INNOVATION IN THE PUBLIC SECTOR:
OXYMORON, REALITY
OR CHALLENGE?

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PRESENTATION OUTLINE

1. SHOULD THE PUBLIC SECTOR INNOVATE?
2. OBSTACLES TO INNOVATION
3. AND YET IT MOVES...
4. TRADE-OFFS IN PUBLIC-SECTOR INNOVATION
5. INNOVATING IN GOVERNANCE: AN INSTITUTIONAL ECOSYSTEM FOR INNOVATION
1 SHOULD THE PUBLIC SECTOR INNOVATE?
“The important thing for government is not to do things which individuals are already doing, and to do them a little better or a little worse, but to do those things which at present are not done at all.”

JOHN MAYNARD KEYNES, The End of Laissez-Faire, 1926
MODERN STATES WERE NOT BORN TO INNOVATE...

ADMINISTRATION PARADIGM IN LIBERAL STATES UNDER THE RULE OF LAW

PRIMARY PUBLIC GOODS

CORRECTING MARKET FAILURES
Complexity of systems for producing public goods
Development of public services: the productive state
Expansion of the sphere of externality and risk containment
Promotion of productive development

...BUT THEY WERE FORCED TO DO IT AS THEIR ROLES EXPANDED IN CONTEMPORARY SOCIETIES
OBSTACLES TO INNOVATION
“If a federal program were established to give financial assistance to Boy Scouts to enable them to help old ladies cross busy intersections, we could be sure that not all the money would go to Boy Scouts, that some of those they helped would be neither old nor ladies, that part of the program would be devoted to preventing old ladies from crossing busy intersections, and that many of them would be killed because they would now cross at places where, unsupervised, they were at least permitted to cross.”

RONALD COASE, *Nobel Laureate in Economics* (1910-2013)
WIDESPREAD PESSIMISM

HOW TECHNOLOGY AFFECTS PRODUCTIVITY

PETER THIEL (Venture capitalist who backed Facebook)
“There is something special about Government. It has coercive power, so it is essential that you have a healthy skepticism of it.”

Public organizations should do as much as possible in-house.

Decision-making should be centralized.

Public institutions should be as uniform as possible.

Change is always for the worse. Never do anything for the first time.
AND YET IT MOVES...
From 2003 to 2004, public R&D accounted for more than 60% of all R&D in South Korea, the United States, the United Kingdom, France, Canada, Japan and Germany.

The US National Institutes of Health (NIH) are the world’s largest investor in the production of medical and biotech knowledge.

In 2014, for the first time, all 193 UN Member States have national websites. A large majority of countries provide users with basic search tools to locate content, and half of the UN Member States maintain an advanced search engine (UN E-Government Survey, 2014).

There have been numerous advanced developments in open data management in countries and cities.
Economies of scale and specialization have reduced costs and increased the quality of the experience (Narayana Hospital in Bangalore).

Professional roles in disease treatment are been redefined, especially in the case of chronic diseases (Mc Kinsey: 60% of global health care spending).

Clinical costs are been reduced through the advanced use of healthcare technologies in public-private partnerships.

In Brazil, the “Bolsa Familia” program provides subsidies to poor families whose children attend school and receive medical attention.
In the US, 1.5 million students have been educated in 500 charter schools, defined as “publicly funded educational start-ups”.

Half of the schools in the UK are largely autonomous “academies”.

In Sweden, a voucher system allows citizens to freely choose among publicly financed schools.

In the US, security, social inclusion and costs have been improved by replacing incarceration with the application of remote-control technologies.

ICREA, a program managed by a small public agency in Catalonia, has attracted 250 top-notch researchers. The extra cost is covered by funds from the projects these researchers secure through competitive bidding processes.
PUBLIC - SECTOR INNOVATION IS NECESSARY IN ORDER FOR COUNTRIES AND COMPANIES TO INNOVATE

THE INNOVATION CHAIN

Basic and applied research → Revision and pre-commercialization tests → Proven commercial viability → Large-scale deployment

Universities and government → Venture capital → Companies, private funds and securities markets

Ghosh and Nanda, 2010, cited by Mazzucato, 2014
TRADE-OFFS IN PUBLIC-SECTOR INNOVATION
3 IMPORTANT TRADE - OFFS

Discretion and flexibility ↔ Parasitism and usurpation

Socialization of risk ↔ Privatization of profit

Transparency and accountability ↔ Low profile and reservation
INNOVATING IN GOVERNANCE:
AN INSTITUTIONAL ECOSYSTEM FOR INNOVATION
• Should government be agnostic about who delivers public services?

• Innovation is almost always a public-private process.

• Public-private collaboration stimulates the creation of new companies and the development of technologies in various public service areas.

• But contracting things out can make life more complicated. New capacities are required.

• The way forward:
  - good regulatory and tax framework
  - well-selected partner
  - strategic leadership
  - balanced risk management
  - transparency, evaluation and accountability
• From facilitating to leading. “In innovation, the State not only ‘crowds in’ business investment but also ‘dynamizes it in’ – creating the vision, the mission and the plan” (Mariana Mazzucato, *The Entrepreneurial State*).

• What sort of leadership? “Information changes the nature of the relationship between individuals and authority” (Eric Schmidt and Jared Cohen, *The New Digital Age*).

• Big data: Leviathan or networked state?

• Public-sector innovation nourishes co-creation and co-production and feeds off of them.
A SYSTEM OF “MUTANTS”

• The rupture of uniformity. “Government is currently upset by the increasing emergence of mutants: new organisms spinning out of it” (Clayton Christensen, Harvard Business School)

• Decentralization and adhocracy: the keys to innovation-friendly design.

• Autonomy, stability, professionalism, minimalism: common characteristics of DARPA, ARPA-E (US), MRC (UK), ICREA (Catalonia), etc.

• The importance of development banks: CDB (China), BNDES (Brazil), regional banks.
• When the state becomes fragmented but innovation policies do not: how can you get mutants to work together?

• Cabinets, task forces, matrix structures, practice communities, public-private councils, etc.

• The role of the center. The problem of principal-agent designs in the Spanish and Catalan tradition of public administration.
• Traditional public administrations: internalizing procedures, externalizing talent. Innovation requires public knowledge-organizations.

• Public-sector innovation = high levels of skill in science, technology and executive capacity.

• Good salaries are essential to attracting talent to the public sector. Compensation practices in Singapore, the UK and Australia vs. local compensation practices.

• Success in the private sector is not always a guarantee of success in the public sector: Bloomberg vs. Berlusconi.
• Bureaucrats innovating? The burden of rules and the disincentives of the public function.

• What prompts bureaucrats to excel and deliver outstanding results?¹
  - A prestigious organization.
  - A career path linked to merit in the public sector, and perhaps in the private sector as well.
  - Belonging to a community of practice with high standards and recognized quality.
  - Prestige, social respect and appropriately high salaries.
  - Solid accountability mechanisms.

¹ Crespi, Fernández-Arias and Stein (eds.): ¿Cómo repensar el desarrollo productivo? Políticas e instituciones sólidas para la transformación económica. INTER-AMERICAN DEVELOPMENT BANK, 2014
SEPARATING INNOVATION FROM THE POLITICAL CYCLE

- The public sector often innovates in highly uncertain contexts that demand tolerance of failure and “patient funding”.

- It is important to build long-term political and social consensus. Public-private councils (Canada, Finland, Germany, Ireland, South Korea).

- The stability of innovative public organizations must be guaranteed.
  - Proper corporate governance
  - Professional management
• Monitoring and evaluation capacities are necessary in order to: a) abort bad projects early; and b) prevent usurpation in the implementation of innovation policies.¹

• Evaluation bodies and transparency rules are essential to learning and accountability.

• The social return on the public investment in innovation must be explainable, tangible and as direct as possible.

• Governments must develop specific education initiatives that encourage society to accept failure as an inherent part of innovation.

¹ WORLD BANK, 2008. Chile: Toward a Cohesive and Well Governed National Innovation System
The proportion of the world’s population living in cities has grown from 3% in 1800 to 14% in 1900 to more than 50% today. It could reach 75% by 2050.

“Local leaders are increasingly running much of India and China, which are home to a third of all humanity, from the bottom up” (Bill Antholis, Brookings Institution).

Cities are the locus of the knowledge economy. The denser the city, the more inventive it is: the number of patents per capita rises 20%-30% for each doubling of the number of people employed per square kilometer.

Local autonomy, the role of city governments and adequate resource provision at the local level are crucial factors that enable countries to innovate.
“Failure followed by success can make a legend in business, but second chances are hard to come by in the public sector.

Government leaders must be even more fearless than their private sector counterparts. They must dream big and then act boldly with the clear knowledge and understanding that failure is not without repercussions. In addition to public funds, public projects also require the investment of considerable political capital.

Let's give the public sector innovators the respect they deserve”.
