

## Institute for Government – LSE PPG Seminar Series: Innovating Out of Recession

**Speakers:** David Albury, Co-Chair, The Innovation Unit; Prof. Patrick Dunleavy, LSE Public Policy Group; Sir Michael Bichard, Executive Director, Institute for Government; and Stian Westlake, Head of Research and Policy, NESTA

### *Summary*

The next Government will face a challenging period of prolonged fiscal austerity, in which departments will inevitably have to do more with less. Radical innovations – delivering significantly better outcomes for significantly lower costs – will be key to expenditure management. There is some evidence to suggest that government departments and agencies tend to stockpile possible innovations to militate against future adverse fiscal conditions.<sup>1</sup> However, a culture of risk aversion throughout government forms a sizeable bulwark against the implementation of innovative solutions. If, however, the imminent challenges facing government are formidable enough, the time for overcoming this persistent inertia may be now.

This note begins by defining the concept of innovation, and how it is hindered by internal organisational barriers. The conditions required to foster tangible innovations in government are also covered. The note concludes with the discussion of a ‘thought experiment’ looking at how innovation in DWP might look in practice, and the impediments to such innovation. Ultimately, this note points to a need for a better understanding of the way that institutions and incentives affect the likelihood of implementing effective innovations in government.

### *Innovation and Its Impediments*

Innovation is not just invention, and it is not just technology. Rather, innovation is a process of invention, adoption, diffusion, and evaluation; where it is not just ideas themselves, but the successful implementation of those ideas that deliver effective innovation.

Mulgan and Albury provide a comprehensive list of organisational barriers to innovation:<sup>2</sup>

1. Reluctance to close down failing programmes
2. A culture of risk aversion
3. Over-reliance on high performers as a source of innovation
4. Delivery pressures and administrative burdens
5. Cultural reluctance to integrate new technologies
6. Lack of rewards and incentives for innovation
7. Short-term budget and strategic outlook
8. Poor skills in active risk or change management

As tax revenues continue to fall, government borrowing reaches unsustainable levels, and the next spending review looms, finance and strategy directors across Whitehall are conscious of

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<sup>1</sup> Dunleavy, P., Margetts, H., Bastow, S. and Tinkler, J., Pearce, O., and Bartholomeou, P. (2006) *Achieving innovation in central government organisations*. NAO, The Stationery Office, London.

<sup>2</sup> Mulgan, G. And Albury, D. (2003) *Innovation in the Public Sector*. Prime Minister’s Strategy Unit/Cabinet Office, London

the tough decisions that await them. But could the next Comprehensive Spending Review provide the catalyst for the 'perfect storm' required to generate the radical and compelling innovation required to reform government departments and service delivery bodies? In other words, where fiscal imperatives create greater demand for public sector efficiency, reduce levels of risk aversion, and strengthen incentives to innovate how can government capitalize on this situation?

The combination of long-term challenges (e.g. aging population), increasing pressures and demands on services (changing expectations), persistent issues with no known pathway to a solution (e.g. NEETS, teenage pregnancy), and recession leading to a massive contraction of public spending provide the ideal conditions to effectively 'shock' the public sector into radical reform through innovation.<sup>3,4</sup>

In the context of this 'perfect storm', government will need to find the appropriate balance between efficiency, cuts, and innovation. Finding this point David Albury has called 'getting the ICE balance right', whereby the public sector cannot rely exclusively on one or two of the above, but must employ all three in concert to create new models of services with significantly fewer resources.<sup>5</sup>

Over the last decade the attitude to innovation has been "it's nice to have", on the back of growth margins. But given the real-term budget cuts facing departments, government will need to "raise its game" in delivering innovation. Public service providers will need to deepen their understanding of innovation. In practice, this will mean:

1. Identifying the scale of ambition for innovation
2. Creating an innovation enabling framework of conditions
3. Developing local support at the delivery level of public services

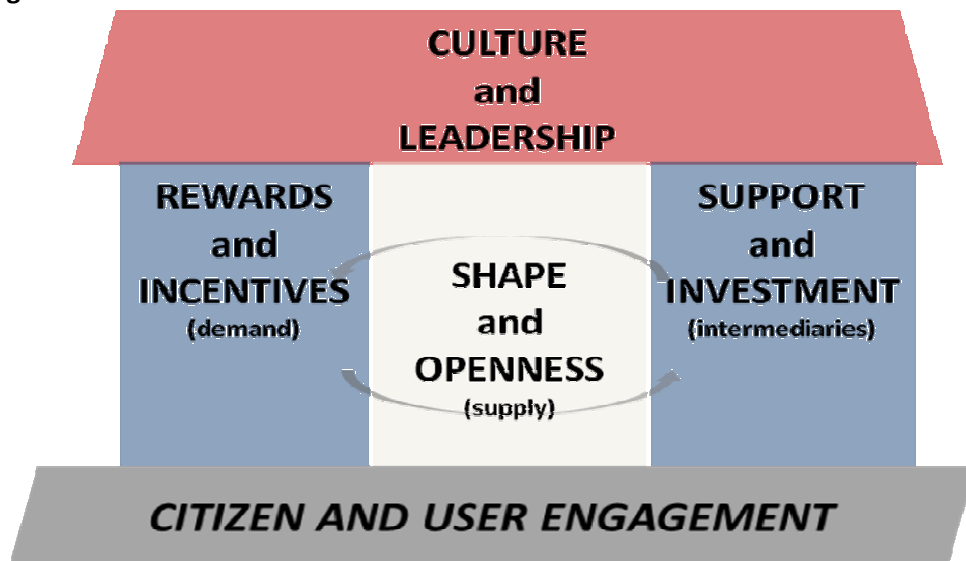
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<sup>3</sup> Albury, D. "Innovating Out of a Recession." Seminar, London School of Economics, London, 22 June 2009.

<sup>4</sup> Harris, M. and Albury, D. (2009) *The Innovation Imperative*, London: NESTA, <http://www.nesta.org.uk/the-innovation-imperative/>

<sup>5</sup> Albury, D. "Innovating Out of a Recession." Seminar, London School of Economics, London, 22 June 2009.

Figure 1



Source: David Albury, "Innovating Out of Recession", London School of Economics, London, 22 June 2009

Drawing on analysis from high performing, innovative sectors and organisations yields several key conditions for enabling innovation in the public sector. As illustrated in Figure 1 above, creating the enabling conditions begins with a strong base of citizen and user engagement. This means meaningful interaction with service users to inform the design of service delivery. Building on a base of citizen engagement, public service providers must deliver support for and investment in innovation. This will require organisations to provide 'focused funds' for innovation programmes and a disciplined support structure that does not just let 'a thousand flowers bloom'. Working in parallel with support and investment, clear rewards and incentives for innovation are required to create enabling conditions. Finally, culture and leadership at the very top of an organisation must reinforce the above set of circumstances.

### *Risk Aversion Illustrated*

A gathering of University Vice Chancellors a decade ago were discussing how they dealt with the 1980s' year-on-year 2% cuts in their "unit of resource". Common examples included adding numbers incrementally to seminar and tutorial groups, rationalising the number of modules offered, cutting coffee and tea for staff, using second class post, and reducing stationary supply costs. Effectively, the Vice Chancellors were cutting corners where possible each year. After this exercise, they were asked what they would do if they faced a 20% budget cut over the next period. All agreed they would have to think radically about the structure of their respective university, the courses taught, how services were delivered and their staffing arrangements. In short, major changes and, by extension, innovations would have to be made. In the context of fiscal constraints, a prolonged period of minor budget reductions will lead to stagnate and tired solutions from government departments and public service delivery bodies. Radical innovation will be a much more likely or necessary outcome if fiscal constraints are much more pressing and more immediate.

### *Innovation and the Department for Work and Pensions*

Patrick Dunleavy's *Digital Era Governance* develops a new framework for the understanding of public administration, offering a post-modern alternative to the New Public Management model.<sup>6</sup> The concept of digital era governance (DEG) claims to offer a new paradigm for thinking about innovation in government.<sup>7</sup> The emergence of ICTs has transformed the environment in which government operates, with the potential to radically change the way government organises itself, manages its information and data, interacts with citizens, regulates and delivers public services.<sup>8</sup>

The Digital Era Governance model is underpinned by four key broad reforms to the organisation of government and public services:<sup>9</sup>

- **Reintegration** – DEG calls for the reversing of the fragmentation of government and service delivery bodies that occurred under the New Public Management model. This requires a strong emphasis on joining up and the de-siloing of departments and delivery bodies. Reintegration also requires partnership working, developing new central processes, squeezing process costs, sharing services and simplification.
- **Needs-based Holism** – Moving towards the DEG model requires public services with client-focused structures. This should entail the redesign of services from customer contact to final service delivery.
- **Digitalization** – Ultimately, DEG should be driven by IT improving all public service delivery. This means moving towards the electronic delivery of services, centralized procurement, reducing intermediaries in the supply chain, making citizens do more, and isocratic administration.
- **Information Leverage** – How IT impacts the use of information is central to DEG. Better use of IT should lead to central management of information, new information structures and knowledge hierarchies, information democratization, and information-led empowerment.

Whilst the above principles of DEG provide a theoretical framework, it is important to understand how they could also be applied in practical public service innovation. The following 'thought exercise' provides a detailed example of how innovation in the context of Digital Era Governance could be implemented in the Department for Work and Pensions (DWP).

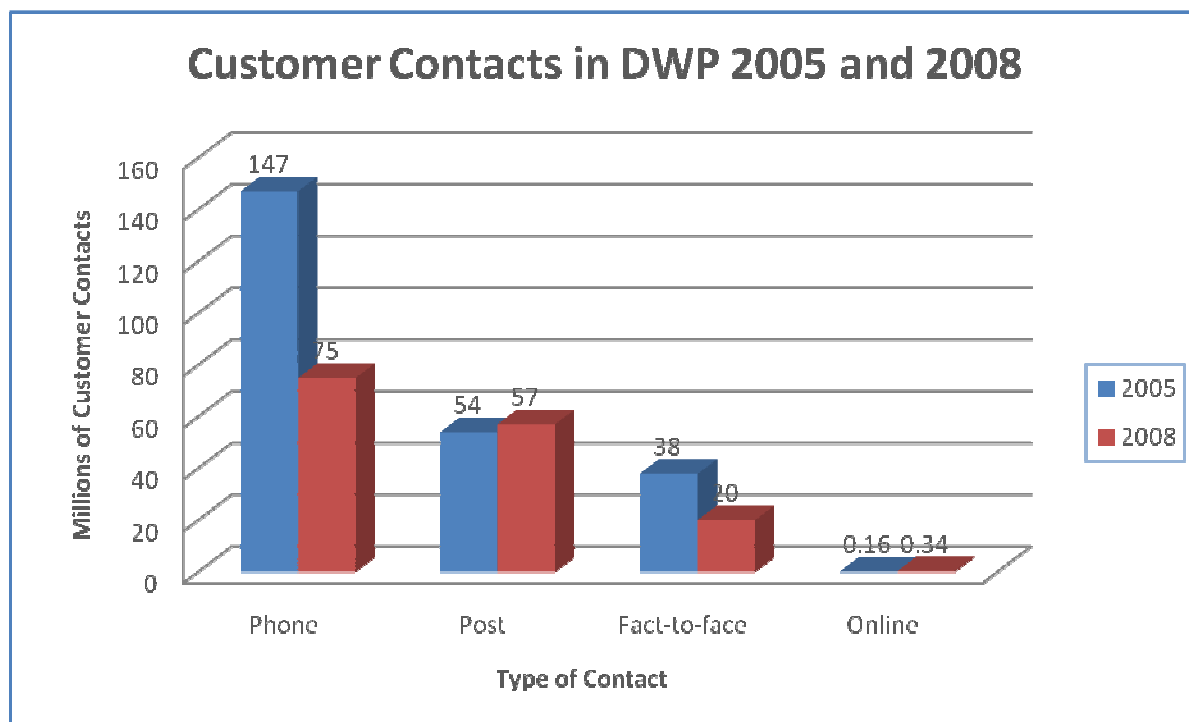
As illustrated in the chart below, by 2005 DWP had successfully made the move to manage its customer contacts primarily through the phone, with the remaining 92 million contacts managed by longer-established postal applications or face-to-face meetings. The number of online customer contacts registered was a conspicuously low 160,000 in 2005. Turning to the data for 2008, one would expect to see some significant increase in online customer contact volume, especially as phone calls were actually being cut back in this period. However, out of DWP's 145 million customer contacts in 2008, only 340,000 of them were in fact managed online. (Of course DWP provides extensive online information services, but these are not included in the definition of 'customer contact').

<sup>6</sup> Dunleavy, P., Margetts, H., Bastow, S., and Tinkler, J. (2006) *Digital Era Governance*, Oxford: Oxford University Press

<sup>7</sup> Dunleavy, P. (2009) *Innovating Out of Recession*, London: LSE Public Policy Group.

<sup>8</sup> Dunleavy, P. (2009) *Innovating Out of Recession*, London: LSE Public Policy Group

<sup>9</sup> Dunleavy, P. (2009) "Innovating Out of a Recession." Seminar, London School of Economics, London, 22 June 2009



Source: NAO, Communicating with Customers in DWP, May 2009

To understand this puzzle it is important to recognize that by 2005 DWP's move into phone-based services had produced an unexpected by-product – they had created a large number of unproductive phone contacts. Subsequently the Department worked hard and successfully to cut back these non-value-adding phone contacts, reducing them by almost half. This largely accounts for the fall in DWP's overall number of contacts from 239 million in 2005 to 159 million in 2008. However, the change in the number of phone contacts from 2005 to 2008 did not affect online contacts with customers, which still amounted to less than 1% of DWP's total customer contacts. This is despite the fact that by mid 2008, 51% of DWP customers were online with broadband access.<sup>10</sup> Moreover, the onset of the financial crisis in late 2008 – and the subsequent economic recession – significantly altered DWP's customer base to include many more internet-savvy, newly unemployed people.

The changing nature of technology and its wider availability to the DWP's customer base presents an opportunity for process innovation. We used this for an analysis exploring how innovations in the Job Seekers Allowance (JSA) customer contact process *could in theory* save nearly 40% of its total annual budget. The following process table details the current protocol for a new benefits claimant, and by contrast sets out a series of currently feasible business process innovations on DEG lines, together with the estimated potential savings as a result of such innovation. (All this assumes that a change process on the lines set out here could be implemented successfully – and of course it ignores transaction costs issues. In practice, both these issues would be highly salient if attempting such changes).

<sup>10</sup> Dunleavy, P. (2009) "Innovating Out of a Recession." Seminar, London School of Economics, London, 22 June 2009

Current (NPM) Process	DEG way	Estimated Potential Savings
<b>30 Minute Phone Call Application + 5 Minute Administration</b>	<b>Moving Towards Predominately Online Applications.</b> Additional access would be available in JCP local offices. Telephone contact would be used only where necessary.	40% online = £13m (JCP target for 2011) 80% online = £27m
<b>JCP Local Office : 20 Minute document check, 40 minute basic work advice,</b>	<b>15 Minutes Document Check. 20 Minutes to Process Decision</b> (while applicant moves on to), <b>30 Minutes Customer Induction to in-house Internet café for job-seeking</b> <b>15 Minutes Discussion about Skills.</b>	This adds + £22m to costs at this stage so as to process claims decisions on the spot in local offices
<b>30 to 40 Minute Back Office</b> at sub-regional Benefits Decision Centres, who collate and check information gathered at both the other stages + make a decision on benefits	<b>This stage could be removed</b> – by moving more qualified BDC staff into JCP local offices and training other JCP staff to be able to make decisions on the spot (with supportive IT)	Saving approximately £50m (in direct costs)
<b>5 minutes every Two weeks, Signing on, carried out face-to-face.</b> DWP insists on this stage to enforce conditionality and job-seeking discipline	<b>Online sign on for low risk customers,</b> (identified by risk assessment). This step takes many 'repeat' customers out of Jobcentres. It allows the same network to cope with 1.5 million new customers by 2010	Saving approximately £28m (in staff costs )

Source: Dunleavy, P. (2009) "Innovating Out of a Recession." Seminar, London School of Economics, London, 22 June 2009

So this exercise suggests that there is a *hypothetical* total annual savings of £83 million, which amounts to 37% of annual JSA expenditure. Because other working age benefits operate using much the same model as JSA, it is also possible to estimate a savings of 20% right across the Job Centre Plus as a whole, which could potentially deliver annual savings of £430 million.<sup>11</sup>

<sup>11</sup> Dunleavy, P. (2009) *Innovating Out of Recession*, London: LSE Public Policy Group

It is important to recognise that the above proposed DEG innovations are a 'thought experiment' only, and that the technical feasibilities and transaction costs of such changes have not been evaluated. There are problems in achieving innovation within DWP (such as legacy ICT systems) not factored in here. Given the existing organisational, technological and political barriers, and the potential weight of transactional costs in making such a large change programme, any decision by DWP on reforms of service delivery is necessarily more complex than our thought experiment allows. However, DWP is already moving to bring in online applications for JSA, and expects to handle 40% of applications in this way by 2011, which will soon begin to raise its online communication totals. And the exercise above does involve other options that have certainly been considered in the department. It also perhaps suggests that if scope for change exists in a well-managed department such as DWP, then the development of radical and compelling ideas elsewhere might also uncover similar scope more widely across central government.

The perfect storm analogy is one way of describing the challenges facing government over the next few years. But these challenges present an opportunity, and if departments and public service providers can use the difficult fiscal climate to overcome the existing barriers to innovation – most notably risk aversion – then innovation could play a major role in sustaining levels of public services in the years to come.

Jonathan McClory  
Institute for Government  
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## Further reading & useful websites

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