new ideas that work at creating public value’, while Bason defines it as ‘the process of creating new ideas and turning them into value for society’ (Mulgan 2009, p 150; Bason 2010, pp 34, 45). ‘Value for society’, most commonly expressed in the public sector management literature as ‘public value’, notionally at least offers such a measure of ‘success’ aggregating as it does the individual consumer’s valuation-in-consumption, and the wider community’s recognition of its contribution to ‘good government’. Indeed both Bason and Mulgan take an expansive view of public value. Mulgan identifies three main categories of value – value provided by services, outcomes, and trust in government; whilst Bason similarly describes service experience, results, and democracy – adding productivity gains to the value mix (Bason 2010, pp 44–47; Mulgan 2009, Chapter 10, esp pp 232–33).

Both acknowledge the difficulties in measuring and aggregating the components of value, with Bason pointing to the need for the achievement of positive value on all four elements (‘a balanced scorecard’). Mulgan considers the limitations of available measurement techniques, observing

the problems with monetising the elements and their non-aggregatability, and provides an interesting application of the concept of opportunity cost in public sector resource use – based on sacrifice by the community – as it might be viewed by citizens.<sup>1</sup> Other issues that arise with the measurement of ‘success’ include the measurement of a net benefit, the essentially destructive nature of innovation, and the distribution of benefits. The last of these three is another challenging measurement issue. The parties that may be affected by innovations – for example, politicians, public managers, street-level bureaucrats, and users – will evaluate innovation impacts differently because of differential impacts (single innovations can serve different purposes), which points to the need for trade-offs as part of any public policy evaluation.

### 9.2.1.2 The context

The variety of circumstances within which public sector innovation can take place permits a number of factors to be regarded as context and, therefore, a broad range of contexts to be described.<sup>2</sup> Particularly important in setting the scene for a public policy analysis of public service innovation are the institutional factors embedded in the notion of the alignment of government and public service. Context is the set of circumstances that define a particular event (public sector innovation), and it distinguishes external factors from those that are internal to the public service and which are the primary focus of change.

In twin Australian studies of public and private sector innovation activity, Kay and Goldspink undertook a set of interviews with departmental secretaries/deputy secretaries, and CEOs (Kay & Goldspink 2012a, 2012b). Kay and Goldspink’s comparative research into the Australian public and private sectors was derived from a set of interviews with departmental secretaries and deputy secretaries. These studies evidenced distinct differences between public and private sector innovation on the one hand, and within each sector on the other. The research provides clear pointers to ways in which the level of public service innovation

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1 Mulgan’s notion of opportunity cost is squarely focused on citizens and what they are willing to give up in return for proposed benefits. He identifies the various ‘sacrifices’ as monetary, disclosing private information, the granting of coercive powers to the state, giving time or ‘other personal resources’ (Mulgan 2009, p 231).

2 Mulgan’s method for dealing with this maze is to describe it in terms of ‘the field of battle’ and how knowable it is, describing four types of fields – direct causation, multiple causation, complex fields, chaos. The field type affects the kind of strategy and how tightly the strategy can be controlled (Mulgan 2009, p 79).

can be increased. The authors' examination of 84 'innovation stories' across the public and private sectors divides the playing field according to the twin dimensions of uncertainty and pro-activity. They identified three distinct approaches in the private sector according to the level of uncertainty – covering 'incremental', 'evolutionary', and 'revolutionary' forms of change – and two in the public sector according to pro-activity: 'departmental' and 'ministerial', the former being initiated and led from within 'the department', whilst the latter occurred through interaction with the political arm of government, typically the minister. Each of these five approaches is described as holistic and requiring different styles and focus of leadership. The distinction between government-led and departmentally led innovation is important because it points to different drivers and policy levers for public sector innovation.

Five further observations from the Kay and Goldspink studies are relevant to this discussion:

- When 'the department' was in declared 'reactive' innovation mode, responding to externally imposed innovation by 'the minister', the chances of failure were massively increased (2012b pp 1 & 2). From this finding, the authors concluded that time taken to reduce uncertainty and the risk of failure was the most valuable asset for the department (time-to-market was the equivalent private sector asset, irrespective of accompanying failures).
- Whilst departmental innovation shared some common characteristics with private sector innovation, ministerial innovation was a substantially different category, the former thereby presenting the possibility for learning from private sector innovation practice but the latter leaving little such room (2012b).
- The public service's diminishing control over the innovation environment leads to a recommendation that the public service needed to work with the government to get back to an environment that allowed it to play to its strength, namely time.
- Both public and private sector leaders had no desire to innovate in and of itself: rather innovation was one of a number of tools used to solve problems (Kay & Goldspink 2012b p 7). Put another way, when viewed from a management perspective innovation was created, rather than naturally occurring.
- Every innovation is influenced by contextual factors.

Naming observed public sector innovation types ‘ministerial’ and ‘departmental’ reflects the data set derived from interviews with departmental heads and deputy heads. Whole-of-public-service innovation, however, is more important than this innovation dichotomy. If the broad direction of public sector management in Australia over the last 30 or so years has been integrative to address the fragmentation caused by the excesses of the New Public Management (NPM) reforms, then an important focus for change has been to ‘join-up’ the services of government. The literature on collaborative innovation and networks from the last decade or so has pursued this objective by seeking to put ‘the public’ back into ‘public services’ via processes of co-creation and co-production.

Beyond the pursuit of excellence in general, this is arguably where the major innovation challenge of government lies, namely within and across various parts of the public service and to third parties. The administrative arm of government needs to be allowed to develop strategic management capability within which cross-boundary management and accountability become ‘natural’.<sup>3</sup> A central problem is that the field of public sector management, along with the dominant public service structures and operational models, remains framed around ‘the department’, ‘the departmental head’, and ‘the minister responsible’, as the fulcrum of public sector management. It is an outdated NPM-driven vertical management model that ignores the growing and dominant horizontal realities of public sector life.

Consequently, whilst whole-of-public-service activities generated by the leadership group in public administration – for example, the UK Civil Service Board and the Secretaries Board in Australia – are likely to be a (limited) source of public sector innovation today, they could well be the foundation for important public service innovation leadership tomorrow.

A further notable element of context is when the government is not simply the arbiter and deliverer of public policy interventions but a key player and beneficiary. In this case, serious divergences between the policy practised by the government of the day (‘government policy’), and the policy that is in the community’s best interest (‘public policy’), may appear and be substantial.

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3 It is arguable that much of the larger end of the private sector has the corporate mindset and access to the tools to deal with the horizontal and boundary issues that the public sector finds so difficult. The business literature sees the horizontal dimensions as a set of opportunities through which to create competitive advantage. See the discussion here in Chapter 8 and in Porter (1985).

### 9.2.1.3 A workable public service innovation typology

The development of a workable public sector innovation typology is important if we are to establish firm foundations for the promotion of a public policy-driven public service innovation capability. The starting point for this discussion of an effective public service innovation typology comprises the three core categories of ‘ministerial’, ‘departmental’, and ‘whole-of-public-service’. Whereas the ‘ministerial’ category might reasonably be regarded as one, accounting essentially for those innovations imposed on the public service whether as a collective by the Prime Minister and Cabinet, or through individual departments by ministers within individual portfolio responsibilities, there is good reason to disaggregate the ‘departmental’ category through an assessment of the associated strategic intent. ‘Departmental’ innovation can be divided into three sub-categories.

The first two of these sub-categories are variants of ‘top-down’ departmental innovation. Consistent with Kay and Goldspink’s observation from their study that neither public nor private sector leaders are ‘natural innovators’ and that innovation is typically a response to a crisis, the first type can be described in terms of crisis-driven projects. These projects might be in the form of information technology projects to integrate customer services, a change in service delivery focus from services to case management, a new regime of corporate governance, or a change from internal (departmental) service delivery to outsourcing. A team is built to deliver the project and effect the transition and is dismantled on its completion, leaving little or no legacy of organisational innovation capability. This projects approach to innovation lacks the benefits of ongoing efficiency and effectiveness.

The second of these ‘top-down’ sub-categories of departmental innovation is distinguishable from the crisis-driven approach, because its primary goal is to build such an organisational capability through a systemic approach to innovation. It is the real deal in terms of strategic intent, comprising what Bason describes as an innovation strategy focused on building organisation-wide innovation capability around an accommodating culture to shape the whole organisation as a serial innovator (Bason 2010). Bason describes this as ‘choosing approaches and building skills and capacity internally in the organisation’ (Bason 2010, p 73), and sees this strategy integrated with other functional and cross-organisational strategies into the whole-of-organisation strategic management framework.

The third sub-category of departmental innovation is of the ‘bottom-up’ variety, which Bason describes as ‘self-directed’ and occurring in organisations in the absence of innovative leadership. Indeed, based on Bason’s observations, this form of innovation is likely to be the rule rather than the exception with public sector innovation today and the likely foundation of observed departmental innovation.<sup>4</sup> Bason describes this ‘self-directed’ innovation as random incrementalisation – in other quarters this might be described as marginal innovation (as opposed to radical). Important, however, is the absence of a strategic development framework and the consequent random and unsupported nature of the activities.

The third of the major categories of innovation is described as whole-of-public-service. It is the whole-of-public-service counterpart to the second of the departmental sub-categories of innovation strategy. Under this strategy, the centre leads and directs an integrated strategy in the same way as the department does in the earlier category. The resulting typology is presented in Table 9.1 with the various categories (and sub-categories) distinguished across a range of characteristics.<sup>5</sup>

A final taxonomic subtlety rests with the precursor to innovation, invention. For public sector organisations whose primary mission is the creation of knowledge and whose core activity is research and development, a steady stream of associated innovation activities will most likely follow. While there are many organisations that fit this picture – for example, in public health, education, agriculture, and transport research – the focus should be on the establishment of an operating environment within which innovation flourishes across all organisational functions.<sup>6</sup>

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4 In practice it will of course be difficult – in the absence of suitable screening data – to distinguish random incrementalisation (i.e. departmental, bottom-up innovation), from departmental top-down process-driven innovation. Consideration of the existence and nature of an innovation strategy is a prerequisite for empirical research into an organisation.

5 The Kay and Goldspink studies do not readily recognise the second and third of the major categories because their innovation stories were derived from departmental secretaries and deputy secretaries who, as can be expected, related stories of projects they initiated, rather than those that emerged from the Secretaries Board or from the lower reaches of their organisations.

6 Whilst innovation may occur across all business functions proportionately to the bounds of possibility, the mix of management and governance models employed also imposes possibilities and constraints. For example, it is likely that organisational units operating within a ‘joined-up’ or networked philosophy will be more strategic in their approach to innovation, and more innovative than those operating under a traditional hierarchical model, if only because the ‘joining-up’ or networking of government (and non-government) activities is a fertile ground for public sector innovation.

Table 9.1 Types and characteristics of public sector innovation

Characteristics	Ministerial	Departmental			Whole-of-public-service
		Projects (top-down)	Innovation strategy (top-down)	Random incrementalisation (bottom-up)	
Originating source	Generated by the political arm of government and imposed on the public service*	Generated by departmental management project by project*	Across the organisation within an innovative culture	Self-directed middle/lower managers/staff	Strategic priorities directed from the centre
Impact	Likely to have major structural and operational impacts on public service	Important to departmental operations and future	Could be cumulatively large	A number of smaller activities with limited impact	Today focussed on workforce. High potential in wide range of areas
Content	Could range from new ideological beliefs and policies through structures to services and service delivery	Could range from rationalisation of diverse departmental IT systems to new CRM systems	Supportive internal resources added, along with ongoing budget allocations	All one-offs	Cross dept and sector boundaries. Could be IT, customer driven, personnel or efficiency driven
Political risk tolerance and activity management	Failure is not an option within tight timelines and little wriggle room but high risk	Projects are internal to department and time can be used to offset risk. High political risk	Projects are internal to department and time can be used to offset risk	Little risk and exposure	Variable

Characteristics	Ministerial	Departmental		Whole-of-public-service
		Projects (top-down)	Innovation strategy (top-down)	
External to government visibility	High	Limited unless failure	Limited	Likely to be limited
Resource allocation	No business case ex ante or ex post	Business case likely to be built	Small budget subject to business case	Project based allocations from department budgets
Innovation budget	Project allocations but minimal. No ongoing budget	Project allocations. No ongoing budget	Small but ongoing allocation to fund internal processes	Project allocations from departments
Supportive internal processes	Project teams built and dismantled	Project teams built and dismantled	An innovation strategy with staged internal process management	Strategic project teams built and dismantled across public service
Contribution to ongoing public sector innovation capability	Negligible	May be some legacies	Important objective	May be some

\* Projects on which the department and minister work together, initiated by either or both, sit on the boundary of the two categories of 'top-down' innovation. These are distinguished from the standard category of 'ministerial' innovation by the time taken and, in some cases, from 'departmental' innovation, through their initiation by the minister. These projects are best classified as 'departmental' as they lend themselves to the tools of strategic management.

Two questions arising from this taxonomy are, firstly whether it establishes a pathway for government to elevate levels of public service innovation, and whether the public service is capable of delivering its part of the bargain; and, secondly, whether there is a public policy case for so doing on the basis of it being a beneficial use of public resources?

## 9.3 Public service innovation management

### 9.3.1 The public sector literature

The foundations of a useful public service strategic management framework, and of the necessary public policy framework, must explain how public sector innovation activity levels can be increased with government support/intervention, and in a manner that is beneficial in public-value terms.

*The public innovators playbook* (2009) by William D Eggers and Kumar Singh lays out a blueprint for the public sector to develop and sustain a culture of innovation – to make it ‘part of public sector DNA’. The authors observe that government can and does innovate but that not enough public sector organisations accord the necessary sustained attention to the innovation process (Eggers & Singh 2009, p 17).<sup>7</sup> Their premise is that because governments cannot escape broad economic turmoil, they must innovate on a sustainable basis to meet community needs. To achieve this, they must learn to treat innovation like any other discipline, such as strategy, finance, planning and budgeting.

The authors argue that public sector organisations must be able to move beyond the two standard ways in which (they argue) innovation in government typically occurs – either in response to a crisis or the results of individual (or small group) endeavours, but in both cases with limited benefits or lasting capacity for innovation. They note that few organisations in the public sector cultivate change, let alone innovation: ‘It requires a methodical view of the whole process linked to organisational structure, processes, and reward systems’ (Eggers & Singh 2009, p 5). Their stated objective is to help government become a serial innovator,

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<sup>7</sup> While there is a tendency to treat the public sector as a whole and not distinguish between the ‘government’ and the public service, I argue that, in this case, the playbook is equally applicable to all arms of government.

moving beyond projects and big ideas. They describe the ideas in their 'playbook' as concentrating on processes organised around three aspects of the discipline of innovation:

- the innovation process (idea generation, selection, implementation, and diffusion)
- the five strategies of innovation (cultivate, replicate, partner, network, and open source)
- the innovation organisation (boundaries, porosity, capabilities, and structure)

The authors note that, with regard to the innovation process, governments are not short of ideas, but spend too much time on idea generation (or capture), and too little on the transformation of the ideas into successful innovations. Another drawback in the current public sector environment is that, because there are no established theoretical frameworks for cultivating innovation, the proposed strategies of innovation may conflict with the existing organisational structure and culture. And, in regard to the innovation organisation, they note the necessity for organisations trying to build new capacities and ways of doing business, to change the culture. In conclusion, they observe:

Proper execution of innovation will require government organizations to move from hierarchy to inclusion; from ownership to collaboration; from invention to adaptation; and from a culture of acquiescence to a culture of performance. This transition may involve rethinking organizational boundaries, acquiring new capabilities to better manage the innovation process, and creating flatter, less siloed organizations with a culture focused on performance. (Eggers & Singh 2009, p 126)

The value of the playbook lies in its comprehensive and holistic nature, the emphasis on creating shared goals (a vision), and the recognition that organisations trying to devise and embed new capacities and new ways of conducting business may need to change the prevailing culture. In acknowledging the contributions of both the formal (e.g. structures) and informal (e.g. behaviours) to the outcomes, the authors provide a useful tool to assess the management models that lie behind innovation in the public sector, and how these differing strategies and models impact the outcomes delivered.

Geoff Mulgan's *The art of public strategy* (2009) is a book written from the perspective of someone who has been at the heart of government and understands how governments think and act – and who is primarily interested in achieving results for citizens. Like Eggers and Singh, Mulgan's book considers change in the public sector and how it can be used to make citizens' lives better. He also embraces the utility of the public-value criterion as a measure of success and his focus is the role that 'public strategy' plays in achieving this.

Mulgan sees much to despair in the public sector's inability to innovate, pointing to successful innovators succeeding despite, rather than because of, the 'dominant structures and systems'. As with Eggers and Singh, Mulgan records the slow emergence of the institutionalisation and formalisation of these routes to innovation within governments around the globe. He provides a number of UK examples of innovation and argues that all are small in scale and institutionally fragile and operate, as elsewhere, on tiny budgets. Mulgan then moves on to argue that, while there is no simple formula for making governments more creative or innovative, there are six essential elements to support and encourage innovation and creativity: leadership and culture; pulls and pushes; creativity and recombination; prototypes and pilots; scaling and diffusion; and sophisticated risk management. He highlights the interaction between risk management and funding, especially through the testing, early stage implementation, and scaling and diffusion phases of innovation, and recommends the use of private sector capital (where possible) and the removal of the testing phase from the immediate responsibility of government.

Bason's *Leading public sector innovation* (2010) aims to make the practices and tools of successful public sector organisations readily accessible. Built on the premise that there are a number of major driving forces shaping the acute need for public sector innovation, Bason acknowledges that there are numerous barriers to such innovation and that most public sector organisations are ill-suited to dealing with the problems of the day, resulting in random innovation rather than the strategic or systematic innovation that is required, but that it is possible to systematically apply the practices of successfully innovating public sector organisations 'to create radical new value'. He argues that public sector leaders must embed innovation as a core activity in their organisations, and describes leading public sector innovation as being 'the art and practice of balancing between inspiration and execution, between exploring mysteries and exploiting

resources to generate results' and concludes that public sector innovation must become 'a natural discipline' based around a new paradigm at the heart of which must lay 'co-creation' (Bason 2010, p 253).

As with Mulgan, Bason takes a determinedly strategic management approach to his subject: he notes that strategy defines an organisation's objectives and the means of meeting them, and he defines three key terms: strategic management – as the means of linking the organisation's activities with its goals; strategic innovation – which he describes largely in project terms as the activity-level means of bridging the gap between strategic ambitions (the what of public sector innovation and the realisation of value); and innovation strategy – which he likens to any other functional or work unit strategy – for example, human resources or information technology. Bason describes his new paradigm in terms of 'an innovation ecosystem, encompassing the four C's of consciousness, capacity, co-creation and courage'.

In considering how possible the achievement of an innovative public sector might be, Bason argues that there are a number of barriers and missing enablers to innovation in the public sector, but that nonetheless it is possible to reorganise, shifting some of the public sector boxes around, establishing a centrally supported innovation unit to help staff bring good ideas to fruition, even employing leaders with 'the right' management styles, and still fail to change innovation performance. Bason observes that, even when these sorts of changes are made, 'not much permanent change will happen if the culture and everyday working habits of those working in government do not change' (2010, p 115). Bason further argues that innovation must be everybody's job, and that the challenge is to stimulate a culture and behaviour that enforces it.

Eggers and Singh, Mulgan, and Bason offer three different perspectives of public sector innovation and, whilst all would argue that there is no proven theory that enables the automation of the innovation process in public or private sectors, they highlight many common threads and a framework within which to view public sector innovation. The 'model' of public sector innovation that emerges is one of a strategically led and managed approach to innovation integrated with a whole-of-organisation strategy that systematises the innovation process.

### 9.3.2 The private sector literature

Private sector literature on innovation has a different emphasis to the public sector material and ranges over an extended period, commencing with the emergence of business strategy as the capstone organisational capability some 40 or more years ago, the evolution of its focus from the numerist-driven tools determining positioning, to the emergence of people and innovation as central to strategy. The literature of the last quarter of a century has focused on growth and disruptive competition, eschewing the path dependency of incremental adjustments to strategy. Gary Hamel and CK Prahalad's pioneering *Competing for the future* (1994) outlines their goal:

Our goal in this book is to enlarge the concept of strategy so that it more fully encompasses the emerging competitive reality – a reality in which the goal is to transform industries, not just organisations; a reality in which being incrementally better is not enough; a reality in which any company that cannot imagine the future won't be around to enjoy it. (Hamel & Prahalad 1994, p xi)

The subsequent work of Christensen and Raynor (2003) examined the corporate history of successful companies only to discover that many of them could not escape the success of the past to build new growth platforms before it was too late. For his part, Roger Martin (2009) described the distinction between reliability and validity as being at the heart of the innovation dilemma, and the need to identify and explore 'mysteries' by detaching oneself from the logic train that identified the mystery to find the real answer. Rita McGrath (2013) argued that for business to win in a volatile environment, executives needed to learn how to exploit short-lived opportunities. Whether considering Christensen and Raynor, Martin or McGrath, the theme common to all these arguments is that the past is not a reliable guide to the future (or at least not a comforting one), and that organisations must find ways to live in the future and start to change the rules of competitive engagement now.

The particular value of the pointers in this private sector literature to the effective management of innovation in any setting lies in the design of structures and processes to balance established operations with the ongoing development of the business. The specific issues that arise for consideration in a public sector context are:

- the emphasis placed on organisational renewal through innovation from the discovery of new sources of value
- the allocation of formal responsibility for exploration, the development of capabilities, and choice of structures to execute it
- the focus it brings to resource-allocation processes to get the longer-term balance between exploitation and exploration ‘right’, and to integrate with day-to-day project and activity processes
- achieving the continuing release of resources into corporate renewal, given that in many organisations ‘ownership’ of resources is a measure of individual status
- the focus it places on an organisation’s corporate strategy and its integration with the management of innovation.

This literature is most obviously applicable to large public sector organisations with a measure of independence comprising the various government business undertakings along with the service-delivery agencies. It should also be applicable to the individual government departments that comprise the inner budget sector of public administration, and more particularly for public policy purposes, to the collective of these departments, from whence change across the broader public sector can be driven.

### 9.3.3 Implications for a model of public sector innovation

It is possible to distil this collective wisdom into a suitable theory of change for public policy purposes, acknowledging that this theory of change must comprise two integrated parts: the first must identify the government interventions by which public sector innovation levels can be elevated – the public policy lever(s); whereas the second must identify the means by which the target organisation converts the intervention into the identified public policy outcomes.

The preceding models lie in the realm of the descriptive, listing the many key features thought to accompany productive public sector innovation rather than tightly determined theories of change. Nonetheless Bason, Eggers and Singh, and Mulgan go some way to establishing a suitable internal theory of change as they provide complementary ‘cookbook’ views of how to innovate successfully in the public sector. The model that emerges of a successfully innovating public service is one that sees innovation as part of its strategic management challenge (and the trigger

point for public policy), that builds capability and culture by supporting processes and structures, and executes it along the lines of the Eggers and Singh's playbook.

I propose that a theory of change be no more nor less than the standard model of strategic management in the management literature as applied to the public service, one in which there is an integrated set of organisational goals that drives public service organisation, resource allocations and management, of which innovation is one. The innovation strategy then becomes the vehicle through which the Eggers and Singh, Mulgan, and Bason processes and activities are applied to the public service. The public policy levers become the incentives that the government can develop to induce more public service innovation outputs. This should include the allocation of dedicated resources to innovation processes, support for a wider range of innovation strategies, a more tolerant approach to risk management, and the development of suitable organisational structures to manage the processes, strategies and governance of the activity.

Ministerial innovation commonly (but not only) occurs as a consequence of elections, and may range across the full set of public service activities as described by Windrum, and will almost certainly impact broadly across the public service in efficiency, effectiveness and morale. It may produce change but its net positive impacts – on customers, the broader community, the public service, and third party service providers – is less certain. Departmental innovation creates a different picture in that it lends itself in prospect to the full array of private sector innovation management techniques and their public sector equivalents, which indicates that a substantial increase in output from this category could be achieved. Whole-of-public-service innovation could also add substantially to public service innovation levels through collective and systemic leadership, risk-spreading, active pursuit of cross-departmental and cross-sectoral synergies.

There are many different forms that public sector innovation might take, a number of different drivers of innovation, a resultant variety of different organisational contexts and levels within which innovation might take place, with each possibility placing different demands on the political/bureaucratic interface. This latter might range from the direct demands on the public service of a government wishing to pursue new ideological directions, new policy frameworks, new service delivery methods, and new methods of community engagement, through to the demands made of departmental risk management practices associated with a more

systematic, whole-of-public-service approach to innovation. The question is whether innovation, if and when it occurs, will involve a beneficial use of public resources?

## 9.4 The public policy case for a more innovative public service

The consideration of whether net benefits can arise from additional public service innovation lies at the heart of any public policy consideration but, as Mulgan points out, the absence of documented experience and evidence makes it difficult to determine if this will be the case. Mulgan observes the slow institutionalisation and formalisation of new routes to innovation within governments around the globe (2009, p 157). He concludes:

The basic argument for innovation hasn't yet been engaged with let alone won, in the great majority of OECD governments. Part of the reason is that there has been very little serious analysis of when innovation is a good thing – and when it is not ... So innovation happens – but it happens as much by chance as by design, and public innovators are usually marginalised. (2009, pp 158, 161)<sup>8</sup>

Moreover, not only is the general case not made and prevailing budget allocations remain small, but also the public sector is 'not up to the job'. Mulgan and Bason both noted that the public sector was ill-prepared to meet the challenges it faced, cataloguing a long list of barriers to public sector innovation (long at least by comparison with the private sector), in Bason's case concluding that 'we have an almost perfect storm crashing down on any (public sector) innovation effort' (2010, p 15). Mulgan's conclusions include that 'Public sectors are often poor at innovation from within, and poor at learning from outside' and '[Public sector] innovators usually succeed despite, not because of, dominant structures and systems' (2009, pp 149, 170).<sup>9</sup>

8 To make his point about 'bad' innovation, Mulgan instances low community tolerance for experimentation with ambulance and nuclear power safety arrangements because the risk involves people's lives.

9 Bason identifies a range of barriers, including paying a price for politics – such as limited incentives to share and tight regulation of activities; anti-innovation DNA; fear of the new and the unknown; a focus on efficiency rather than customers; few or no formal processes; leading into a vacuum and spending little time in exploring the future; and an inability to scale up successful innovations (2010, p 15 ff). Mulgan's list is similar including: no one's job, risk aversion, too many rules, uncertain results, high walls and unsuitable structures (2009, p 159 ff).

This book argues for raising public sector innovation management beyond the realms of chance to a more strategically led and integrated state. A government policy to deliver this change should remove a number of the identified barriers and put associated enablers in place. A government-endorsed public service innovation management policy comprising the elements of process, strategy, structure, capability, and governance would address the majority of these issues, simultaneously removing barriers and putting in place key enablers, and lift innovation activity levels and improve effectiveness. The commitment of additional resources to public service innovation would be a further stimulus. And, whilst it is easy to be pessimistic as a consequence of existing innovation activity levels and the absence of government desire to change its policy towards the public service in this regard, there are many additional reasons for it to do so (see Bommert 2010).

There is anecdotal evidence that substantial net benefits can be generated through innovation, as Bason records, 'Real world cases show that cost savings of between 20 per cent and 60 per cent are possible while also increasing citizen satisfaction and generating better outcomes' (2010, p 4). And Mulgan notes that, 'Even today the caricature of public agencies as stagnant enemies of creativity is disproven by the innovation of thousands of public servants around the world' (2009, p 149).

More public service-specific arguments include the assertion by Kay and Goldspink that the public service often, but not always, has time, and should use this advantage in the public interest. This is so in relation to its own innovation because of limited competition, and is consistent with the notion that the public sector discount rate lies some way below the private sector rate. But it equally applies where the public service is the vehicle through which longer-term technology developments occur in conjunction with the private sector. This argument is reinforced by the observation of Kay and Goldspink along with the Auditor-General for Australia that where it does not have time it often performs poorly (Kay & Goldspink 2012b; McPhee 2015).

A further argument for (greater) public sector investment in innovation is the argument made by William Lazonick (2012). His private sector-focused argument, that the drivers of technological change in our economy are the large organisations with market power that can generate the surpluses required to invest in the development of new market and technical advances, applies equally to the public sector. Viewed in this

light, the public sector should be a leader in scientific research and technological development and, indeed, in many democratic countries, including Australia, it is. Moreover, as the public sector accounts for over one quarter of national expenditure, it has a duty to contribute to rising living standards, rather than leaving such progress entirely to the private sector. There is no reason why this cannot happen; the public sector has the scale, the time, and the diversity of experience to make it happen.

The general case for a more innovative public service can be made based on the challenges inherent in public administration today and the need for catch-up, both in operating performance and in modern (i.e. private sector) leadership and management techniques. Time and scale arguments point to additional reasons why a government policy to build a more innovative public service should be in the public interest. Even if the public policy case for a more innovative public service can be made, there are at least two further sets of issues to consider, the first being the transition of the public service from its present position of being perceived as not yet up to the job to one of being more innovative, and the second being the government decision-making path to free up the public service to properly pursue this goal.

McGrath's discussion of the necessary changes to existing resource-allocation processes is based on her observation that the typical corporate processes reinforce the hold of the present over the future (2013). Indeed, to break this hold she suggests that leeway be built into the early stages of establishing organisational-innovation proficiency. Concessions might include a two- to three-year plan to get the innovation system in place because of the resistance of the established exploitation-orientated organisation, and an additional fixed allocation (share) of funds to develop organisational experience in innovation processes beyond the investment in the accompanying administrative support systems and resources.<sup>10</sup>

The *Public Service Act 1999* does not provide the necessary freedoms and protections for a public service that wants to become more innovative. The primary problem is that the immediate 'owner' of public policy – the

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10 The challenges of breaking free from the stranglehold of the past should not be underestimated. This process must be consciously and centrally driven and recognise the need for such balance between exploitation and exploration. Not only does exploration involve a fundamental shift in the public service mindset away from a century-long focus on efficiency, which places cost above value, but there is the additional challenge of achieving the sort of flexibility in resource allocation demanded by this approach in public sector budgets that simply do not have the flexibility to cope.

government – has a direct stake in ‘the game’, which is based on power and who has it. Unfortunately, the government is likely to see this as a zero-sum game. Thus, the path to change – a loosening of the public service reins enabling it to become directly responsible for its successes and failures (and thereby absolving governments from some of the latter) – is difficult to envisage with a government most likely opposed to it and a community that does not understand the need to change this interface, despite it being in its best interests. The case for political change to embrace the necessary public policy change hinges heavily on demonstrating a ‘win’ for government.

Nonetheless, innovation must be the tool of choice for public service organisational adjustment to a changing environment because, (a) it can be systemically managed, (b) it focuses on change for the better, (c) it can be integrated with standard resource-allocation processes, (d) it is focused on outcomes, (e) its costs and benefits can be measured, (f) it is equally applicable to all parts of an organisation, (g) the necessary management and operational tools are available, and (h) it can be readily integrated with other environmental adjustment mechanisms. McGrath provides persuasive support for elevation of the role of innovation:

Innovation is not optional in a world of fleeting advantages. Innovation is not a sideline. Innovation is not a senior executive hobby or a passing fad. Innovation is a competency that needs to be professionally built and managed. Where in the years past we often thought of strategy only with respect to the existing advantages, in a transient-advantage economy innovation can't be separated from effective strategy. (2013, p 134)

## 9.5 Conclusions

Arguments that make the case for a more innovative public sector reinforce the benefits of a more strategically managed public service and point to an important part of the public policy framework that needs to be considered. The focus must be placed on governments taking a step back and enabling the public administration arm to be publicly responsible for its own failures. This is how a more innovative public service will ultimately be established.

Ben Bommert's theoretical case in support of collaborative innovation asserts:

Since the introduction of collaborative innovation entails a transfer of authority and possibly of accountability it concerns fundamental decisions about the distribution of power, accountability and control in society. These might need to be addressed in a more fundamental and normative way and not as a subject to a rather practical trade off with innovation assets. (2010, p 30)

It is arguable that not only are the barriers and missing enablers discussed in this chapter inherent in the existing relationship between government and public service, but that these are merely some of the manifestations of a flawed model of public administration.

Unfortunately, with the public service in legislated lockstep for the last three decades, there has been little opportunity, or incentive, for it to innovate, with successive governments on a path to privatisation of public assets along with key public service activities. The public service has been, and continues to be, under threat, with survival its main goal. There are two important consequences arising from the constraints imposed on public sector activity and the behaviours that come with such a close working relationship. The first is that successive governments have driven a wedge between their own interests and those of the community at large, thereby undermining the role that the community might reasonably expect the public service to play. The second is that systematic innovation from the public service has not been possible where such a close relationship between government and public service has existed.

Australia's public service organisational structures and accountabilities are based on a failed philosophy that is embedded in the Public Service Act, which is clearly designed to subsidiarise the Australian Public Service. Siloed structures and little in the way of strategic management capacity have led to a public service that is locked into the subservient siloed nature of departmentalism. Auditor-general reports and speeches by past and present public service leaders point to a lack of blue sky/over the horizon thinking; too little attention paid to developing private sector management and leadership techniques, especially in the field of organisational design and planning; the wrong skills mix (too many economists and not enough engineers); and an inability to systematically demonstrate public service efficiency or government effectiveness at any of service, program, policy, department or whole-of-government levels.

There are, then, good reasons rooted in sound public policy why a more independent and innovative public service is needed. Having drawn the policymaking activities of government away from the public service and to itself, governments have essentially bankrupted the policy formation process. Equally, having substituted the various think tanks, lobby groups and industry associations for the public service in the policy formation process, the government has displaced 'the public' in public policy with a disparate group of rent-seekers (including itself). Having expanded the range of influential beneficiaries from the exercise of power, governments have largely forsaken community health and welfare for the opportunity to occupy government. This is a very poor bargain from a whole-of-community standpoint.

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