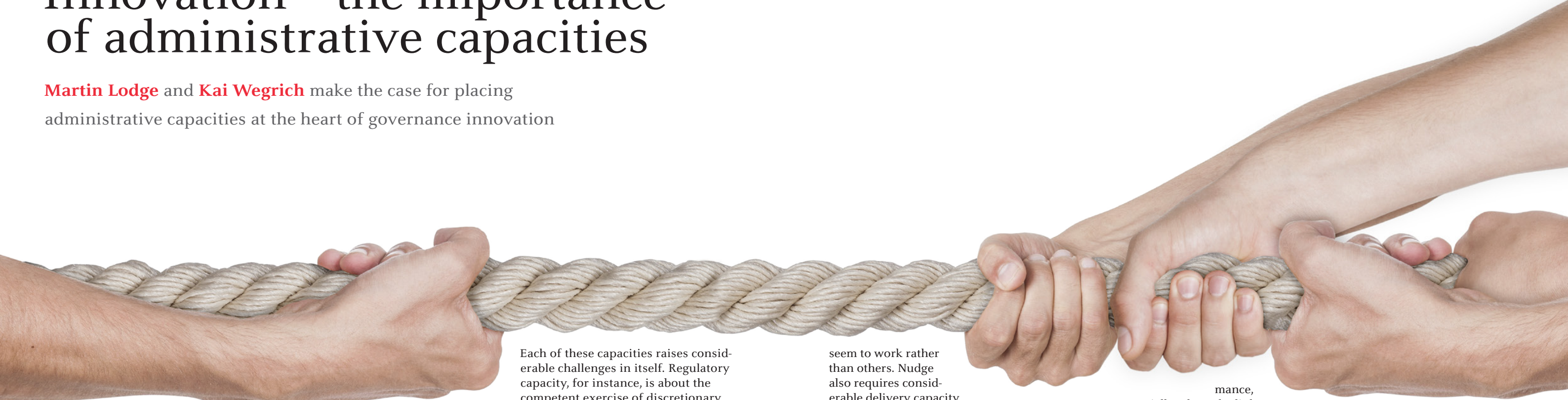


Advancing Governance Innovation – the importance of administrative capacities

Martin Lodge and **Kai Wegrich** make the case for placing administrative capacities at the heart of governance innovation



For decades, the call for innovation in public services has been a constant feature among consultancies, government reform reports, and international organizations. The contemporary age of austerity has added further pressure on organizations to seek ‘innovative’ solutions to deal with policy problems, whether they relate to dwindling resources for enforcement activities, or the ability to finance social services. Too often, the call for ‘innovation’ resembles the proverbial solution searching for a problem. We suggest that a focus on administrative capacities is essential in moving debates about governance innovation forward.

What, then, are administrative capacities? After all, bureaucracy and ‘public administration’ are not usually seen as sources for innovation. They are interpreted as being the problem rather than an essential ingredient for successful outcomes or innovative practices. If innovation in public policies is to be found anywhere, then it is said to emerge among collaborative and hybrid arrangements that minimise the role of ‘bureaucracy’.

In his day, Max Weber defined two essential sources of administrative capacity, namely those of subject expertise (Fachwissen) and professional expertise (Dienstwissen), the latter

being defined as knowledge of the kind of fancy procedural footwork that is often required to phrase policies, stage-manage ministerial appearances, and manoeuvre legislation through parliament. For others, ‘neutral competence’ is seen as one of the essential features of bureaucracy which is often contrasted, unfavourably, with political loyalty.

We can distinguish four capacities that are required in any policy area. These might be organized within public administration, they may be outsourced to private providers, or they may be procured from third sector parties. These four capacities are:

- ▶ Analytical capacity, namely, the capacity to assess and analyse developments, interpret information and engage in blue-sky thinking;
- ▶ Regulatory capacity, namely, the capacity to monitor, inspect and enforce;
- ▶ Co-ordination capacity, namely, the capacity to bring different actors together to facilitate co-production within areas that are characterized by a dispersal of authority;
- ▶ Delivery capacity, namely the capacity to ‘make things happen’ at the policy frontline, whether this involves, for example, the delivery of letters, schooling or counselling.

Each of these capacities raises considerable challenges in itself. Regulatory capacity, for instance, is about the competent exercise of discretionary judgement when it comes to enforcement and inspection. How problematic such an exercise is, has become particularly prominent in the financial crisis. Both regulators and regulatees had limited knowledge about the nature of new financial products, there was limited questioning of the capacities and motivations of regulatees to comply with regulatory requirements, and there was also a political reluctance for regulators to act in any other but a light-handed way.

Focusing on particular examples of supposedly innovative practices in public governance further highlights the contribution that a focus on capacities can make. One example is the contemporary fascination with Nudge, the idea that individuals’ decision making can be manipulated so as to perform fewer sub-optimal, and actually preferred choices. Thus, individuals do not have to opt in into organ donation schemes, rather they have to opt out. Similarly, individuals are moved towards earlier tax repayments by being sent friendly letters that highlight the social norm of early tax payment. Nudge therefore appears as a low cost device. However, it also requires considerable capacities. For one, it requires analytical capacities to understand social norms, to know the motivations of the target population, and to understand the mechanisms as to why some types of ‘nudges’

seem to work rather than others. Nudge also requires considerable delivery capacity. For example, this includes the ability to actually print letters and signs, and handle pension and organ donation systems that are likely to grow in complexity if nudges prove successful. Similarly, Nudge requires regulatory capacity to ensure that individuals are not bullied into ‘opting out’ and to ensure that private actors comply with disclosure requirements, and it requires co-ordination capacity as interventions are likely to cut across different ministerial portfolios.

Social impact bonds (SIBs) provide a further good example to explore the implications of innovative governance proposals for administrative capacity. SIBs seek to enhance the delivery capacity of social services by drawing on a combination of market mechanisms that link third sector service delivery with public sector performance measurement. Private sources of funding are used for upfront investment, whereas taxpayers’ resources will only become involved once the programmes are said to be successful. Regardless of the merits of this innovation, SIBs require considerable administrative capacities. For example, they require analytical capacities regarding trends in demands for public services and the design of meaningful performance management systems. Indeed, analytical capacities are challenged by often highly problematic attempts at measuring perfor-

mance, especially where the link between public service and measured outcome is, at best, indirect. They require regulatory capacities as the performance of these services require monitoring, and they demand co-ordination capacities that bring together diverse actors in the delivery of social services.

Putting administrative capacity at the heart of debates about policy innovations is unlikely to gain immediate attraction. Wannabe reformers in government want concrete examples of supposedly successful interventions, not a conversation about capacities and capacity bottlenecks, especially if the removal of these bottlenecks threatens established perks and privileges. Furthermore, in a period of financial austerity where public bureaucracy is ritually seen as a problem, where staff numbers are slashed, thus removing institutional memory, and where cut-backs (or top-ups) are usually ad hoc, it may be naïve to expect debates about what actual skills and competencies are to be expected of public servants.

So what should be done about administrative capacity to facilitate innovation? Firstly, it requires a willingness to engage with the question as to what capacities are expected of bureaucracies. Secondly, it also requires an understanding of the potential challenges and limitations that emerge when

seeking to develop innovative policies in an age of dispersed and resource-impooverished authorities. Thirdly, reform debates should not start with pre-packaged solutions, but with the actual problems that are supposed to be resolved. Fourthly, it also suggests that reform efforts should be oriented towards developing capacities in innovative ways rather than frantically hunting around for fine-sounding policy innovations. In the end, policy innovations are not an indicator of better, i.e. problem-solving government.

Governance, as is well known, means steering. Whatever the merits of different policy innovations, failing to consider what capacities are required for steering represents the equivalent of Hamlet without the Prince. International, national, regional and local administrative systems are central to the design and operation of goods and services that ‘real people’ consume; they are the backbone of any governance regime. We cannot lose sight of the demands on administrative capacity, even in an age of the hollowed out or depleted state.

Martin Lodge is Director of **carr**. **Kai Wegrich** is a **carr** Research Associate and Professor of Public Administration and Public Policy, Hertie School of Governance, Berlin.