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## Mini Study 10 Innovation in the public sector

*(Hugo Thenint, LL&A)*

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## Introduction

Europe seeks to be a dynamic and innovative knowledge-based economy, and this is not a matter simply of transforming high-technology sectors. Public services are among the most knowledge-intensive and value added of all sectors, and thus obviously also need to be part of this mobilisation. Public services and public administration represent a significant part of the European socioeconomic activity. Europe's public services account for between 40% and 55% of GDP - compared to 32% in the United States, 26% in Japan, 16% in China or 17% in India. Public services -related employment accounts for between one quarter and one third of the total EU working-age population, and public employment (civil servants) represents more than 15% of the total employment in the EU.

Public services' important roles as demonstrators, as setters of standards, as lead markets and procurers, all make their contributions to innovation and their role in innovation in other sectors, extremely significant. Hence, public services could even become a comparative advantage for Europe competitiveness, by creating innovation-conducive environments. World challenges such as demographic change, pollution, and security concerns are creating new demands for public services, and the public sector may be a strong driver for EU leadership in these domains too.

Statistics indicate that the demand for public services in many advanced countries is growing faster than the rest of the economy – even before the onset of the recent economic crisis. As the GDP is increasing more slowly than public expenditures, the public sector is subject to major budget constraints – and the economic crisis exacerbates this. Meanwhile public services are facing higher expectations from their users. Hence, innovation is vital for increasing public sector efficiency (value for money, more for less) and for delivering new and better quality services. As mentioned, some of these services affecting the whole economy or key sectors within it, as well as being important for quality of life more generally.

Considering this picture, the key issue of this mini study is to explore mechanisms that generate (or introduce) and help spread innovation in the public sector, and to identify potential EU actions supporting these mechanisms across European countries.

First, it is important to clarify the concepts of public service and the public sector. The public sector here refers in part to public administration and publicly owned corporations. These corporations may not necessarily pursue general interest objectives (for example weapons manufacturing). In the past many strategic industries were nationalised (often state monopolies), and more recently the economic crisis has led to several banks entering the public sector (even if on a temporary basis). The term “public sector” also encompasses public service activities.

In contrast, public services are driven by a specific purpose (a public interest) that justifies particular attention from public authorities. They deal with the delivery of goods and, especially, services (such as health, education, sanitation, and social security services). These may be produced and delivered by state-owned agencies, organisations or enterprises; or they may be produced and delivered through “public service industries”, voluntary bodies or private sector firms that are contracted by governments for this purpose. The organisation of public services varies considerably from country to country, and the extent to which similar services (e.g. health or education services) are also

provided by private organisations to fee-paying consumers also varies a great deal across services and countries. Innovation in public services, then, is something that may take place in a wide variety of organisational and regulatory contexts.

Then what is innovation in the public sector? Whereas in much business literature innovation is related to profits and commercial success, this characterisation is rarely appropriate to public sector activities. (Some state-owned business, of course, may have considerable interest in demonstrating profitability and commercial viability – especially if they are liable to be privatised!) Various reflections on the concept of innovation in public sector activities are presented below:

“...deliberate change (in behaviour) with a specific objective in mind” (Publin report D20, 2005)

But innovation is not merely synonymous with change. Whereas ongoing change is a common feature to any organisation (replacement, expansion, etc.), innovation must bring a certain novelty and a substantial improvement:

“Doing something new i.e. introducing a new practice or process, creating a new product (good or service), or adopting a new pattern of intra- or inter-organizational relationship” (Green, Howells & Miles, 2002).

and

“Successful innovation is the creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in outcomes efficiency, effectiveness or quality” (Albury & Mulgan, 2003)

These reflections point to key aspects of public sector innovation. First, the concepts of intention and objective exclude unplanned adjustments to external trends and breakdowns (social, economical and technological). Innovation occurs when public services stakeholders are proactive by introducing novelty in order to adapt the system / product / process effectively. (The idea for the innovation could have emerged during the course of a disruption or crisis, of course.) In addition, it is worth mentioning that government reforms (top-down processes in general) are not necessarily innovations. Reforms do not automatically bring novelty or result in significant improvements (but can strictly follow political - if not ideological - objectives). However, they may do; and there are also reforms that are specifically designed to encourage innovation, for example creating an Innovation Unit in a large public service organisation.

## 1. Grasping the specifics of innovation in the public sector

Traditionally, the public sector has been perceived as less innovative than the private sector. But is this view factual? Rather, it may be that public sector innovation is less perceptible because it is not highlighted enough.

### 1.1 The main differences between public and private sector innovations

#### The intangible nature of innovation

First, it is important to notice that the little consideration of innovation in the public sector is directly linked to the meaning of the concept of innovation (and its evolution). Experts and policy-makers have primarily focused on technological innovations and the production of goods; the private sector is indeed privileged by such an approach. The idea of innovation in the public sector has evolved alongside a more nuanced understanding of innovation as that which encompasses non-technological processes and the service industry in addition to its more traditional meaning.

Government organisations often have multiple objectives which can be vague compared to clear business objectives (clients, profits, etc.). Often the issues faced by public authorities are complex and the wrong policy mix can have adverse effects. Also, when public authorities tackle social or environmental challenges, the objectives depend not only on direct policy action but also on the society overall. Innovation in the public sector is closely linked to social attitudes toward innovation and change.

In this regard, identifying and measuring innovation and resultant improvements (an area that is already fraught with methodological issues as regards the private sector) is even more difficult when considering public organizations. Naturally, innovation cannot be understood as a way of improving cost or efficiency solely. We must then consider what the appropriate criteria for appraising public sector innovation would be.

#### Risk taking and political issues

Risk taking in the public sector is particularly critical because in many areas (security, health, etc.) failure can have a drastic impact. In this case, sheer “creative destruction” would not be desirable for some public sector activities.

A great responsibility is taken on by policy-makers here, especially by elected representatives. Political push (top-down process) is considered as a major innovation driver and may be compared to market changes in the private sector. But politics who are multiplying ambitious objectives are taking more risks as they are undoubtedly more exposed to criticism from opponents and media. Numerous experts have underlined the prejudices caused by the celebration of failure by media and political oppositions (Manley, 2001).

The intrinsic political dimension of the public sector brings up a time horizon issue. Electoral cycles may not be long enough to fulfil a project’s objectives and to benefit from its impact. Hence, short-

term political horizons, underpinned by public polling, can hinder innovation processes, which overall can be quite long<sup>1</sup>.

### **Organisational structure and management**

The public sector consists of a complex open system of organizations with various tasks. As a consequence, decision-making can be slower than in the private sector because of large chains of command. Innovations here will often have an impact across this complex organizational structure, and thus must be supported by a robust strategy. It is possible for innovations of some types to be “rolled out” and distributed within the large systems, in a top-down way.

However, these large systems are typically not an effective environment for the diffusion of innovation. Each of these systems is rather compartmentalized (policy field, geographical coverage, etc.) and very little exchange exists between nation-states. As a consequence, the diffusion of innovation can be knotty and takes more time than in a private sector evolving in an international environment, where transnational companies may introduce new techniques and products across their subsidiaries in many countries. Quite often, something considered as innovative for a public service organization or a range of public services in one region, has been experienced by another for several years.

It is not only top-down initiatives that can confront problems. In large organisations, especially when their staff include many professionals delivering specialised services to members of the public, there can be problems in communicating innovation and best practice. New approaches may well be created without great fanfare by individual professionals or in specific locations, but never become more widely recognised and adopted (or this may be a very protracted process). Such “bottom-up” innovations remain isolated and not reproduced on a broader scale.

One important aspect of innovation management is the rationale or motivation for innovation. It has often been argued that the lack of competition (to drive organisations) and limited financial incentives for improvement (to drive individuals) would hinder innovation within the public sector. It has however been demonstrated that there can be many sources of motivation for innovation. The table next page indicates the differences (and similarities) in the importance of motivation between the two sectors.

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<sup>1</sup> Some could argue though that the current weight of stock markets and the power gained by companies’ boards of direction (which are elected) and control management play a similar role.

Table 1: Motivation in public and private sector

<p><b>Motivations for innovation in the public sector /Individuals</b></p> <ul style="list-style-type: none"> <li>o Career</li> <li>o Idealism</li> <li>o Professional recognition</li> <li>o Power</li> <li>o Self-fulfilment</li> <li>o Money (salary)</li> <li>o Prestige</li> <li>o Potential for spin-off business</li> </ul>	<p><b>Motivations for innovation in the private sector /Individuals</b></p> <ul style="list-style-type: none"> <li>o Money (salary, profits, bonuses)</li> <li>o Career</li> <li>o Self-fulfilment</li> <li>o Prestige</li> <li>o Power</li> <li>o Job security (via enhanced profitability or imposed requirement )</li> <li>o Idealism</li> </ul>
<p><b>Motivations for innovation in the public sector /Organizations</b></p> <ul style="list-style-type: none"> <li>o The propagation of a policy, idea or rationality</li> <li>o Increased funding</li> <li>o Problem solving (in order to reach objectives)</li> <li>o More staff</li> <li>o Public relations</li> </ul>	<p><b>Motivations for innovation in the private sector /Organizations</b></p> <ul style="list-style-type: none"> <li>o Profits</li> <li>o Problem solving (in order to reach objectives)</li> <li>o Pre-empt competition</li> <li>o Market-shares</li> <li>o Growth (in size)</li> <li>o Public relations</li> </ul>

*(Miles & Røste, 2005)*

Another important factor of differentiation between the two sectors is customer relationship management. Conventionally, relations with end-users have been unilateral in the public sector – civil servants were managed and evaluated by policy-makers, and not by citizens - whereas innovation in the private sector depends more on market feedback. However, user-driven approaches are progressively narrowing the gap between the two sectors as private companies tend to consider customers not only as consumers but users and innovation drivers; and as the public service is now more open to collaborate with civil society, and citizens are indeed often labelled and treated as “consumers” of public services (section 2.3).

### **Knowledge sources and supply chain**

The public sector is among the most knowledge-intensive of all sectors and has a great role in innovation processes as procurers and diffusers. Technology procurement is important for the public sector because it can introduce better technologies in the production of public services and goods. But the public sector has a broader range of sources of technologies and knowledge, some of which being more open than the private sector and do not require procurement procedure. Cooperation with other public organizations, universities, unions, and NGOs, is a major driver for innovation and represents a great complement to private sources of knowledge (banks, assurance, consulting, ICT providers, etc.).

## 1.2 Typology of public sector innovations

The majority of studies addressing innovation in the private sector have led to a widely used, standard classification scheme capturing major types of innovation which are product (and service) innovation, process innovation and organisational and marketing innovations (Oslo Manual, Community Innovation Surveys). Historically, the focus has been on technological innovation in both products (and services) and processes. However the inclusion of non-technological innovation and a specific focus on public sector (and service) reduce the distinction between product and process and emphasize the role of organisational innovation.

### *Types of innovation in the public sector*

Innovation in the public sector can be divided into several types, for instance:

- A new or improved service (for example health care at home)
- Process innovation (a change in the manufacturing of a service or product)
- Administrative innovation (for example the use of a new policy instrument, which may be a result of policy change)
- System innovation (a new system or a fundamental change of an existing system, for instance the establishment of new organizations or new patterns of co-operation and interaction)
- Conceptual innovation (a change in the outlook of actors; such changes are accompanied by the use of new concepts, for example integrated water management or mobility leasing)
- Radical change of rationality (meaning that the worldview or the mental matrix of the employees of an organization is shifting)

The first two types of innovation can be subsumed under product innovation. The innovations can be labelled in the following ways:

- Incremental innovations / radical innovations (denoting the degree of novelty, in industry most innovations can be considered incremental improvements of already existing products, processes or services)
- Top-down innovations / bottom-up innovations (denoting who has initiated the process leading to behavioural changes, “the top” – meaning management or organizations or institutions higher up in the hierarchy – or “the bottom” – meaning “workers on the factory floor”, in this case public employees, civil servants and mid-level policy makers)
- Needs-led innovations and efficiency-led innovation (denoting whether the innovation process has been initiated to solve a specific problem or in order to make already existing products, services or procedures more efficient)

(Taken from PUBLIN report D9 *On the differences between public and private sector innovation*, by Thomas Halvorsen, Johan Hauknes, Ian Miles and Rannveig Røste, 2005, Oslo STEP) available at: <http://www.step.no/publin/reports.html>

It has been shown that needs-led innovation is rarely driven by a major crisis but rather, mostly by internal problems (budget constraints, problems meeting the objective, etc.) which led to dynamic incremental innovation processes. Top-down innovations are probably less frequent than bottom-up innovation though more radical; they seem to be more driven by changes in the agencies' organisation or pressure from the civil society (lobbying) than from legislative or electoral processes.



Sandford Borins (2001 & 2006), after carrying out several surveys in the USA and the Commonwealth (over 300 government innovation programmes around the world) distinguishes five groups of characteristics in public sector innovation:

➤ System approach

This set of characteristics refers mainly to organisational innovation that can occur through formal partnerships / programmes but also wider inter-organisational arrangements. In such complex systems, the coordination of various organizations' activities is a central feature for innovating. This includes: conducting a systemic analysis of how the problem in question interacts with other issues and programmes, fostering inter-organisational collaboration (education and health, implementation of systematic data cross-check procedures, etc.), and implementing integrated, multi-faceted services (single desks / portal delivering a wide range of services).

➤ The use of new technology

The adoption and diffusion of new technologies, especially ICT, are a great opportunity for wider innovation in the public sector. Some areas are more concerned with technological changes such as healthcare, energy & environment, etc. Information technology systems in government and public agencies are large and expensive and require strong skills that civil servants do not initially have.

➤ Process improvement

These types of innovation are meant to make administrative processes and the delivery of services faster, more accessible, targeted and/or friendlier. Practices include customer differentiation and conflict resolution procedures. In opposition to the two previous groups, the improvements mainly results from incremental and targeted innovations.

➤ Empowerment of staff, citizens or communities

Empowerment may take numerous forms. The first step towards empowerment would be consultation then, progressively inviting them to participate in the elaboration and even the implementation of new policies / services. Participatory management is often quoted to illustrate staff empowerment. Empowerment of citizens (users) means extending choice and complementing choice with more direct forms of individual control or giving opportunities for people to do more themselves.

➤ Uses of private or voluntary sector

This often means opening up some public sector activities (under certain conditions) to private sector competition but can also refer to the use of NGOs for support activities, PPPs, the use of private consulting services, etc.

Next section shows that these innovations have occurred during different periods and with varying intensity between European countries.

### 1.3 Main innovation trends in the public sector

#### An historical perspective

As opposed to the common belief, there has always been substantial innovation in the public sector, notably since the mid twentieth century. The post-war period has been prolific in building strong centralised administrations and a wide range of public services in many countries, especially in Europe (UK, France, Germany, etc.). Political push was a particularly important driver for innovation as the development of effective welfare states was considered as a way to curb communism expansion. However, the lack of flexibility of these systems and increasing resource constraints in the late seventies underlined the limits of these models (Rosanvallon 1981, Mishra 1984, Esping-Andersen 1987, etc.).

During the early eighties, political shifts in many countries, most notably in England and the US, reinforced the call for change in the public sector's model of governance. These arguments were underpinned by neo-liberal economics and theories of new public management, which promote the introduction of organisational and management approaches modelled on those of the private sector: markets, quasi-markets, and competition among units, outsourcing of functions, application of extensive systems of performance management, and the like. The assumption was that such approaches would stimulate innovation, as well as generally encourage greater efficiency. In this view, complete privatisation was a route undertaken by some public authorities for certain services (especially "utilities" like water and power supplies, public transport, etc.). This trend however was experienced to a very different extent across countries; and some governments, especially from continental Europe, did try to readjust their public administration without shifting to a "public management" type of model – in some cases successfully and sometimes not. The main goals were to implement reforms that would reduce administrative burden, improve transparency and reduce the workforce.

In the late eighties, new political arrangements in local governments and decentralisation pushed toward a better organisation of public sector systems. Decentralisation and public management approaches have been considered complementary processes. Accordingly, the OECD, in 1995, defined public management as follows: "fostering a performance-oriented culture in less centralised public-sector devolution of responsibilities, downsizing the public services, privatization, customer orientation, measuring and simplification".

However, full decentralisation, in the context of competitive pressure, may impede cooperation and actually encourage the duplication of effort. A certain degree of coordination at a central level would insure better equity and better knowledge / practices share.

It also became apparent that the implementation of new public management practices and other reform strategies has not necessarily resulted in more innovative activities, structures, and outcomes. Detractors have even argued that eliding the differences between private and public sectors in a "one size fits all" view is having adverse effects. Reforms have tried to make public sector organisations more like private ones, often leaving staff dispirited and feeling undervalued.

Asserting that this approach was completely wrong-headed, Public Value Theory emerged in the mid nineties and refers to the value created by government through services, regulation and other actions. In simple terms, public value poses three central questions to public managers (Coates & Passmore, 2008), which form the backbone of the approach:

- What is this organisation for?
- To whom are we accountable?
- How do we know if we have been successful?

During the nineties, two main elements influenced innovation in the public sector. Firstly, the fall of the communist bloc opened vast perspectives for restructuring whole national systems. But the reform of the public enterprise sector has often been (necessarily) hasty and (unsurprisingly) inconsistent in the transition economies. Some had viewed privatisation as a sufficient condition to bring about a new liberal order (i.e. shock therapy approach) without due attention being given to whether the necessary supporting structures were in place. This includes social capital and norms that operate against corruption, for example, which is endemic in several transitional countries.

The second feature is the emergence of ICT. It can be said that the public sector has been very innovative in Information Technologies. Actually, many ICT solutions have been developed by public agencies (Defense Advanced Research Projects Agency & the US National Science Foundation contributed to the development of the Internet; the Minitel was created by the French Department of Telecommunications and the original development of such videotext systems stemmed from the UK Post Office). However, the adoption and diffusion of these technologies has often been thorny – thus videotext systems proved to be commercial failures practically everywhere outside France - and have been slow to replace some more conventional and formal communication procedures. Thus, the shift to providing government services online has been extremely uneven and subject to much debate. IT systems in government are large and expensive. The larger the development, the more likely it is that it will be unsuccessful. It has been argued that 20 to 30 percent of all developments are total failures in which projects are abandoned and 30 to 60 percent are partial failures in which there are time and cost overruns or other problems (Goldfinch, 2007). Explanations include data inadequacies, technical problems, management / process / technical skill shortages, cultural clashes, political infighting and external environmental factors (Heeks, 1999).

Beyond the strict technological aspect of innovation, IT should be considered more as an innovation driver rather than an innovation in itself. IT involves a plethora of specific technologies (hardware and software) and alternative models and designs of these technologies, all of which need to be configured together with information content and ties to organisational procedures, so as to deliver specific services and applications. New information systems may be the impetus for new organisational models, cross-sector institutional cooperation and knowledge exchange. Later on, the emergence of e-Government and online services (Government-to-Citizen) has substantially facilitated empowerment and bottom-up innovation (see below networked governance).

Combined together, public value approach and e-Government have re-asserted a focus on citizenship, networked governance, and the role of public agencies in working with citizens to generate and co-create public value. Also, public-private cooperation has been reinforced through activities such as consultancy and audits (management and IT consulting, research and design

services, etc.), outsourcing of basic services, and supply of equipment and solutions (notably through public procurement).

Recently, networked governance and the search for public value have found new impetus through the development of pilot initiatives (incubating and prototyping), innovation labs and living labs. These kinds of initiatives are particularly illustrative of the new governance approaches in the public sector as they combine new partnerships and networks, cross-disciplinary research as well as staff and citizen empowerment. A description of such initiative is provided through the case study on la 27ième Région (chapter 3).

The following table represents a helpful attempt to summarize the characteristics of different models of governance in the public sector. Though the demarcations between the three models may be made more sharply than is always the case in real-life situations, it captures some major ways in which public service organisation and philosophy can vary – and to some extent how they have evolved.

Table 2: Different models of governance and public management

	<b>Traditional public administration</b>	<b>Public management</b>	<b>Networked governance</b>
<b>Context</b>	Stable with homogenous population	Competitive, atomized population	Continuously changing with diverse population
<b>Needs / issues</b>	Straightforward, defined by professionals	Expressed through the market	Complex, volatile and prone to risk
<b>Governance</b>	Hierarchies within public servants	Markets (purchasers, providers and contractors)	Networks and partnerships
<b>Key concept</b>	Public good	Public choice	Public value
<b>Innovation type</b>	Large-scale, radical	Organisational innovation more than content	Innovation at both central and local levels
<b>improvement</b>	Large step-change but little adaptation capabilities	Managerial processes, some cost-effectiveness improvements	Transformational and continuous improvement (esp. front line)
<b>Policy-makers</b>	Commanders	Commissioners	Leaders & interpreters
<b>Public managers</b>	“clerks & martyrs”	efficiency	Explorers
<b>Population</b>	Citizens	customers	Co-producers

*Hartley (2005)*

### **Some recent developments in European countries**

Recent debate and associated initiatives dealing with public sector innovation have mainly aimed at improving the effectiveness and efficiency of the delivery of public services and improved transparency and user friendliness. Beyond typical administrative reforms, innovation is expected to help address societal challenges such as the aging population, inclusion, health care, education, public safety, environment and greenhouse gas emissions reduction.

The Trendchart policy brief on innovation in the public sector (2009) sets out the following key topics that have been brought into the debate on public sector innovation:

- Strategic direction within public service organisations;
- Performance measurement, indicators and improvement;
- Service delivery, particularly e-services & health services;
- Cultural change; public service reform;
- Human resource challenges – aging, pensions, equality, flexibility, rewards;
- Innovation and managers;
- Innovation and social partnerships;
- Public private partnerships;
- National pensions;
- Sectoral focus: health structures and organisation, local government, higher education;
- External influences: globalisation, technology, demographics, environmental concerns, societal relationships, social stability.

Resulting from a 40 country survey, the Trendchart report categorises national initiatives into six major types (classified in order of incidence):

1. A major theme concerns that of e-Government. These included initiatives to ease administrative burden, introduction of ICTs, 'electronification' of public services to raise quality and speed, the modernisation of public administration, etc. Countries listing such initiatives included: Austria, Belgium, Denmark, Germany, Greece, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, Bulgaria, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Romania, Liechtenstein, Norway and Brazil;
2. Administrative simplification (ranging from simplification of regulations to the restructuring of the public sector or its programmes and/or processes). This includes the reduction of barriers arising from regulation and overly bureaucratic practices. Countries noting this type of initiative included: Belgium, Germany, Greece, Finland, France, Portugal, Czech Republic, Hungary, Latvia, Malta, Poland, Romania, Slovakia, Slovenia, Canada and India;
3. Public procurement: (themes like innovation in public procurement, green public procurement, e-procurement etc). Examples of this type of initiative were found in Belgium, Finland, Cyprus, Malta, Poland and Romania;
4. Dissemination: A number of initiatives dealt with disseminating innovation culture in the public sector (and on possible best practices). Examples were found from Belgium (Awards), the UK, Cyprus (Awards), Brazil (Awards), Norway and Turkey;
5. Public sector performance / workplace innovation: Some of the reported initiatives targeted improvement of the performance of individuals or organisations. Examples were provided for Ireland, Hungary, Japan, Turkey and the USA;

6. Finally, a theme often occurring is the participation and / or cooperation between different actors (for example, engaging the public, private companies, etc. in public services or in the improvement of public services). Examples include those from Denmark, the Netherlands, the UK, Latvia (participatory democracy), Slovenia, etc.

While academics and policymakers in a small number of countries (UK, Denmark, Netherlands, Finland, etc.) have moved beyond ICT and administrative reform related issues, there are still a lot of countries that are focusing their effort on these features. Some countries have implemented e-government initiatives but without pursuing the objective of administrative simplification. All this indicates that there might be a substantial and growing gap between EU Member States, maybe even more than innovation in the private sector where international diffusion is much less constrained.

It is important to remember that new innovation processes such as networked governance are mostly occurring at the regional or local levels and these innovations are often not recognised at the national level. If such initiatives can be identified in small countries like Denmark, Belgium or Ireland more precise investigation should be launched in bigger countries, especially if they are federal or largely decentralised (Spain, Italy and Germany). Even in historically centralised countries such as Great Britain (more specifically England) or France, local initiatives are being encouraged. Recent decentralisation processes in France have created new opportunities to experiment with pilot initiatives (even though this can challenge the principle of equity and territorial continuity). In France, Regional Councils and new communities of municipalities (grouping of local authorities) are the best areas for creating public value.

A final issue that should be closely examined is the current economic downturn and more specifically the growing public debts. The impact on public sector innovation may be important in the coming years as the current budgetary stimulus will be rapidly followed by a shortage of public finance. This specific context will call for an improved quality of financial forecasting and financial management, in order to avoid resource disruption. People are liable to call for greater transparency in budget spending and will ask to stop policy initiatives that have failed to deliver results as well as internal projects that do not benefit the users of services. Hence, the understanding and appraisal of innovation in the public sector is likely to become an important matter in the next few years.

## **1.4 Attempts at measuring public sector innovation**

As previously argued it is now acknowledged that innovation is happening in the public sector but it is less perceptible and more difficult to appraise than in the private sector.

Some tools such as the Oslo manual have enabled measurement of innovation but it is still biased towards manufacturing innovations based on technological development. These methods have largely failed to capture innovation in services sectors, creative industries and most of all in delivery of public services.

Several initiatives are currently trying to fill the lack of appraisal tools for public sector innovation, such as the *DIUS / NESTA Index*<sup>2</sup> or the *Network for measuring public innovation*<sup>3</sup> project initiated by the Danish Ministry of Science, Technology and Innovation. The project tries for the first time to collect systematic information about innovation in the Nordic countries' public sectors. Eventually, the project will lead to the development of a "Copenhagen Manual" to allow for better statistical capturing of such activity.

The following list of information for appraising innovation in the public sector (or public services) is a compilation of elements considered by these projects.

### **Environment / preconditions**

- Existence of an innovation strategy, guidelines and objectives;
- Existence of a monitoring and reporting system;

### **Inputs**

- Resources and spending (dedicated innovation budgets; R&D spend; % of other budgets, etc.);
- Staff capabilities (% of staff involved in innovation process, qualifications);
- Organisation and leadership that offer support for innovation and the adoption of innovation (trial-and-error testing, staff rewards, systematic procedures, etc.);
- Demand for innovation: procurement and commissioning to incentivise innovative solutions (e.g. proof of concept funding, outcomes-focused procurement and commissioning, encouragement to wider range of providers);
- Responsiveness and ability to incentivise innovation (from citizens, frontline workers, suppliers & providers, as well as senior management and Ministers);
- Acquisition of new equipment (ICT) and contracting external services (consulting, design, etc.);

### **Outputs**

- Number of new products and services implemented;
- Number of novel processes, procedures, delivery models introduced;
- New global organisational model / information system;
- New methods of communication;
- Patents, copyrights, other intangible assets;

### **Cooperation and diffusion**

- Mechanisms for sharing learning and encouraging adoption across and between organisations (workshops, platforms, networks, etc.);
- Specific publications;
- Awards;

### **Outcomes**

- Organisation's assessment of whether innovation has achieved the intended outcomes;

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<sup>2</sup> <http://www.innovationindex.org.uk/>

<sup>3</sup> <http://www.mepin.eu/>

- Cost-benefit analysis and other assessments of 'value added' of innovation;
- Quality measures ;
- Customer satisfaction measures (% of population using novel services, % of satisfaction with quality, etc.);
- Staff satisfaction (working conditions, shirking, turnover, etc.);
- Public sector performance impact measures (realisation of public service agreements / assignments).

A first issue that has been discussed is the scope of observation. The public sector can consist of large national organisations as well as small local agencies. The large organisations may have numerous small establishments – the health service will contain numerous hospitals, that themselves may be constituted of several specialist establishments, for example. In order to measure and compare innovation processes in this sector it is important to look for some form of standard unit and level impact.

Information may be difficult to collect and eventually should be objective and verifiable. This means that the methodology could not be confined to a survey addressed to public sector staff. Innovation is not the objective itself but improvement of public administration and services; in a democracy this value is ultimately defined by the public themselves. Value is determined by citizens' preferences, expressed through a variety of means and refracted through the decisions of elected politicians. As a rule, the key things which citizens' value tend to fall into three categories: outcomes, services and trust.

One illustration of this approach is the initiative recently launched by the Dutch government on public sector performance measurement in European countries with a focus on education, healthcare, justice systems and public administrations.

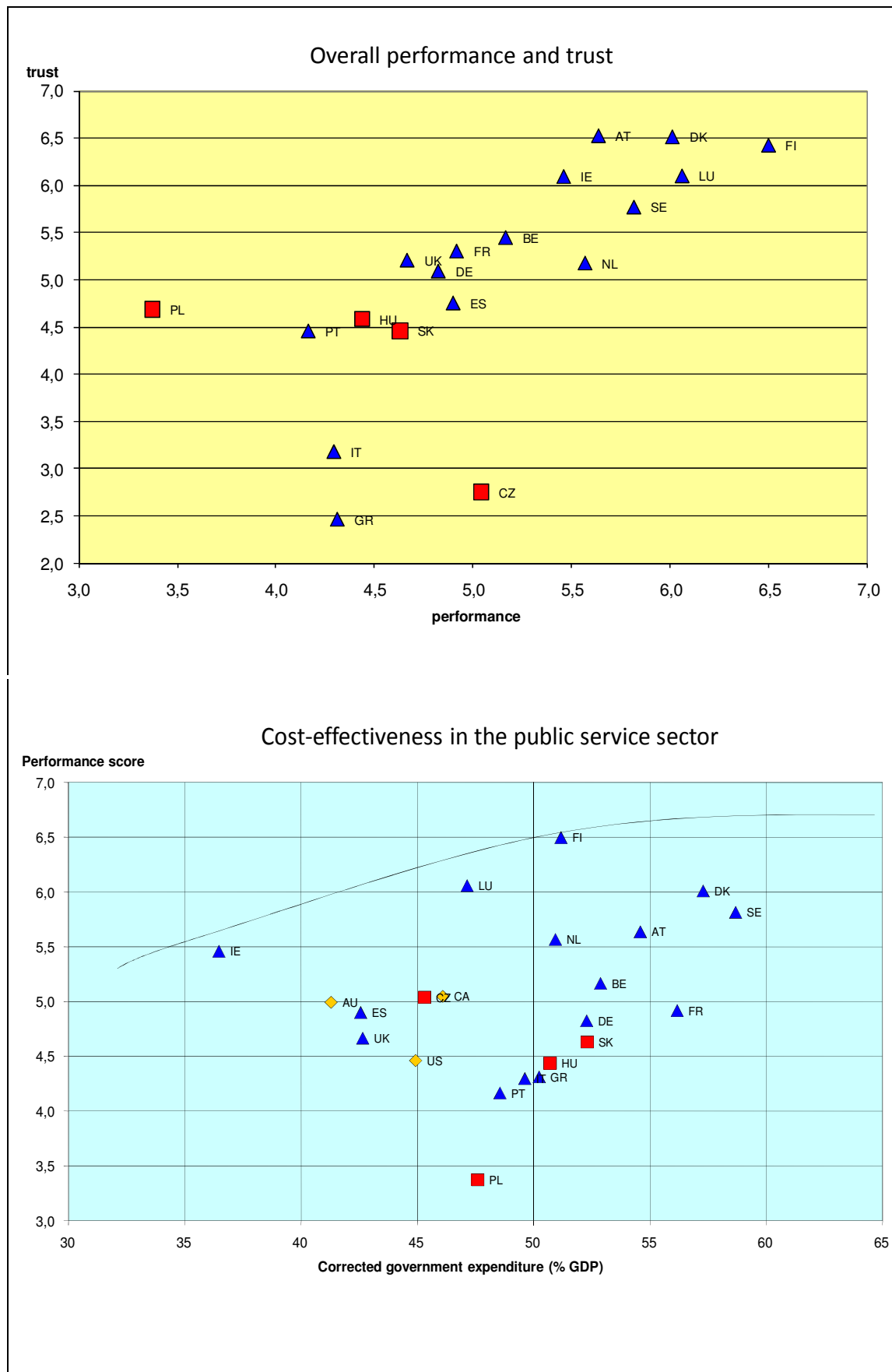
The main features appraised were:

- Cost-effectiveness
- quality (trust, waiting lists)
- equal access (out-of-pocket payments)
- Transparency
- Trust

The tables next page, summarize the main result of this exercise. Finland appears to have the most trusted and cost-effectiveness public sector while other Scandinavian also have high performance and trust rates but at a higher cost. Other identifiable regional patterns are Southern Europe (low performances) and Anglo-Saxon countries (with relative high performance considering their reduced government expenditure rates). Another conclusion is that people's trust is often correlated with countries' performance, though this is sometimes accentuated (for example Greece and Czech Republic's underestimated public sector or Ireland and Austria with disproportionate trust rates). Poland is the most unusual case with very low performance scores but a relative high trust rate. Second figure reveals wide range of variations as regards cost-effectiveness which shows that high expenditure does not mechanically lead to higher performance.



Table 3: Public sector measurement



Source: Social and Cultural Planning Office & Dutch Ministry of the Interior, 2004

## 2. How to foster public sector innovation and diffusion

### 2.1 Existing barriers

The Table below shows the results from a survey on barriers to innovation of over 300 government reformers in the U.S. and Commonwealth countries. Problems of bureaucratic attitudes (staff resistance), lack of coordination, technological barriers, inadequate resources and external resistance are here underlined.

Table 4: Barriers to innovation

Obstacle	U.S. 1990-98, Occurrences	U.S., % of total	Commonwealth, Occurrences	Commonwealth, % of total
Bureaucratic attitudes	66	9.2	16	9.6
Turf fights	12	1.7	5	3.0
Other resistance	50	6.9	11	6.6
<b>Total bureaucratic</b>	<b>128</b>	<b>17.8</b>	<b>32</b>	<b>19.3</b>
Coordination problems	66	9.2	18	10.8
Logistics	66	9.2	24	14.5
Burnout	38	5.3	2	1.2
Implementing technology	39	5.4	15	9.0
Union opposition	13	1.8	5	3.0
Mid-mgt. opposition	11	1.5	4	2.4
Opposition to entrepreneurs	6	.8	4	2.4
<b>Total Internal</b>	<b>367</b>	<b>50.9</b>	<b>104</b>	<b>62.7</b>
Inadequate resources	113	15.7	32	19.2
Laws, regulations	48	6.7	7	4.2
Political opposition	21	2.9	6	3.6
<b>Total Political</b>	<b>182</b>	<b>25.2</b>	<b>45</b>	<b>27.1</b>
External doubts	70	9.7	9	5.4
Reaching target group	49	6.8	2	1.2
Affected interests	28	3.9	2	1.2
Public opposition	13	1.8	2	1.2
Private sector competition	12	1.7	2	1.2
<b>Total External</b>	<b>170</b>	<b>23.6</b>	<b>17</b>	<b>10.2</b>
<b>Total</b>	<b>721</b>	<b>100</b>	<b>166</b>	<b>100</b>

Source : Borins 2006

The Publin (2005) and Interact (2006) projects have mapped different types of barriers for innovation, i.e. social, financial and technical phenomena that hinder innovation activities in institutions. These barriers have been observed or recounted through a series of case studies mostly in the UK, Ireland and Nordic countries and underscore the obstacles mentioned in the previous table. The following barriers were most frequently mentioned:

1. *Professional resistance and heritage.* The public sector is often characterized by professional groupings with their own communities of practice, established roles, and associated policy agendas. As such, there may be a reticence to embrace change and innovation, especially when it is external innovation (from another organisation or the private sector). The systemic

impact of innovation and change is often viewed as an unwelcome perturbation to the overall functioning of the organization (“if it isn’t broke, don’t fix it”). A lack of dialogue between different parts of the public system, horizontally or vertically, and between different professional groups may also hinder innovation and its dissemination.

2. *Absence or inadequacy of resources.* This feature has been clearly identified as a main barrier for innovation. Resources include not only a lack of financial support, either in a general context or specifically for the support of innovation, but also include shortages in relevant skills, in human resource or for enlisting other support services required for the implementation of innovations.
3. *Public resistance to change.* It is assumed that the public is, in general, resistant to reorganization and changes in the way public services are delivered. Thus, the public, or elements of it, may also be risk averse. This resistance would be expected to be particularly strong when the public is not informed enough about the benefit of the changes or directly affected. However, some sorts of change might be very much welcomed by users of the services or other public stakeholders (e.g. parents of children who are being educated, relatives of hospital patients).
4. *Pace and scale of change.* Many public administrations and services have been subject to a large number of radical changes, often called reforms. This has led to an instable environment with no medium and long-term visibility and little opportunity to reflect upon and assess the impact of the innovations introduced. Thus, many employees are becoming “innovation fatigued”.
5. *Size and complexity.* The public sector comprises complex, large-scale organizational entities that may develop internal barriers to innovation. These barriers can consist of localised skills shortages and gaps, lack of clear agreement and communication difficulties. Within such settings, small successful innovations may hardly be diffused or scaled-up.
6. *Risk aversion and accountability.* There is an understandable inherent reticence (especially concerning healthcare, transport, etc.) to undertake or implement changes which may result in an increased probability of risk for users and civil servants. In addition, public organisations are scrutinized by politicians, the media and employees are not normally rewarded for taking risks. Consequently, public service managers and politicians are very wary of enacting changes that may result in negative outcomes. There may also be a tendency towards a blame culture, with its associated high levels of accountability. This is exacerbated by the difficulties in obtaining a clear picture of all the potential effects and impacts of these actions.
7. *Technical barriers.* There may be a lack of technological solutions to the problem at hand. The application of new uses to existing equipment, for example, may push the technology to the limits of its capabilities and act as a driver for further technical innovation. On the other hand, it is sometimes argued that too much emphasis is put on the technical aspects of the

implementation process whereas they should not be considered as the innovation by themselves (and can bring new obstacles).

8. *Absence of capacity for organisational learning.* There may be a lack of structures or mechanisms for the enhancement of organisational learning and the diffusion of good practices. Reasons are broad and manifold: Frequent reorganizations and staff turnover, tradition of secrecy, lack of evaluation of previous policies and rigid top-down command chains.

## 2.2 Identification of drivers and enablers

Table 5: Tactics used to overcome innovation barriers

Barriers	Bureau-cratic	Coordinat°	Techno.	Inadequate Resources	Political opposit°	Ext. doubts	Reaching Target Gr.	Affected interests	Public opposit°
Show benefits	++				+++	++		++	
Social Marketing						++	+++	+	+
Demonstration Project	+				+	+			++
Training	++	+	++				+		
Consultation	++	+++				+++		+	++
Co-optation (with opponents)	+++	++				++		++	+
Resources Finding				+++					
Persistence					++	+	+		
Alliance					++				+
Modify Technology		+	+++						
Change Regulation	+							+	
Program Culturally sensitive							+		
Compensation	+							+	

Source: Borins 2006

The table 5 shows various actions to overcome the obstacles to innovation used in both the U.S. and Commonwealth samples. The tactics most commonly used can be categorized into two broad groups. The first being persuasion, which is achieved by showing the benefits of an innovation, establishing demonstration projects, and social marketing. The second is accommodation, which takes the form of consultations with affected parties or involving them in the innovation process, providing training for staff, compensating losers and ensuring that a program is culturally or linguistically sensitive.

Overall, the responses to the obstacles raised show innovators should not necessarily view opposition to change as an invitation to conflict but consider this as an opportunity to better communicate, respond to objectors and improve the design of programs.

However, this set of actions is composed mainly of short-term enablers and therefore cannot support sustainable innovation systems in the public sector. Recent research activities shows that few countries are tentatively putting in place more sophisticated sets of devices to promote innovation in the public sector (see part 1.3). Although these can vary considerably, the schemes typically contain many of the same elements.

### **Innovation pushes and goal settings**

While leaders should support the conditions for innovation, specific innovations usually start with specific “pushes” or “pulls”. The pushes may come from a political leadership that seeks to promote new ideas, as during the neoconservative wave in the 1980s. It can come from crisis, financial necessity, or from technology breakthroughs. But, increasingly, the drive to innovate is coming as much from pulls as from pushes (Mulgan, 2007). New societal needs may not be met by public services. Accordingly, public innovators should be good at listening to what it is that people really want or need.

At the delivery level, political goals may be reflected through the imposition of performance targets, which have been a major result of new public management thinking. Behn (1999) argues that goals can redefine the meaning of success, get everyone thinking and behaving innovatively, foster leaders at all levels, and encourage organizations to reach out to other institutions whose work is helpful, or even necessary, in achieving these goals. Moreover, he notes that accomplishing goals can also change public values. Some have pointed out that simply specifying goals is not enough to convert unimaginative people into innovators, and there is much discussion about the ways in which indicators can distort the behaviour of actors within the system in unanticipated and possibly undesirable ways, notably through gaming distortion (Holmstrom & Milgrom, 1991, Propper & Wilson, 2003).

### **Culture and Leadership**

It is widely reported that without licence from the top, few people in hierarchical organisations are willing to take risks. Political and official leaders can establish a culture in which innovation is seen as natural.

Several writers thus see leadership as a key link between individual creativity and knowledge and organizational innovation (Amabile et al. 1996, Gor, 1999 & 2001). Leadership influences motivation. Leadership should come from the highest level, but middle management can also be very important. Leaders need to dedicate resources to innovation and to act on employee suggestions. They should also protect innovative employees from internal and external critics and at the same time convince politicians of the need for innovation.

### **Experimentation**

The public sector needs a menu of methods for trying things out, including pilots and platforms, incubators and laboratories. The public sector entails more formality and precaution and so

innovation processes often need to rely on prototyping and testing in secure, controlled environments, such as pilots. It has been pointed out (Mulgan, 2007) that the standard cycle of prototyping - piloting - broadening may be too slow as regards political cycles and a lots of innovations freeze at the pilot stage (and are only considered as scientific experiment). As an alternative, governments can use more iterative methods such as pathfinders and trials which are persistently evolving and foster learning by-doing.

These methods require strong risk management. Generally, it will be easier to take risks when there's a consensus that things are not working. Governments should be honest about the experimentation's chance of success and give users choice (pluralism) so they can perform an arbitration role. Innovations are often managed by external organisation so that if things go wrong they can take the blame. In this respect, NGOs and business has often been solicited.

### **Empowerment and co-creation**

Innovation in the public sector should principally aim at addressing societal challenges, since these major challenges are ones that require major public effort. Accordingly, innovative thinking and operating may require strong user-centred approaches and involve a wide range of knowledge and expertise.

Several approaches can be observed in European countries. As regards expertise, experience suggests that innovative teams generally work best with a mix of skills, backgrounds and contacts. Teams should combine civil servants from various concerned agencies, social entrepreneurs, researchers (especially social sciences), designers, engineers and practitioners ("front staff" either from public or private sectors). These working teams may need a specific – more neutral – space to better collaborate, hence making innovation units or laboratories an interesting option as a first step towards greater innovation in the public sector. Several of these labs can be identified in the European Union<sup>4</sup> such as the NESTA lab in the UK, MindLab in Denmark or la 27ième region in France (see case study in next chapter).

Citizens' empowerment is also a key aspect for ensuring *ex ante* the most value-driven and acceptable solutions. For that reason, it is beneficial to collaborate with civil society representatives and NGOs. Larger scale experimentation and testing methods can also be implemented such as living-labs which enable citizens' empowerment through the use of ICT (see following section).

### **Scaling and diffusion**

If numerous pilots or prototypes have shown success, an even bigger challenge then is to launch the innovation on a larger scale. For the public sector as a whole, the adoption and diffusion of innovations matters even more than innovation itself. Successful experiences can rapidly be written off because of a lack of connectivity and relevance to the rest of the organisation and thus no acknowledgement of the added-value. Innovations are slow to spread because the incentives for adoption are weak and cognitive barriers impede diffusion. Here again, innovation processes face problems of horizontal (organisation depending on different ministers) and vertical (local / regional and national level) silos to which even strong networking is not a sufficient solution.

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<sup>4</sup> For more information, Inno-GRIPS workshop on innovation labs: [http://grips.proinno-europe.eu/knowledge\\_base/view/880/-labs-for-a-more-innovative-europe-workshop-report/](http://grips.proinno-europe.eu/knowledge_base/view/880/-labs-for-a-more-innovative-europe-workshop-report/)

### **Reflexivity and learning processes**

Innovating organisations need a high degree of reflexivity – understanding the impact of its own action on a broader social structure. This essentially relates to an ability to demonstrate organisational learning.

Quite often these processes are carried out directly by insiders whilst others are a feature of the broader system. Reflection and appraisal should occur at all levels and most of all be uninterrupted. This should not rely on audit-like evaluation processes but rather on a widespread culture of review and on the willingness to take part in learning processes involving several partners. A high degree of responsiveness is important here as there is little point in monitoring if it does not prompt reaction.

## **2.3 Patterns for the development of citizen-driven innovations**

Public organizations in democratic societies are expected to live up to the ideal of democratic principles. They can do so in many ways, for example by promoting and implementing:

- Transparency to support public scrutiny,
- Accountability for the exercise of power by public officers,
- The dissemination of information to encourage awareness and facilitate citizens' access to government,
- Consultation to improve quality and responsiveness,
- Participation to ensure greater buy-in and support for government initiatives.

These principles and related measures constitute what the OECD calls “Open and Inclusive Government”. In this respect public authorities in many countries over the last twenty years have shown some similarities in paying more attention to service delivery and user satisfaction. This has led to the exploration of how the public sector may work with citizens as value creators and as active agents to produce public results of high quality and high value. More specifically, government organisations seek out innovative ideas, which could then develop into new services and programs, from a diverse network of citizens, volunteer researchers and non-profit organizations. This can be synthesised as the process of soliciting the collective intelligence of society to gain knowledge and an understanding of emerging trends.

But citizens can also initiate such processes. Because of the limited expected impact on policy development and implementation through the political party process, citizens interested in policy are looking for other routes to provide input to government (Bourgon, 2008).

In 2000, the Canadian government published a working paper in which public involvement is described in terms of five possible levels. Level one is informing or educating the public; level two is gathering information or views from the public; level three is discussing with or involving the public; level four is engaging; and level five is partnering with the public. Level five includes empowerment of citizens and groups to manage the process, the government being ready to assume the role of enabler and an agreement to diffuse the solutions generated. At this level, policy and programs are developed in partnership.

**Empowerment, sharing power and responsibility**

When looking at current practices in Europe (or elsewhere), empowerment often remains merely under the form of consultation processes in order to obtain feedback or approval from citizens for policies that have already been largely preselected. Consultation with stakeholders has not necessarily led to citizens' full support as expected by elected officials and the public servants responsible for the consultations. Put another way, this is not really participation, as it tends to define citizens as objects rather than subjects in the consultation process. Subjects should be able to decide on the level and content of participation and be informed about the follow-up (Glor, 2005).

There are relatively few examples of genuine collaborative processes where citizens play an active role in initiating an innovation. Though public services and governments say that they want to stimulate citizen empowerment, there is a failure to reliably implement appropriate programmes.

The first reason for this is the difference between citizen empowerment and customer or user empowerment. This confusion between citizen and customer creates a permanent state of tension. Governments' objectives usually consider citizens strictly as customers and are looking for feedback about implementation and buy-in. Many countries have a strong tradition of bureaucratic relationships where citizens experience relationships with public servants as being unequal and hierarchical (front staff is not accountable to users but to middle managers who are accountable to high managers, etc.). On the other hand, citizens are often more interested in sharing decision-making power about policy. If they are not consulted about objectives, priorities and decisions, they feel like objects, disempowered both in terms of their ability to have an impact and to be heard.

Another important aspect of this distinction between customer and citizen is the extent to which collecting user's expectations is an adequate and democratic process. There may be a tendency to hear the claims and satisfy the demands only of those who better voice their needs, at the risk of excluding other citizens. In such situations where communities are very divided, one faction could resist changes while seen as benefitting others.

Trust and transparency are very important here. For example, while participation in setting objectives and priorities is important, empowering and relationships should result in significant action, not only intention. Customer or citizen recommendations should be implemented and monitored, and if not, the failure to do so explained.

But difficulties do not only arise from the public sector side. While citizens are looking for public authorities to hear them they do not always take the initiative in assuming responsibility and self-governance. Perhaps there are many citizens who do not want to be "stakeholders" and/or co-produce public services.

For that to happen, government agencies may need to actively seek out and sustain long-term relationships with citizen-customers and share with them the public sector's overall innovation or reform goals. Also, the public sector needs first to establish the internal infrastructure to seek out and facilitate such citizen innovation and to build on those creative ideas and integrate them rapidly within existing programs and services. As most private companies have discovered, embracing



external innovative ideas and converting them into new products and services often requires changes in consumers and the internal organizational culture, structure, and processes (Nambisan, 2008).

### **The role of ICT in empowerment**

The development of ICT and the information society has created a vast variety of potential applications for the public sector. The resulting notion of e-government encompasses applications that aim variously at:

- Pushing information over the Internet,
- Communicating between public agencies and citizens, business or other government agencies,
- Conducting transactions and registration,
- Improving governance and direct democracy (online consultation, petitioning, polling, voting, and campaigning).

One goal of e-government is greater citizen empowerment. Through the internet, people from all over a country / region / locality should be able to interact with policy-makers and make their voices heard. In addition, these technologies should create more transparent governments and administrations. E-government can play an essential role in revealing to the public the policies governments are adopting or the actions policy-makers are taking.

The spread of Web 2.0 technologies based on social networking allows us to create genuinely new kinds of connections between citizens and the public sector. Government 2.0 goes far beyond merely adopting Web 2.0 tools for the public sector as it is a philosophy and culture that reflects society's radically new way of interacting and communicating. The cost of implementing new working processes into existing organisations is also often underestimated. For example, the resources required for Web 2.0 type policy and decision making is often underestimated. In particular in terms of the facilitation, tailoring of information, monitoring, moderation, feedback to participating citizens and stakeholders required to ensure value-adding and successful ePetitions, eConsultations etc.

Globally, the population is progressively experiencing and adopting such a culture through collaborative knowledge production and sharing sites like Wikipedia or massive multiplayer online games like Everquest. A growing number of people use these web-based tools and are developing skills of information analysis, knowledge production, team working and so forth. These users are likely to seek feedback from their peers and strangers which lead to the reduction of the boundaries between expert and amateur, demand and supply, etc. A potential promising use of this new way of interacting consists of creating a local community of users / citizens by using new ICT tools in order to share needs, co-create and experiment with related solutions. This concept is called Living Labs<sup>5</sup>. It is an interesting way of fostering local democracy and innovative services (see box below). The two major features of this approach are citizen empowerment and user experience in (semi)realistic environments through the use of ICT.

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<sup>5</sup> For more information about living-labs: <http://www.openlivinglabs.eu/> or [http://www.ami-communities.eu/wiki/AMI%40Work\\_on-line\\_Communities](http://www.ami-communities.eu/wiki/AMI%40Work_on-line_Communities)

### Living-Labs: a definition

Living Lab is a new research paradigm integrating both:

- A user-centric multidisciplinary research approach
- A user community driving innovation based on real life experiments

It is intended to:

- increase the understanding of occurring phenomena
- explore and evaluate new ideas, concepts and related ICT artefacts
- confront new ideas, concepts and related ICT artefacts with users' value models
- enable re-usable experiments (i.e. datasets, research protocols and methods)
- result in more accurate and reliable products and services
- speed-up concepts to market and promote "viral" adoption
- contribute to initiate potential lead markets
- contribute to bringing science and innovation closer to citizens

Another possible way of using ICT to foster innovation in the public sector is to make government information easily accessible to third parties, for example so that it can be combined with other information and republished in new and innovative formats. This can stimulate new non-governmental networks that share advice, provide mutual support and allege governmental changes. This transparency revolution consists in ensuring the information held by public administration is more available for re-use by citizens and civic organisations while obviously protecting citizens' data security and privacy.

### Networks, NGOs and the Third sector

Not-for-profit organizations, charities and voluntary organisations – the third sector – play a very important role in driving and diffusing innovation in public services. It is often argued that the third sector is agile and flexible and that voluntary organisations provide a climate for entrepreneurship and creativity. While these organisations do not have the same democratic legitimacy or government resources as public authorities, they nevertheless represent interests that are committed to public causes. In some cases, they respond to citizens' needs that are not met by the public sector such as the National Trust in UK.

Also, third sector organisations may have access to additional financial resources that are not strictly dedicated to running costs and can more easily be allocated to the research, evaluation or piloting of an innovation. Examples even show private charitable funds (based on private trust funds) which function as "venture capital" for development projects in third sector organisations (Publin, 2005).

## 2.4 New perspectives for public-private cooperation

'Public-private partnership' (PPP) is a widely used term in the lexicon of government policy in recent years. Public-private partnerships refer to a broad range of activities involving interaction between governments and the private sector.

In the nineties, PPP was adopted by governments as a "softer" alternative to privatization. Initially, this term included concession contracts and private finance initiatives (in the UK mostly) and progressively included joint ventures and service procurement. As shown in the following table, the use of PPPs varies a lot among EU Member States.

Table 6: PPPs in Europe

	Value of signed contracts, €m					Total	Number signed deals 2001-08	Projects being procured Jan 2007
	2001-04	2005	2006	2007	2008			
Spain	1000	1154	1664	309	---	4127	38	2931
France	---	1788	735	329	1241	4093	34	3964
Italy	890	2179	439	55	---	3563	20	29799
Ireland	720	121	623	1489	300	3253	19	---
Greece	---	798	1600	3885	1000	2398	8	6270
Germany	440	830	177	465	117	2029	40	9495
Belgium	1300	480	---	300	680	1780	6	3635
Netherlands	1302	---	431	---	1020	1733	9	1211
Poland	1520	---	---	---	---	1520	2	1317
Austria	49	---	850	---	---	899	6	20
Finland	---	700	---	---	---	700	1	---
Bulgaria	---	366	288	366	---	654	6	2202
Hungary	---	---	38	15	500	556	11	264
Cyprus	---	500	---	---	---	500	1	---
Portugal	278	---	32	140	---	450	7	1515
Other countries	485	2	490	---	---	977	7	4957
<b>Total (exc.UK)</b>	<b>7987</b>	<b>8918</b>	<b>7367</b>	<b>7353</b>	<b>4958</b>	<b>36583</b>	<b>215</b>	<b>67580</b>
UK	21849	6237	14111	10698	8236	61131	536	

Source: Public Private Finance, DLA Piper

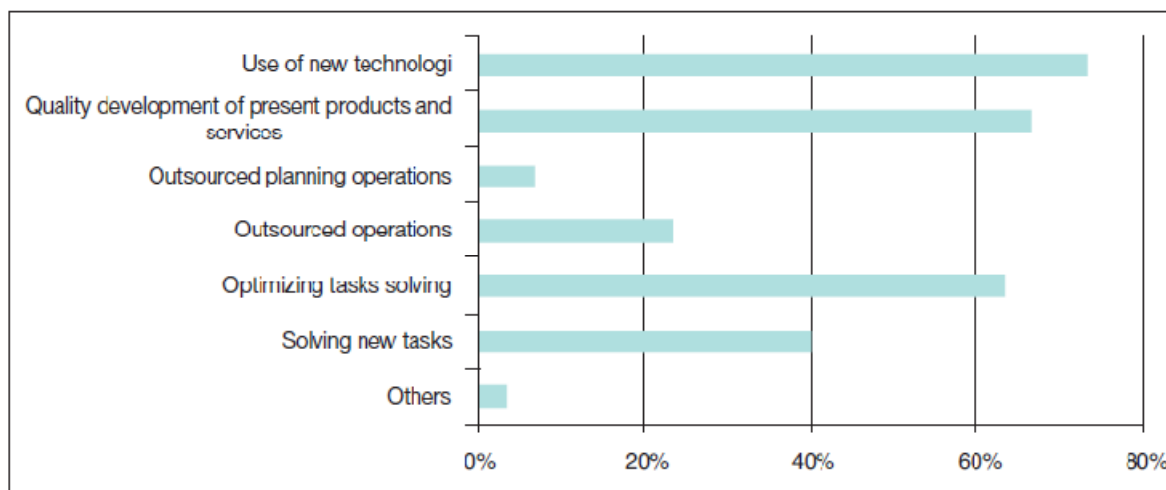
According to a Siemens survey, PPPs only account for 4% of all public sector investment. As a matter of fact, many public organizations still have negative attitudes toward PPPs after several bad experiences in the nineties, notably through competitive tendering processes in view of cost reduction. In some areas contracting-out may lead to private monopolies, which are not necessarily better than public ones. Such situations have often led to underinvestment in shared infrastructure and the public authorities had to subsidize and overcompensate the risk sharing with the private sector (Hall, 2008). Concessions of water management in France or railway transport in the UK - Metronet has often been used as a case study - are particularly illustrative of the limits of privatization and outsourcing.

Considering these elements, the public sector is now willing to collaborate with private companies when relevant (and without excessive transaction costs) and with a more mature strategy. On their side, companies are considering the public sector as a sustaining market. Instead of merely supplying

the public sector with products and services demanded (outsourcing), companies have started working together with the public sector to deliver innovative solutions. In most advanced economies the biggest sectors today are healthcare and education, which require longer term partnerships.

As shown in this Table 7, innovation in PPPs often consists in using technologies or services developed elsewhere. However, to correctly commission and make use of these technologies or services, public sector organisations need a minimum of knowhow and skills - for defining their needs, checking the quality of the services supplied, etc. Public institutions cannot solely rely on the competences of the supplier in this context, and innovation in PPPs is not a linear process and requires interaction – often sustained interaction - with parties outside the organisation (Koch, 2006). Numerous examples of public private partnerships demonstrate that there are learning processes where both parties contribute to achieve the innovative end product.

Table 7: Survey in Denmark: “What are the characteristics of joint public-private development projects?”



Source DAMVAD Service innovation questionnaire - Danish service companies, 2007

Ian Keys and Roger O’Sullivan (DEMOS, 2008) argue that public–private partnerships increasingly need to be based on precisely this process of defining and redefining the problems and answers, rather than contracting for predefined and ready to use solutions. Together with the third sector, private companies may better anticipate and respond to the issues faced by public services. The need to develop new technologies, processes and services has, in some cases, led to new forms of partnership between the state and private companies. For example, companies can innovate for the public sector, while for democratic, cultural or economic reasons, the public sector continues to have the responsibilities for the services offered (NESTA & FORA, 2009).

This issue is underlined in a guide published by the British DTI (2004) which draws attention to innovation from the beginning of a policy process to the following procurement strategy. The key recommendations are:

- Defining needs more holistically and publishing them well in advance of procurement,
- Embedding long term dialogue with markets and suppliers into procurement processes,

- Stating need / problem through outcomes and allowing the market to propose innovative solutions,
- Accepting and managing higher degrees of risk in some procurement,
- Improving procurement officers' skills to make procurement of more innovative solutions part of the process rather than afterthoughts,
- Establishing clear linkages between innovation and value for money.

As explained above, enabling innovation in public–private partnerships requires new approaches that involve early dialogue between potential partners and more flexible and iterative relationships between the public and private sectors. Such strategies involve more risk for all players which cannot merely hide behind complex contracts.

For example, the business sector can participate with the third sector in open, multi-partner initiatives such as the pilots or laboratories presented earlier. Some companies, specialised in service design, are particularly relevant in providing expertise to these initiatives. The British Public services by design<sup>6</sup> initiative argue that design methodologies can improve public service delivery in five keys ways:

- Developing more personalised services
- Harnessing the knowledge of frontline staff
- Managing risk by prototyping new ideas
- Improving efficiency and value for money
- Giving service users more control

However, public service providers may lack the knowledge and skills to use design as a strategic approach to innovation. Developing this capacity through public-private partnerships can help public sector organisations manage their creative processes and find innovative solutions for service delivery. To this respect, Service Design agencies, such as Spirit of Creation, Engine, Transformator, Palmu Inc., live|work or IDEO, have applied design tools, techniques and thinking to support public sector in providing new facilities and services within hospitals, post offices, library or schools.

According to a survey led by the Design Council (UK) also shows that small, innovative design agencies felt strongly government procurement processes were an obstacle to working with public sector clients. Public procurement processes appear better suited to products than services delivery. Public procurement may hinder small early-stage projects in which relationships could be established and ideas tested before larger initiatives are launched.

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<sup>6</sup> <http://www.designcouncil.org.uk/Design-Council/1/What-we-do/Our-activities/Public-services-by-design/>

### 3. Case studies

The following case studies describe innovative projects that rely either on public-private collaboration or citizens/front-staff empowerment.

#### **3.1 The Carbon Trust (UK), public service through a private company**

In 1998, the Chancellor of the Exchequer led a task force which produced the report “Economic instruments and the business use of energy.” This offered recommendations that laid the foundations for the 2001 Climate Change Levy, which is an energy use tax levied on industry, commerce and the public sector’s to encourage efficiency. The tax revenue was intended, in part, to fund the creation and maintenance of an organization whose mission is to move the country toward a low carbon economy. To this end, in April 2001, the UK government created The Carbon Trust- a private, independent not-for-dividend company limited by guarantee. The Trust is now an integral part of the government’s Climate Change Programme; it is funded foremost through the Department of Food, Environment and Rural Affairs (DEFRA) and the Department for Business, Enterprise and Regulatory Reform, and also receives funding through its own investments, the Scottish Executive, Welsh Assembly, and Invest Northern Ireland. Its board is comprised of two executive directors, members from each of the public funding bodies and an additional ten representatives from private companies and ‘other stakeholders’ (FAO, 2007).

When the Carbon Trust was set up, DEFRA found, through consultations with the sectors concerned, “that potential clients would have greater trust in the independence and nature of the advice received if it were from a private sector company, rather than a non-departmental public body or other public sector organization” (HC 157, 2008, p.11). While “setting up a private company to design, develop and deliver programmes in order to meet objectives and targets agreed with central government is relatively unusual,” (FAO, 2007, p.5) the arrangement has been working and the Trust is slated to reach its (modest) 2010 emissions reduction targets. This is then a private company with a mandate to deliver a public good, namely improvements in greenhouse gas emissions and ultimately the ability to mitigate and adapt to climate change. The Trust finds that their private status allows their clients to better trust the advice given to them because it is not seen to embody a specific political agenda or promote certain government or other services (HC 157, 2008).

The Carbon Trust exists to help realize the UK’s policy goal of realizing a low-carbon economy. It does this through a range of supply and demand side initiatives that both reduce energy consumption while supporting and/or creating viable alternative energy technologies. It works with organizations, rather than individuals and households, focusing on providing fully funded advice (capped at a cost of £20,000) and interest-free loans to organizations interested in reducing their carbon footprints. More recently it is beginning to shift its focus to bolster low-carbon energy innovation through venture capital funding and other early-stage innovation incubation. The Trust organizes its work around five complementary business areas: Insights, which explains the opportunities surrounding climate change; Innovations, which develops low carbon technologies; Investments, which finances clean energy businesses; Solutions, which delivers carbon reduction solutions; and Enterprises, which creates low carbon businesses. Much of its work is contracted out to highly specialized consultants, a model which it finds is conducive to the region and sector specific needs of its clients (HC 157, 2008).

It is now very successful at leveraging its public funding to raise private investment for its programmes, for instance, its Partnership for Renewables project, which aims to develop onsite renewable energy projects with local authorities, hospitals and other public sector bodies, leverages in from the private sector approximately 50 times the amount of money committed by the Government (HC 157, 2008). It has also proven itself to offer value for money: “we can deliver a tonne of carbon saved at a policy cost of between £4 and £7 with a net benefit to the business of £33 a tonne” (HC 157, 2008, p. EV14).

While the trust is heavily involved in business and private sector emissions reduction; it has also achieved considerable success in moving the public sector towards sustainable energy. Its flagship programme for the public sector began in 2003. Since then it has aided many public organizations to increase reduction targets from an original average of a 12% reduction over five years to pledges of 25% reductions from 2009 forward (Dudman, 2009). Moving the public sector towards energy efficiency is by no means easy. It involves changing individual perceptions and practices as well as organizational buy-in supported by government backing and improvements in cost savings. The work of the Carbon Trust can, in this way, be seen as an innovation adoption or change management process, which includes the use of new technologies and practices. The Trust uses a host of approaches to realize its public sector efforts (see box below).

**Table 8: Carbon trust operational tools and activities**

<p><b>Carbon Surveys</b> A free visit by an independent, accredited consultant will identify energy savings opportunities within an organisation. These can range from simple low- or no-cost measures to investments that typically pay for themselves in 1-3 years.</p>	<p><b>Carbon Management</b> This is a five-step programme for larger organisations, providing a strategic view of how carbon impacts the organisation by identifying the risks and opportunities associated with climate change. Tailored support is offered to local authorities, universities and NHS organisations. Focusing on peer mentoring and knowledge sharing between public sector bodies, they bring change management and technical expertise to help organisations develop long-term strategies for carbon savings.</p>
<p><b>LA/HE/NHS Networks</b> As part of the tailored carbon management programmes there are web-based online communities which offer useful forums in which to discuss carbon saving technologies; debate solutions for behavioural change, and react to incoming policy and legislation. The central Government Estate can also use the LA Network.</p>	<p><b>Training workshops</b> Free, interactive training workshops are available nationwide, covering a range of topics such as Energy Management and Compressed Air.</p>
<p><b>Publications</b> The Carbon Trust publishes fact sheets, case studies and in-depth guides tailored to an organisation. It is the largest library of independent advice on energy efficiency in the UK.</p>	<p><b>Staff awareness</b> Promotion of energy saving actions among employees with a range of posters and stickers offering important tips and ideas to get them involved.</p>

<p><b>Customer Centre</b> Contact the Carbon Trust for free advice on any aspect of energy saving.</p>	<p><b>Website</b> Visit <a href="http://www.carbontrust.co.uk">www.carbontrust.co.uk</a> to see energy saving in action, and access a range of self-assessment tools, guides and directories.</p>
<p><b>Design Advice</b> Available from the Carbon Trust, this specialist service includes a detailed printed guide and face-to-face consultancy. It will help to identify the carbon savings in new and renovation building projects, offering free or subsidised consultancy advice throughout the project stages. The free Building Design Advice Guide contains detailed, practical advice about procuring energy efficient buildings – from deciding on the right technologies to commissioning and maintenance s.</p>	<p><b>Low Carbon Building Accelerator</b> The Carbon Trust Low Carbon Building Accelerator demonstrates how major refurbishments of non-residential buildings can be completed in a low carbon and cost effective manner. It involves specialist Carbon Trust consultants working on a range of building projects focused on gathering data and demonstrating expertise.</p>

*Source: Carbon Trust (2006) Creating a low carbon future for the public sector. (slightly edited)*

The Carbon Trust estimates that projects implemented as a result of its public sector management programme are already saving more than 500,000 tonnes of carbon dioxide a year, and producing annual savings of £36m on energy bills (Dudman, 2009). Local authorities, universities, and other public bodies are aware of the pressing need to be seen to be acting to reduce their negative environmental impacts; in The Carbon Trust, they can find the expertise, freely available, to help them realize their goals. In this way, the Carbon Trust- a public sector innovation- successfully feeds public sector innovation in a virtuous circle that is moving the UK towards a low carbon future.

### 3.2 Territories in residence - La 27<sup>ème</sup> Région

Territories in Residence (Territoires en residences) is a programme managed by France's 27<sup>ème</sup> Région – it is an innovation lab designed to support public actors at the regional level and help them face technological as well as societal challenges. La 27<sup>ème</sup> Région, as a research-action programme, is supported by the French Regions Association (ARF), the Caisse des Dépôts (French public investment bank), as well as by the European Commission (Europ'Act programme).

The Territories in Residence programme aims at finding solutions to issues and problems faced by public places, public equipments, as well as their actors and users. These public places can be high schools, universities, service desks, train stations, parks, incubators, museums, city districts, etc. When a project is launched, an interdisciplinary team composed mainly of designers (notably service designers), architects, sociologists, anthropologists and researchers is mobilized for three months. During this three-month period, the team spends three weeks in immersion: in the concerned place, together with its actors and users, and more generally in the territory, in order to experience real life there.

Such actions have so far been conducted in several French regions. The launch of an action derives from a common interest from local authorities, the actors of the concerned place and the team of La 27<sup>ème</sup> Région. A convention is signed between these actors, in order to provide the actions with a



proper legal framework. This convention does not describe the results to be attained, but rather testifies for an agreement on the methods to be used.

### **Objectives & Methods**

This is due to the fundamental principle behind Territories in Residence actions: teach people how to fish rather than feed them. These actions are thus no technical assistance. They aim at unfolding a creative process over a relatively short period of time, until a solution is found. This solution doesn't need to be a radical change but must at minima be disruptive enough not to allow the place and actors to keep functioning as they are used to. The main point is for local actors to seize the process and be able to apply it on their own afterwards.

This process is based on few basic principles: interdisciplinary teams, immersion and co-conception. In order to assist actors in transforming their daily experience into tailor-made solutions, the mobilized team counts thematic experts (for example researchers in the addressed field), as well as persons whose expertise lies in interactions with people and aims at transforming their needs into solutions (sociologists, anthropologists, service designers...)

Although adapted to each situation, all actions follow a common time-scheme. The three weeks in immersion are for example organized as follows:

- Week 1: identification of a problem that can be solved within the allotted 3-month time
- Week 2: co-elaboration (team + actors) of a solution to this problem
- Week 3: results presentation, in coordination with local actors.

Since the solution-finding process is the main output of an action, transparency is a major factor. Each residence is thus documented on a regularly updated blog, gives way to exhibitions, to publications... It is also presented to the French Regions Associations, in order to provide public actors from various regions with thinking material and ideas of methods.

### **Actions**

Territories in Residence plans around 15 actions over the next two years. So far, seven actions have been undertaken.

One of these was recently devoted to the renovation of a Champagne-Ardennes high school, located in an economically depressed area and isolated from the city centre. The Territories in Residence team chose to focus on the following question « how to open the campus? » Together with the students, their parents and teachers, service designers, architects and researchers in the field of education produced two types of solutions: immediately enforceable actions (an internal communication system was built in half a day), as well as longer term prospective scenarios, setting the way for the coming years. Local actors have lived this residence very positively and the Région Champagne-Ardennes is now willing to renew the operation. An agreement was found for a second high school, but La 27ème Région wishes to end its actions in this field after this new mission: the aim is for regional and local authorities to engage similar processes on their own in all concerned high schools.

Another action was conducted in a care centre located in a small, isolated town of Auvergne; another within a Regional Council, in order to examine the conditions of work of elected representatives; and a third focused on a social IT network in a district of Rennes (Bretagne).

The 27<sup>th</sup> Région values the status of this lab status, which allows it to break free from major administrative constraints, and to address issues with a transversal perspective. This is a major positive point, as compared with the organization of local and regional services in separate and relatively compartmentalized services (urban development and education services do not systematically communicate on high school issues).

However, the team also insists on its final objective: empowering public actors rather than actually replacing them (Basset, 2009). The strategy is thus to introduce process innovation within regional public organizations, through concrete examples.

### **3.3 Kafka Brigade - First Aid for Bureaucratic Breakdown**

Kafka initiatives are being observed in both Belgium and Netherlands and aim at supporting citizens and public servants struggling with dysfunctional rules, regulations and procedures.

In the Netherlands, the Kafka Brigade is an independent, non-profit action research team and assesses red tape from a citizen's perspective. It gathers together all involved front line workers, managers and policymakers around particular cases. The Kafka Brigade uses action research methods to draw more general lessons from every case. As it moves from problem identification to solution, the Brigade taps into and builds on the expertise of the civil servants who are ultimately responsible for improving and sustaining the public organisation's performance.

The Brigade's unique research method allows it to quickly diagnose and remedy the key problems standing in the way of top quality service. To determine where and why a bureaucracy had broken down, the Kafka Brigade puts itself in the shoes of the people whom it serves. All public (or semi public) organisations exhibiting serious signs of bureaucratic breakdown and dysfunction can benefit from the Kafka Brigade's expertise.

➤ Case selection with the client

Together with the client organisation, the Kafka Brigade selects cases that are exemplary for the larger problem at hand. The case research is never just about an individual problem – it is about drawing lessons from concrete, real life situations that may be applied to a broader group of citizens.

➤ Putting the citizen front and centre while involving all stakeholders

In order to fully understand the roots of excessive bureaucracy, all stakeholders are invited to contribute to the analysis: citizens, civil servants, public managers, policy makers and government officials. The Kafka Brigade involves them in the problem definition as well as in the discussion of solutions.

➤ Rules are necessary, but may be implemented much better

Laws, rules and procedures: they are necessary for a well functioning government. But certain rules and procedures can undermine the effectiveness of others or, over time, unintentionally give rise to altogether new problems. The Kafka Brigade excels at helping public organisations and civil society cut through unnecessary, problematic or outdated red tape.

➤ Under the radar

The Kafka Brigade sees itself as “flying under the radar”, avoiding media exposure for the project during the research. This discreet approach provides the Kafka Brigade’s clients with space to honestly reflect on their practices and develop solutions without being subjected to distorting media pressure, messages or timelines.

➤ Creating a safe environment: public servants are part of the solution

Critical reflection and creative problem solving flourish in an environment where individuals are commended for their honesty and supported for their willingness to put forward new ideas and challenge each other’s assumptions. With this truth in mind, the Kafka Brigade strives to provide a safe yet stimulating environment for all project participants.

Since 2005, the Kafka Brigade has produced a wealth of structured empirical case material on excessive bureaucracy in public services and law enforcement:

- Registration of employees and prevention of illegal labour and tax evasion
- Facilitating immigrant entrepreneurs in the food sector
- Services for NEETs (Juvéniles who are Not in Employment, Education or Training)
- Complex application of building licenses for small structures
- Inter-agency co-operation in infrastructural projects
- Gate keeping procedures for medicare
- Colliding administrative demands from different agencies
- Voucher administration in ancillary services to the chronically ill
- Restaurant licensing procedures
- Re-integration of former inmates in society
- Red tape in the administration of immigration
- Burdensome application procedures for legal documents
- Dysfunctional ‘One-stop-shops’ for business licensing
- Red tape in child protective services
- Regulations for volunteers assisting disabled people
- Re-integration of structurally unemployed people in the labour market
- Excessive bureaucracy bothering multidisciplinary teams of educators

The Kafka Brigade is a partner in the international research project *Improving Access*<sup>7</sup> which enables further analysis of these cases. The project is developed by an international group of researchers and practitioners interested in innovations in democratic governance, such as the Ash Institute for Democratic Governance and Innovation at the Harvard Kennedy School and the Centre for Government Studies at Leiden University in the Netherlands.

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<sup>7</sup> [www.improvingaccess.org](http://www.improvingaccess.org)

## 4. Exploring the rationale and possible European support actions

### 4.1 Scope for action

#### The EU framework

Public sector issues do not fall easily under EU influence foremost because the organisation of public services and public sector commitment vary considerably from one country to another. This diversity of models has caused many difficulties in defining public services at the European level. As a result, EU texts now refer to general-interest services without delimiting the boundaries of this notion:

*Although their (services of general interest) scope and organisation vary significantly according to histories and cultures of state intervention, they can be defined as the services, both economic and non-economic which the public authorities classify as being of general interest and subject to specific public service obligations. This means that it is essentially the responsibility of public authorities, at the relevant level, to decide on the nature and scope of a service of general interest. Public authorities can decide to carry out the services themselves or they can decide to entrust them to other entities, which can be public or private, and can act either for-profit or not for-profit. (COM(2007)725 Final)*

"General-interest services" are services considered to be in the general interest by the public authorities and accordingly subjected to specific public-service obligations. They can be categorised as non-market services (e.g. compulsory education, social protection) and obligations of the State (e.g. security and justice) as well as services of general economic interest (e.g. energy and communications).

In accordance with the principles of subsidiarity<sup>8</sup> and proportionality, the EU works within the limits of the EC Treaty and respects the diversity of situations in the Member States and the roles of national, regional and local authorities. To this respect, many EU rules do not apply to the first two categories (non-market services and state obligations) but only services of general economic interest. Services of general economic interest are mainly provided by large firms which are subject to a degree of competition and market regulation (e.g. the directive on services in the internal market). Innovation in the provision of these services is similar to innovation processes in oligopolistic sectors for which public authorities have various types of support actions at their disposal (standards, public procurement, contract specifications, state aid, etc.).

However, there is still a basis for EU level action regarding the public sector, especially through the specific focus of innovation support policies. Firstly, subsidiarity means that some issues can be better faced at EU level. For instance, some societal and environmental challenges are best addressed at the EU level and the role of public sectors is quite often central to these kinds of challenges. Also, it has been shown that diffusion of innovation in the public sector is very limited and needs to better cross borders; this would suggest the utility of a specific support scheme from the EU. Citizen's rights and protection is also a foundation for considering policies in the public sector field since the EU promotes equal treatment and universal access to public services and claims that citizens, consumer and user rights should be specified, promoted and upheld.

Of course, these potential actions would largely consist of flexible policies, such as support activities or Open Coordination Methods, as very little regulation could be envisaged in this area.

#### Levels of action

<sup>8</sup> Principle whereby the Union does not take action (except in the areas which fall within its exclusive competence) unless it is more effective than action taken at national, regional or local level.

The following list has been elaborated by cross-checking the identified barriers / drivers and the EU policy framework. Several rationale levels can then be described:

➤ “Technical / operational level”

The main focus here is supporting innovative practices and their diffusion throughout Europe, regardless of their aim. In order to reach this level, for which front staff and middle managers are directly accountable, the EU needs to facilitate cross-border initiatives and overcome some technical barriers (language, administrative structures, etc.) in order to harness the full advantage of cooperation. This could lead to a path toward the Mutualisation of risks and results.

➤ “Legal level”

EU policies have led to higher mobility for European citizens, to promote this trend, efficient public services at the adequate geographical scale must be pursued (subsidiarity principles). Action needs to be taken in order to ensure the harmonisation or at least interoperability of certain services between regional / national public sectors and will require innovative solutions and practices. The materialisation of European citizenship is linked to the development of consistent policies and systems as regards education, healthcare, taxes, retirement schemes, citizen’s protection or justice between all Member States.

➤ “Political level”

Considering the subsidiarity principle, some societal and environmental issues need to be tackled at the EU level (greenhouse gas emissions, ageing population, immigration, natural resources management, etc.) and public sectors have a great responsibility in leading innovation to develop common answers to these communal challenges. The general motivation here is to gain financial and social economies of scale (to optimise the resources engaged and expected results) and to avoid free-rider behaviours.

➤ “Institutional level”

This level relates to innovation within EU institutions and between the EU and national/regional/local services. The aim is to improve multi-layer governance in the European Union and to minimise systemic failures. Such an approach would notably enable the better mainstreaming of grand policy issues and to orient policies more towards citizens (efficiently take mainstreaming topics into account).

While exploring these levels of action, it is however important to pay attention to the following points:

- The specific nature of experiment and risk: public services are due to be equally delivered to all citizens, which makes experimentation more difficult than in the private sector, where only a segment of the population can be tested. It also makes the risk higher (failure in the delivery of public services, especially in some fields like health or education can be disastrous).
- Balance must be ensured between interoperability and confidentiality (sensitive data manipulated by the public sector) and between interoperability and tradition in public sector organisations.

- Balance must also be ensured between the will to address a common challenge in a unified way and local/national traditions regarding the scope of public services.

The following table presents several options for consideration in terms of innovation support initiatives carried out at the EU level.

Table 9: Scope for action at the EU level

Technical	<ul style="list-style-type: none"> <li>- Information (what's happening, where)</li> <li>- Communication (diffusion of initiatives / methods / results)</li> <li>- Supporting programmes and funds, notably for cooperation at local and regional levels (not necessarily excluding the national level)</li> <li>- Further research activities, experimentation, etc.</li> </ul>
Legal	<ul style="list-style-type: none"> <li>- Citizens-rights-driven innovations (treaties, regulations, directives): mobility, equal treatment &amp; application of Subsidiarity principle</li> <li>- Services of general interest</li> <li>- Supporting programmes and funds for cross-border cooperation towards more harmonisation and interoperability</li> </ul>
Political	<ul style="list-style-type: none"> <li>- Broad political dialogue (at EC and world level)</li> <li>- Setting objectives and targets</li> <li>- Services of general interest (general agreement on public services)</li> <li>- Subsidiarity and regional / cross-border cooperation</li> <li>- Benchmarking / EU – world cooperation</li> </ul>
Institutional	<ul style="list-style-type: none"> <li>- EC institutional organisation and functioning (horizontal governance)</li> <li>- Reinforcement of collaboration between EU institutions, national and regional agencies (vertical governance)</li> <li>- Follow-up and evaluation of EC action: quality criteria</li> <li>- Cooperation with external / international bodies: International Public Sector Accounting Standards Board (IPSASB) or EUPAN for example</li> </ul>

## 4.2 Existing European initiatives

Although they are not necessarily labelled as “innovation programmes”, many EU schemes indirectly aim at supporting innovation in Europe’s public sectors, for the provision of more efficient public services. These initiatives principally pursue two objectives:

Innovation pushes:

- Installation of a new system (ECTS for example, e-government) and subsequent transformations / innovations,
- Support programmes to new initiatives, scaling up and replication.

Diffusion of innovation:

- Coordination of existing schemes / services: cooperation support programmes,
- Best practices exchanges, learning platforms.

Many existing initiatives focusing on the public sector's improvement can be identified at the EU level and are potential lever for stimulating innovation and its diffusion. For that reason, a first important step would be to better organise what already exists and to put emphasis on innovative practices. This would basically consist in mainstreaming existing EU programmes dedicated to public sector improvement. The European Commission would then complement this by filling in the gaps rather than attempting to create a whole plan from scratch.

The list below is not exhaustive but illustrates the type of EU projects that are (or have been) potential innovation drivers for the public sector.

- E-government: IDABC (Interoperable Delivery of European eGovernment Services to public Administrations, Businesses and Citizens) Horizontal measures
  - STESTA is the European Community's own private, IP-based network. STESTA offers a telecommunications interconnection platform that responds to the growing need for secure information exchange between European public administrations. It is a European IP network, similar to the Internet in its universal reach, but dedicated to inter-administrative requirements and providing guaranteed performance levels.
  - eLink is a middleware solution developed by IDA which provides a range of services for information exchange primarily between public sector authorities. It also caters for data exchange between citizens and the public sector, and enterprises and the public sector. In short, eLink allows government bodies to cooperate and offer services online to businesses and citizens. The middleware's role is to mediate between distributed and heterogeneous applications while providing them with a set of generic services (messaging, directories, security, authentication, transaction, etc.).
  - eID interoperability for PEGS (Pan-European E-Government Services). Pan-European eGovernment services (PEGS) are digitally provided public sector services that significantly contribute to creating a pan-European dimension of public administration.
  - epractice.eu provides eGovernment practitioners access to information and practice exchange on eGovernment throughout Europe  
(See also: IDABC Projects of Common Interest, by policy area)
- Europe Innova standards networks (ended in 2008) such as the following projects: **S**Tandards in **E**uropean **P**ublic **P**rocurement lead to **I**nnovation, **B**ioHealth, etc. Lead market initiative is now carrying on the work on standards and public procurement especially in health and construction.
- Framework Programme for Research and Technological Development: Several successive research projects such as the PUBLIN project (FP5) or ServPPIN (FP7) which focuses on the role of public and private services on growth and welfare and the particular role of public-private innovation networks.

**Thematic / sectoral:**

- Education and training
  - European Credit Transfer System / reorganisation of universities
  - Transversal programmes for policy cooperation and innovation in lifelong learning (DG Education)
  - Cooperation and bilateral agreements in the field of education (US, Canada, India, Israel, etc.)
  
- Healthcare
  - EU coordination of national social security schemes & Eulisses website
  - Second programme of Community action in the field of public health (Consumer Programme 2007-2013)
  - PROGRESS
  
- Transport and urban planning
  - Urbact I/II
  
- Natural and industrial risks management & environment
  - IDABC Project of Common Interest: LISFLOOD Alert. On-line information system for early alert on floods
  - Life + Environment - Policy and Governance
  
- Security
  - Criminal justice programme
  - PERICLES & Hercule II programmes
  
- Administration / Taxation
  - PROGRESS
  - Fiscalis 2013
  - CIP –Entrepreneurship & Innovation, action for economic and administrative reforms in the field of enterprises and innovation.

The mid-term evaluation of URBACT (2006) has identified several issues of great importance for further EU programmes for public organisations, especially horizontal and vertical compartmentalization, which have already been highlighted in this mini study:

- The diffusion of good practices and capitalisation on lessons learnt were mentioned as a transverse objective for URBACT. This was supposed to be done through “standard tools” such as workshops, visits, methodological booklets. But it appeared that failures were hardly communicated because it is considered as bad territorial marketing. A need for better coordination of capitalisation actions was required at the operational level, not only at the sole project leaders’ level. In terms of diffusion, the thematic reports and workshop results were used by the German ministry for transports, construction and urban development to prepare Germany’s EU presidency on related issues. Diffusion and capitalisation now count among the goals set to INTERREG 4c.



- Despite good overall results for the project, the potential outcomes were limited notably because of the lack of cooperation between urban and regional development initiatives such as URBAN.
- Almost no use was made of measure 1.2 that aims at identifying skills shortage and financing action at EU level to train civil servants and elected representatives to urban regeneration. Training was not seen as a priority in view of budget constraints and the solicitation of private expertise was not considered enough. Issues related to skills and human capital are a major issue for the public sector.

### 4.3 Suggestions for the EU policy

#### General remarks

As regards the public sector and especially action at the EU level, it appears that merely focusing on the means (innovation) is probably not the most appropriate approach. A major emphasis should first be given to challenges and expected improvements. The resolution of strong political goals, concerted at the EU level, has led to major innovations, such as the effective implementation of the European Credit Transfer System or the European citizenship status and resulting actions (notably Social Security systems' interoperability). Efficiently addressing global societal challenges obviously also relies on initial strong political choices.

Decomartmentalization and defragmentation, especially between domains, organisational levels and skills is required and would benefit from a European impulsion. Because of the complexity and interaction between numerous public sector prerogatives, public services design would benefit from wider skill-mixes and better interactions between departments and agencies and thus would avoid systemic failures. The European Commission can actively contribute by practicing and showing the benefits of such an approach. Also, collaborative projects implemented at the EU level would certainly attenuate internal / everyday hierarchical constraints and 'silo' thinking.

EU actions should also strongly encourage risk taking and experimentation. Due to the breadth of the concerned areas and to the specific nature of risk, this is maybe one of the most important roles for the EU as a Community.

#### Proposal for potential EU actions

##### Action type 1 – Awareness activities, competitions, indicators

Objective: provide all-level actors with information (whatever the origin: top-down, bottom-bottom, bottom-up) and enable self-measurement and impact assessing.

- Information / awareness activities (press, fairs, etc.). Encourage press releases related to public sector innovation. Contact local and national press organisations already addressing these issues in order to create a yearly special issue, for example. It is important for this awareness campaign do avoid the risk of "propaganda" criticism by keeping EC action for marketing EU actions rather than providing objective information.

- Friendly competitions and value-driven acknowledgment. Some awards already exist at local, regional, national and EU level. However, the visibility of these initiatives needs to be improved for example by including laureates from local contests in European events or encouraging the evolution and harmonisation of criteria in line with recent research.
- Indicators, metrics, measurements (set of indicators for public services quality / public sector innovation). The EU should encourage the development of methods for assessing public sector innovation and improvement by supporting initiatives (such as the *Network for measuring public innovation of the DIUS / NESTA Index*) but also by launching parallel projects as it seems that there are numerous approaches and hypothesis that can be adopted. Following this, the EU could start gathering the outcomes, organising consultations and broadening participation among administrations and citizens and opt for a methodological frame of reference.

**From GRIPS Inno-Policy Workshop 5** <sup>9</sup> - Elaboration of an index of innovation in public services

In order to efficiently cooperate, EU public sector actors need to rely on indicators that can be shared and understood throughout Europe which would allow them to share relevant information. The development of an index of innovation in public services was therefore proposed as a potential action.

The construction of this index would first imply the identification and definition of a set of criteria that can assess innovation in public services and help actors in Europe exchange information, tools and methods. These elements could, for instance, propose answers to the following questions: can the innovation be scaled up or down to organisations of other sizes? Can it work well in different sectoral, cultural or regulatory contexts? How can service design be effected for the new circumstances, and what actors will need to play what roles in implementation and delivery?

The construction of this index could rely on existing studies on the topic, as well as on the consultation of European public sector actors. The index would then be made available on a public platform and regularly updated.

### Action type 2 – Demonstrators and upscaling

Objective: To provide support to all activities liable to give way to innovation, to its diffusion and scaling-up.

- Support programmes for co-creation and scaling-up. As these initiatives already exist in very diversified policy areas, the new approach from the Commission would be to organise calls for tenders by joining efforts between DGs, in order to face global / transversal challenges (see previous sections). Specifications would include requirements concerning the development of effective diffusion activities as regards the methods used (replicable elements) as well as the specificities of the places where the action was conducted (limits to replicability).

<sup>9</sup> GRIPS Workshop on [Public sector innovation to address societal challenges: Enhancing innovation in public services through transnational cooperation](#), 28-29 October 2009, Brussels.

**From GRIPS Inno-Policy Workshop 5** - Encouraging cross-national alliances, cross-sectoral and holistic approaches

This suggestion also provides a potential solution to identified challenges and proposes the creation of experimental frameworks for actions. The idea here would be to create ad hoc initiatives to support transnational cooperation between public sectors (from at least three countries) on a pre-identified topic.

Such initiatives could help address specific societal challenges through cooperation in targeted contexts. They could draw inspiration from the way URBACT projects are organized and managed.

- Development of exchange platforms. Some initiatives already exist here, within the frameworks of the various ongoing programmes. The following steps would be to create a “public sector initiatives” platform that leads visitors to project information along different classifications: policy areas or type of public sector concerned. It could be the same platform as for the indicators index.

### Action type 3 – Tools & methods for creativity and innovation management

Encourage the use of tools and methods that lead to innovation.

- Enhancing skills for service design. Create or support the creation of innovation credits and/or vouchers to favour consultation of relevant intermediaries by public services (public or private research organisations, consulting companies, etc.). These credits would also support civil servants exchanges on various selected issues – including EC workers.
- Creation, but not management, of a specific public services innovation-oriented venture capital fund. This fund would be specifically aimed at supporting activities that regular / functioning budget allocation (local, regional, national) would not finance because of high risk and uncertainty. Reimbursement would be based on expected returns (cost reduction, new assignments / grants, fees, etc.)

Innovation labs and living-labs: several field experiences and consultations have shown that these approaches are specifically appropriate to public sector functioning and challenges. EC support actions would include networking, Transcalls (encouraging collaboration between public-private organisations, different disciplines and geographical origins), Summer schools / camps, workshops; scholarships and secondments as well as the implementation of an Improvement Lab that could carry out community surveys, provide a hotline (peer-to-peer) and self-assessment (Thenint, 2009).

**From GRIPS Inno-Policy Workshop 4<sup>10</sup> - Innovation laboratories to encourage experimentation**

Such an action would aim at creating and supporting innovation laboratories for public sector and public services innovation. Innovation labs already exist in some places (MindLab in Denmark for example and La 27e Région in France). They can either be physical places or frameworks for action. Their objective is to enable the initiation and launch of pilot projects and the experimentation of collaboration between various actors. Such labs could be an efficient option in views of some of the challenges faced by public sector innovation: aversion to risk (and the need for experimental options), the need for interdisciplinary approaches, adaptation of methods used in former projects, transnational projects, etc.

The role of the EU in such an action could be to encourage the creation of new labs dedicated to innovation in the public sector, as well as to organize, support and enhance innovation labs' networks throughout the EU.

- Further support to transversal actions: ICT and e-government. Drawing on research and experiments made at local scale.
- Research: Further activities could be carried out through the next EU Framework Project for Research & Development, which would focus on widespread experimentation and citizen empowerment.
- Organise citizen and civil servant participation. The EU could arrange a "citizen involvement charter" that would detail features such as consultation vs. decision, modes of consultation, etc. In addition one could consider the creation of a portal to gather users' experiences or the development of the functions of the European ombudsman and encourage the creation of such ombudsmen at national and regional scales. The EU should also encourage civil servants' consultation, also within the EC.

Action type 4 – Standards, frameworks, legislation

- Using hard and soft regulation to push forward more innovative practices within public sectors. For example the 2002 European Interoperability Framework that gave way to PEGS (Pan European E-Government Services) and to the IDABC programme.
- Encourage certification such as ISO 9001:2008 and ensure full visibility and diffusion of some adopted methods (see also action type 3). *"ISO 9001:2008 is the standard that provides a set of standardized requirements for a quality management system, regardless of what the user organization does, its size, or whether it is in the private, or public sector. It is the only standard in the family against which organizations can be certified – although certification is not a compulsory requirement of the standard."* ([www.iso.org](http://www.iso.org))
- Provide a framework and guidelines for public private collaborations and broaden EU policy as regards public procurement. Links have to be made with skills development issues (for the elaboration of specifications, project follow up, etc.).

<sup>10</sup> Labs for a more innovative Europe, 12-13 October 2009, Copenhagen.

## Conclusion

It appears evident that the public sector has a great potential for innovation, but that this is still not sufficiently recognized or seen as being as valuable as it can be. The limits of public management theory and practice, mixed experiences with privatisation, and growing socio-economic and environmental concerns – all of these have highlighted the crucial role of the public sector in our society. However, because of increasing budget constraints, European countries need both better and cheaper public services. Innovation in the public sector can make a profound difference in improving service to the public and creating public value. This is why innovation in the public sector is liable to be particularly significant when it has such features as:

- Addressing grand challenges;
- Fostering a more democratic society;
- Championing social equity;
- Changing the way a government organization operates so that it better achieves its goals;
- Achieving substantial savings (or even earnings) in government operations;
- Forging a trail for other innovation leaders in policy bodies.

This mini study's examination of the nature of innovation in the public sector has led to the identification of specific barriers to such innovation, among which the main barriers include:

- Restrictions on risk taking (risk aversion / failure is not socially acceptable)
- Political pressures (electoral cycles, campaigning against change from political opposition and media)
- Compartmentalisation and weak diffusion of information within and across public services (silo thinking, limited flow of ideas across national barriers, absence of follow-up)
- Lack of responsiveness towards citizens' expectations, inadequate customer relationship management
- Lack of leadership and incentives for experimentation and innovation
- Inadequate resources (failure to anticipate the costs and skills required to successfully roll out an innovation)

A range of support actions that could reduce such barriers has been reviewed. The following emerge as being particularly relevant:

### ➤ Political push and goal setting

Policy-makers and high-level managers should first focus on the objectives and expected improvements for public services. Whether addressing environmental (water and energy consumption, reduction of individual transportation, risk management, etc.) or more societal challenges (inclusion, health prevention, employment and training, etc.), it is frequently helpful to establish and promote targets and adjust regulations to enable change. Targets need to be sensitive, of course, so that they do not lead to misallocation of results or distortion of practices in ways that change the meaning of the indicators. Policy-makers main role should be that of setting goals, while the specific targets, means and resources to be employed will often be better elaborated and implemented by the public sector and other concerned stakeholders.

### ➤ Experimentation and upscaling

Having access to specific tools and a workspace, and perhaps funding, for innovation is common in the private sector. Similar facilities could enable civil servants to feel more comfortable in creating and experimenting without having to cope with everyday constraints and political instability.

However, experimentation alone is not sufficient as it risks creating projects that remain “experimental”- disconnected from other potentially concerned organisations. Creation and prototyping needs to be accompanied by trial and error testing and exploration of feasible routes to upscaling. It is also very important to continuously demonstrate and promote the benefits and operational practicalities of such initiatives (see next point).

➤ **Monitoring and communicating**

There is a need to better communicate “success stories” and good practice, and to provide continuous information on innovative practices and improvements within the public sector. This issue may not be so important for the private sector (where success stories generally come up quickly on the radar), but public organisations have much less visibility worldwide (except when things go dramatically wrong). However, they positively need to show the benefits of their innovations to policy-makers, colleagues and to the general public so as to secure co-optation, adoption and accountability. In order to do so, public organisations and civil servants must be able to visualise and communicate the impact of their potential innovations, and assess subsequent improvements. Such tools and methods need to be developed and deployed more widely (and disconnected from official evaluation exercises).

➤ **Co-creation and empowerment**

Debate on who (public, private, voluntary sector) should do what in public services is still ongoing. Despite the evident problems with efforts to simply emulate market-based management practices in the public sector, it is clear that different sectors have much to learn from each other. The public sector can benefit greatly from experiences in the private sector and civil society (citizens and the third sector). Public organisations generally limit their collaboration to strict outsourcing or consultation. Long-term dialogue and empowerment requires radical changes in organisation and behaviour within the public sector, so that it is better able to assess its own needs and capabilities for collaboration and learning through collaboration. As regards the private sector, public procurement can be seen as a strategic lever of action; conditions for public-private development projects for new services development or the application of new technologies should be investigated. Empowerment requires subsequent initial investment and the adoption of new practices within a public organisation. Beyond consultation and co-optation processes, the third sector may be a promising field to support., as a source of social innovation and as an early warning of emerging social needs and demands.

➤ **Skills improvement and human resources management**

As public sector performance mainly relies on human capital, human resources management is a key innovation driver. While public services have large shares of highly trained professionals, they are often located in rigid and compartmentalised organisational hierarchies. Risk management, co-creation and mainstreaming require multidisciplinary, leadership and project management skills. In this respect, action should be taken in favour of long training, recognition (including non-financial rewards), mobility and staff exchange, and a diversification of leadership. Such measures can help to build a culture of public sector improvement, and innovation – and perhaps contribute to the innovation culture more generally.

### **The role of the European Union**

At first, the role of the European Union may appear limited, because of institutional arrangements and state prerogatives. Beyond legal considerations, EU action may also be limited by the widely varying heritages of public sectors in different EU countries, which renders simple harmonisation or integration of practices very problematic.

However, this diversity can be an advantage, since it can enable parallel experimentation of different models or solutions. This European specificity could form a real asset for developing public sector

innovation. But it can only play this role if practices, results and improvements are shared and explicated across Europe. It is also important that this diversity not obstruct EU enterprises and citizen mobility, therefore a specific emphasis should be placed on “interoperability” of, for instance, regulations and professional standards and accreditations.

In this respect, one of the main roles of the EU is to push for more innovation in the public sector. This may be achieved by general awareness-raising, and through strong political signals (proposing objectives & targets, benchmarking performance across countries) and stimulating regulation (standards, etc.). Various policy areas that are not mainly seen as innovation- or even public sector-oriented could impact on public sector innovation. Examples include environmental and energy, migration and employment policies - such as greenhouse gas emission, inclusion, mobility, etc. In addition, appropriate regulations could be adopted not just on specific public services, but also on more generic issues such as regards public procurement.

Many existing EU initiatives relate to public service improvement, e-government and cross-border collaboration. An efficient and immediate action would consist in reviewing potential synergies between EU programmes, especially with a focus on innovation practice within these projects, and exploring ways of building on such synergies.

The EU’s role is also to facilitate the diffusion of information. Limited sharing of experience on practices across Member States still remains a barrier to the rapid spread of good practice. Information exchange should not be limited to communication activities or knowledge-sharing platforms of a routine kind. An effective network of practice and learning (study trips, skills / training programme, grants for further research activity, etc.) could be established. This network would be closely linked to activities and tools aiming at supporting experimentation where civil servants and other stakeholders may be able to create, prototype and test new techniques and practices (maybe not directly for their organisation?) in conducive environments. In addition, the EU role would be to improve dialogue between public and private sectors through various actions such as forums or guidelines for PPPs.

At both EU and national levels, support actions could also address the specific issue of incentives, recognition (awards, public service design label, ISO, etc.) and personal rewards (job opportunities within European institutions, creation of EU public services ambassadors, etc.

To conclude, European institutions are themselves a public sector. Their leadership in areas such as citizen-driven innovation, cross-border thinking and path finding is important to send positive signals and to act as a model for public sector bodies throughout Europe.

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