

# **Innovation in the public sector – an analytical framework and empirical evidence from Europe and beyond**

Rifka Weehuizen, UNU-MERIT, The Netherlands<sup>1</sup>

Constantijn van Oranje, RAND Europe, Brussels/Cambridge

Paul Diederer, AWT, The Netherlands

## *Abstract*

Innovation in the private sector is driven by competition, the market forcing firms to become more efficient and effective through technological and organisational innovation. In the public sector, this crucial incentive of the market is missing. Furthermore, while the private sector has a clear, quantifiable goal (maximizing profits) and has relatively clear-cut constraints (laws, regulation, capital), the public sector has a variety of complex goals which are not easy to quantify and evaluate, which are often not easily causally attributable to the activities of the public sector, and which cannot easily be compared in terms of costs-benefits in order to decide on allocation of resources.

Due to these factors, innovation in the public sector thus is typically much more difficult than in the private sector, and designing policy to stimulate innovation in the public sector is a formidable challenge. Surprisingly, innovation theory has largely ignored this challenge – even though the public sector is a very large sector in the economy (in many countries up to 30% of the work force is employed in the public sector, and up to 50% of GDP is processed through the public sector), and even though the quality of the public sector is essential for economic development and growth – as is becoming particularly and sometimes painfully clear in many developing countries.

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<sup>1</sup> Corresponding author, [weehuizen@merit.unu.edu](mailto:weehuizen@merit.unu.edu)

In this paper, a general framework for innovation policy for the public sector is designed, based on 32 interviews with policy-makers and practitioners involved in innovation in the public sector. The analytical value of the framework is tested by applying it to ten cases of public sector innovation in Europe and two in Asia (China and India). The cases all concern the implementation of eGovernment, and are effective in demonstrating the more general challenge of putting new technology effectively to use in the public sector.

Basically the paper distinguishes three basic strategies to stimulate innovation in the public sector: (1) increasing incentives (both intrinsic and extrinsic), (2) increasing information, transparency and learning, and (3) increasing autonomy.

Strategies to increase extrinsic incentives to innovate are for example the introduction of New Public Management (NPM), or, in more extreme, privatisation of public service provision – bringing it in the domain of the market. For this latter strategy, governments need to design markets where there were none, requiring sophisticated knowledge of market design. Strategies to increase intrinsic incentives are for example the creation of a strong public work ethos, through selection and socialization of employees, and effective human resource management creating a high-trust culture in which taking risks is rewarded rather than punished.

Strategies to increase information, transparency and learning are for example effective knowledge management using ICT, and enabling and stimulating good practice exchange. The strategy of increasing autonomy requires decentralization of decision power, deregulation, and effective accounting structures and budget mechanisms.

The case-studies deal with the implementation of eGovernment in the public sector in different countries – innovations in the heart of the public sector, in the middle of its ‘core business’. The cases show that in order to achieve successful innovation, a policy-mix has to be used. The creation of a learning network of public sector organizations builds on the advantage that public sector organizations have compared to market organizations: public sector organizations generally do not compete with each other and share the same goals and are to some extent dependent on each other’s success. At the same time however, bureaucracy and the ‘not-invented-here’ syndrome are real barriers to exchanging and using knowledge. The main change that

eGovernment is aiming for is the creation of one front-office and the integration of the back-offices (different public services). For this, chain-management is needed, meaning that the chain as a whole should be optimised rather than the parts. This requires a redesign of work organization and workflow to optimize the 'primary process' rather than derivative secondary processes (such as management), the removal of perverse financial incentives, and the creation of a culture of trust and entrepreneurship in the public sector.

Although the framework is based on empirical evidence from the public sector in European countries, the drivers, barriers and mechanisms at work are to a considerable extent typical for non-market organizations in general. Thus, it is expected that the framework can have important analytical value for increasing the understanding of innovation processes in the public sector in developing countries.