Innovative Capacity of Governments: A Systemic Framework

THIS PUBLICATION PROVIDES A FRAMEWORK FOR UNDERSTANDING THE INNOVATIVE CAPACITY OF GOVERNMENTS. It aims to understand how innovation can be an embedded capacity in the workings of government, a capacity that can be leveraged across entire public sector systems.



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GOVERNING IN COMPLEXITY:

THE CASE FOR INNOVATIVE CAPACITY IN THE PUBLIC SECTOR

Given the increased complexity of the world and emergence of wicked problems faced by governments, including climate change, infectious diseases and rapid technological advances, enhancing the innovative capacity of governments and public sector systems has become an imperative. The COVID-19 pandemic highlighted the necessity for governments to design, coordinate and implement, rapidly at times, innovative approaches and novel solutions. The pandemic also demonstrated that governments can push the boundaries of current practice. Existing mental models, norms and value systems were shaken by the pandemic as citizens and governments navigated the shock. New ideas and approaches entered the public sector realm of action; practices which broke with former norms. However, while an important event in history, the challenges and external environment outside of the COVID-19 crisis continues to place pressure on governments. It is not enough for governments to maintain the status quo. Governments need to proactively engage with the future, explore the potential of innovative solutions in the face of complexity and re-think the foundations of public administration in order to continue to improve our societies.

To assist governments in understanding and harnessing their innovative capacity, the OECD's Observatory of Public Sector Innovation (OPSI) developed the Innovative Capacity Framework (the Framework) (presented in this paper). This practical and systemic Framework guides governments in leveraging innovation as an integral part of policymaking and public administration and supports them to enhance their capacity to proactively adapt to the changing environment. Ultimately, the Framework helps to enhance the innovative capacity of governments in order for them to build more holistic, impactful and sustainable solutions that improve the lives of citizens.

For innovation capacity to flourish, we need to move away from innovation as a sporadic activity, fuelled predominantly by crises towards firmly embedding innovation in the heart of government.

GOVERNING BETTER IN UNCERTAINTY: THE IMPETUS FOR CHANGE

Beyond the COVID-19 pandemic, governments are facing many pressures to deliver better quality, more effective and more efficient services in a state of uncertainty, volatility and rapid change.



Citizen needs are changing and trust in governments is at risk

Trust in government has been a pressing challenge over the last decade, as social norms shift, proliferation of misinformation continues and expectations of governments change. Governments need to innovate their strategy and policymaking approaches to more effectively communicate, collaborate and respond to the changing needs and expectations of citizens and stakeholders.



Technology and data are advancing rapidly

Digitalisation and the rapid deployment of new technologies is transforming the production and distribution of goods and services, the future of work, the way actors interact and the status quo for economies and societies, thereby resulting in new inequalities. This poses significant risk for governments as they struggle to anticipate such developments and respond proactively to these developments as they shape policies and services. Meanwhile, these technologies offer a range of opportunities for governments to deal with issues in new and more effective ways. Governments need to reframe their risk appetite for technology, build capacities around digital literacy and become quicker and more agile when adopting, regulating and embedding new technologies into their functioning.

Globalisation and geopolitical shifts are a double-edged sword

We are facing a new world where many business and personal transactions are faster and less visible; where some borders are mere symbolic references, others have become more rigid. National economies are more dependent on one another and both cross-border opportunities and tensions are becoming increasingly visible. COVID-19 has showcased this interconnectivity and the challenges that can arise from it in the context of global crises. Governments need innovative capacities to act globally, engage international stakeholders and build co-operation across borders to address global challenges.



Public spending has soared, along with fiscal risks and systemic vulnerabilities

The COVID-19 pandemic, shifting demographics – such as ageing populations – geopolitical shifts, national security needs and the climate crisis have led to increases in public spending. Governments will need to work in new and innovative ways to produce policies and services that balance citizen demands and build resilience and recovery with tighter fiscal landscapes.

Innovative Capacity of Governments: A Systemic Framework A - Governing In Complexity

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For innovative capacity to move beyond niche pockets, towards a resource that is cultivated and leveraged across the entire government system, public sector actors need to deliberately work towards:

Gaining ground rather than always reacting or running to stay put

Governments need to regain credibility and shift towards a systemic and integrated approach to their innovative efforts; placing them on the cutting-edge of potential change and trends, rather than in a cycle of constant reaction.

Bridging the gap between policy intent and execution

Policies don't succeed on their own merits, they succeed through implementation. By leveraging systemic, innovative, engaging and participatory approaches to policy making, governments can bridge the gap between policy intent and the reality "on the ground".

Bringing society along when responding to grand challenges which directly affect them

In the face of grand challenges such as climate change, governments need to engage citizens and include them in creating solutions and tackling ambitious missions.

Public sector as an employer of choice and not of last resort

Public servants are at the heart of delivering public sector value and innovation. Public sectors need to create institutions that are forward-thinking, flexible and fulfilling to attract, retain and motivate high performing talent.

LOOKING AHEAD:

NOVEL WAYS OF APPROACHING COMPLEXITY AND UNCERTAINTY As policy issues become more interconnected, and the conditions in which they play out more uncertain, governments need to develop a comprehensive understanding of innovative and reflective practices to engage with uncertain futures. When thinking about innovation, they will need to seek out systems approaches that engage with this complexity, rather than avoid it. Failure to do so will result in policy solutions that do not meet citizen needs, fail to be implemented effectively, or worse, create detrimental unintended consequences (ex. creation of accessibility barriers or data privacy risks).

Leveraging innovation in the public sector requires decision-making in the face of uncertainty and pushes policy makers to balance diverse public values and needs. Working deliberately with factors that support innovation such as employee engagement, job and workplace incentives and organisational practices, culture and appetite, are crucial for innovation to flourish.

Individuals innovating in the public sector often experience the push and pulls of system tensions, which on the surface often appear as barriers to innovation. Underlying attitudes and barriers to innovation, such as risk aversion and hierarchical structures, are frequently embedded the rules and regulations or become part of the wider organisational culture (OECD, 2017a) or principles of public administration.

It is crucial to identify, understand and acknowledge levers within the public sector system, while ensuring that innovation remains explicit and stewarded. A systemic perspective on innovation enables us to understand how innovative capacity works within a public sector system. Innovation heavily interacts with a number of different factors across the system, which can act as barriers, enablers, or be influenced by innovation.

Innovation requires a systemic approach: one that is both top-down and bottom-up and does not seek to "tick an innovation box" or be a Senior Executive's pet hobby or a passing phase. If embraced effectively, innovation can be a powerful and practical lever, integrated across the entire public sector system.

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Innovation is not a silver bullet. Nonetheless, an innovative public sector serves as a core part of public policy-making and public administration and is integral for remaining responsive, proactive and ensuring systemic change. An innovative public sector calls for intentional, embedded and action-oriented approaches in order to position governments to meet the needs of the public. A haphazard approach, which does not acknowledge and consider the complexity of the public sector system, is a recipe for failure. The Framework in this paper provides a model for how to practically examine, consider and strengthen innovative capacity as an embedded function. It helps public sector actors improve understanding of their current systems' capacity to innovate and prompts them to imagine how that capacity can be improved.

The diagram below demonstrates the intersection of innovative capacity across work areas and functions of government, highlighting intervention areas for building implicit and embedded innovative supports.



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THE INNOVATIVE CAPACITY FRAMEWORK: A SYSTEMIC PERSPECTIVE The Framework, presented below is a resource for data collection, understanding and action. It examines the factors that may enable or hinder a public sector's capacity to use innovation, or innovative practices, to achieve its goals. It recognises country-specific contexts, goals and its portfolio of change or reform efforts as a frame for the examination and analysis. It subsequently supports systemic change by identifying the right balance of both innovation explicit supports and innovation implicit supports.

The Framework can be applied at a national or local government level to systemically assess innovative capacity by understanding the intersections of factors at the individual, organisational and systems level of the public sector, as well as the intersections of innovation with policy areas and governance mechanisms (e.g. regulation, audit).

Public sectors attempt to drive policy outcomes within existing, and often constrained, policy systems. As such, the Framework shifts the focus away from the idea of a public sector innovation system as the object of analysis, and instead looks at how innovative capacity is nurtured in the entire public sector system. This shift comes from the recognition that if innovation is to become more deliberate and systematic, it needs to be embedded in the very functioning of government or the operating environments of policy systems. This ultimately means connecting innovation to the traditional public management and policymaking functions that frame and influence the environment in which innovation takes shape, and considering how innovation interacts with these existing systems, as opposed to being seen as an alternative to them (OECD, 2020). By doing this, innovative capacity to be understood as an underlying capacity of the entire public sector, rather than an independent silo on its own. This understanding can support governments in ensuring that innovation and innovative practices "stick" and achieve their intended goals, and ultimately, improve public outcomes, such as developing more effective and efficient public services that bring value to the population.

The Framework enables innovative capacity to be understood as an underlying capacity of the entire public sector, rather than an independent silo on its own.

Innovation explicit supports aim to legitimise and enable the management of innovation, such as an innovation strategy, training, awards, networks, hubs or labs.

Innovation implicit supports

shape broader governing mechanisms to enable and steer the public sector to use innovative approaches within the public governance system (e.g. working with audit, performance management, regulatory frameworks amongst others). In order to position innovative capacity within the dynamics of systems, a systemic understanding of public sector systems is required. Public sector systems are:

Dynamic

Political priorities are constantly changing and public sector systems are required to respond to global crises, citizen needs and changes in domestic and global norms and values. In this context, innovative capacity needs to be flexible, agile, adaptive and anticipatory; it needs to respond to and explore potential future trends and identify how those may impact the system.

Interdependent

Different components of the system effect the functioning and performance of other parts. In the context of innovation, this means that a single innovation project is heavily dependent on, for example, the procurement process, hiring rules, regulatory frameworks and IT infrastructure, among others.

Path dependent

Public sector systems have a tendency to follow the same patterns, unless there are major disruptions or deliberate pushes to go against the status quo. This means for innovation to be systemically leveraged, efforts will need to be made to push against the inherent nature and tendency of the system.

Historically shaped

By nature, public sector systems are influenced by historical developments, protocols, traditions, embedded understandings and institutional values and beliefs which shape the way they operate. Innovation often pushes against these traditional norms, operations and values of the system. For innovative capacity to move beyond niche pockets, towards a resource that is cultivated and leveraged across the entire government system, public sector actors need to deliberately work to:

Ensure that the right mechanisms are in place to drive innovation (purpose)

Create space and enable innovation (potential)

Equip individuals, teams and organisations with the necessary skills and resources and ensure that innovation is integrated into everyday practice (**capacity**)

Understand the impact that innovative activities have (**impact**) when the system's tendencies push against these things.

Innovative capacity is crucial for governments to design and deliver ambitious reform agendas, meet climate targets, respond to global crises and shape better futures. Without a deliberate understanding and effort, the dynamics of the public sector system will continue to push forward the status quo operating method, norms and values. Therefore, the Innovative Capacity Framework breaks down the understanding of innovative capacity into the four key frames: purpose, potential, capacity and impact. These four frames make the invisible visible and showcase how innovation intersects with the larger public sector system.

INNOVATIVE CAPACITY: FRAMES OF FOCUS

To better understand innovative capacity, this Framework explores key drivers, enablers, barriers, capacities and impacts of innovative capacity through four frames of focus:



PURPOSE

Examine: What is driving the intent to innovate?

Action: How do we deliberately create the right mechanisms to drive innovation?

In a historically-shaped, path-dependent public sector system, absent of clear motivations and drivers, innovation is unlikely to surface in a consistent manner. Drivers of innovation can come from global shocks and crises, but they can also include deliberate mechanisms to motivate organisations (ex. organisation mandate that makes innovation an explicit priority) or individuals to innovate (ex. recognition/ awards for innovative activity).



Examine: What elements across the system influence whether innovation efforts are attempted?

Action: How do we create space, culture and systems that enable innovation?

While there may be a clear driver for innovation, and perhaps even the skills and capacities for it to take shape, there are a number of barriers that can prevent innovative efforts from being attempted. One of the most common barriers is culture: at times, individuals and teams may feel that they don't have the autonomy, ownership or opportunities to try new things, take risks and experiment. Creating potential for innovative capacity could take the form of clear leadership direction in support of innovation, normalisation of risk and creativity and deliberate efforts to support experimentation.



CAPACITY

Examine: What is needed to carry out innovative efforts and integrate them into everyday practices?

Action: How do we equip individuals and organisations with necessary skills and resources?

Leveraging innovative approaches requires creative mindsets, practical abilities and deliberate supports for innovative capacity. This can include skills in innovation portfolio management, behavioural insights, strategic foresight etc., supported by flexible procurement policies, funding, HR policies etc.



IMPACT

Examine: How is the impact of innovative efforts understood and informing future practice?

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Action: How do we understand the impact of initiatives and efforts and use the insights to inform future efforts?

For innovation to move from niche pockets to a deliberate capacity that can be leveraged across public sector systems, innovation efforts need to be understood, inform future practice and be measured and evaluated. Governments need to develop learning loops, evaluation practices and skillsets to understand the impacts of projects and initiatives, measure the gaps in innovative capacity, and inform future practice and business cases.

The below chart outlines the specific factors that can be explored to understand and enhance innovative capacity across the public sector system. To support practical implementation it examines the four frames of focus at the **individual**, **organisational** and **whole of system level**. However, in practice, these levels are closely interconnected and cannot be untangled.



OECD OPSI The Innovative Capacity Framework

OPERATIONALISING THE FRAMEWORK:

ZOOMING INTO INDIVIDUAL, ORGANISATIONAL AND SYSTEMS LEVEL INNOVATIVE CAPACITY

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WELCOME TO GALATIA

Below we explore what this could look like in reality and what this tells us about the overall innovative capacity of the public sector system of hypothetical country Galatica.

The below heatmap showcases the imagined current state of Galatica's Innovative Capacity, based on the following scale: The deeper shades of pink reflect areas where innovative capacity is emerging and developing, while the darker shades of green reflect a stage of embedding and optimising innovative capacity. The scale reflects a journey from basic performance towards efficiency and effectiveness. The grading is based on a series of indicators that evaluate every factor listed in the Innovative Capacity Framework.

Emerging

- Little or absent
- Little or ab
 Inefficient
- Memory Ad-hoc or
- Au-noc or inconsistent

Developing

- Growing, some
- evidence • Repeatable
- Repeatable
 Commencing
- .

Consistent Realising

Managing

- Managed potentialMore Completed
- systematic Specific effort

Embedding

- Delivering value
- High confidence
- Rigour, meeting
- standards
 Good links and connections

Optimising

- Sophisticated
- Integrated and
 adapting
- adaptingAgile and improving
- Sets new standards





INNOVATIVE CAPACITY AT THE INDIVIDUAL LEVEL



Anja, a hypothetical public servant, is motivated to innovate because she gets satisfaction from finding better ways to deliver services to citizens. Moreover, she recently won an innovation award for a project she developed to improve the accessibility of services for citizens with hearing impairments. However, testing innovative approaches, at times, requires her to assume personal risks, as performance management assessments don't reward innovation, but rather, tend to penalise employees for taking on new risk.



Anja is encouraged and supported by her team to try new things and take ownership over new ideas and bring them into fruition. However, management remains reluctant to test new solutions given the possibility of failure and prior experiences with scrutiny.



Anja has opportunities to build skills in new practice areas, such as behavioural insights. This will be incredibly useful for to learn how to increase the adoption of new policies by citizens. She is also pushed to rethink traditional ways of doing things, which is empowering but can also be uncomfortable. However, Anja rarely has time to focus deliberately on innovative projects and doesn't know who to ask when trying to get approvals for new ideas - the status quo priorities seem to always take precedence. Finally, few efforts are made within her team to learn from innovative pilots and experimentation and integrate best practices into their operating models.



Anja has started using a combination of different approaches to reflect on the value she is creating through her new ways of working and the ideas she is pursuing. She is able to see concrete results from her innovative work. she sees the direct benefit to users and receives recognition from her team for the work she has done. However, she feels that her team doesn't cultivate a safe space to talk about the failures and challenges they encounter, and, as such, those learnings are not informing future practice.



INNOVATIVE CAPACITY AT THE ORGANISATIONAL LEVEL



PURPOSE

The leaders of Anja's organisation have set a clear vision for the overarching objectives and goals in their domain. This is supported by a codeveloped innovation strategy that outlines the importance of innovative capacity in helping them achieve their policy goals, as well as clear goals for creating an organisation that is more innovative. POTENTIAL

The organisational strategy uses a portfolio approach that balances a focus on immediate needs with efforts to explore the future and steer towards preferred futures. However, funding often depends on political and European funding cycles, limiting the ability to work towards long-term objectives in practice. Employees generally consider their organisation to be a place that welcomes and encourages creativity and experimentation, particularly around complex and major policy goals. However, there are some instances where employees notice a few of their executive leaders have an aversion to risk-taking or trying new things, potentially due to fear of public backlash or negative media scrutiny from a previous project that failed. Further, at times there is some confusion around which senior managers are responsible for executing different parts of the strategy, or how they collaborate across functional accountabilities.



CAPACITY

Funding exists for innovative initiatives, including using innovation incubators to drive focused efforts for innovation in policy and services with other actors and to pilot and scale such initiatives. However, at times, funding still seems rigid and non-iterative, and gets approved in large sums for end-to-end projects, rather than to trial smaller projects that may fail. Furthermore, there are times where the projects from the Innovation Incubator seem to be disconnected from the organisation's key priorities, and therefore experiments do not come to fruition.

Hiring criteria for new staff are flexible and acknowledge the importance of soft skills and mindsets conducive to innovative capacity. The overall workforce and incentives strategy place importance on learning and collaborating, rather than just on efficiency and outputs. It is still evident, however, that the learning approaches in the organisation need to be embedded as part of their everyday work.



Employees are encouraged to use innovative approaches in evaluating and understanding the impact of policies and services in their organisation. This includes getting direct input from users, actively thinking about the process, as well as outcomes and indirect benefits by undertaking more iterative evaluations throughout the various implementation stages. However, few mechanisms exist to share learnings across the organisation and scale successes: there are no innovation networks, nor data sharing platforms to share ideas. Finally, the organisation is also looking into a more targeted evaluative process specific to their innovation incubator and innovation strategy and capacity.

Due to the performance and accountability framework, there are still additional scrutiny measures that place pressure on the organisation to utilise more traditional forms of project management and long-term output and outcomes-based evaluations.



INNOVATIVE CAPACITY AT THE SYSTEMS LEVEL





Political priorities, global agendas (ex. Sustainable Development Goals) and major challenges (climate crisis, global pandemics, tightening fiscal environment post the pandemic and increasing population in the cities) create a clear impetus for innovation and change across the entire government. The government is constantly pushed to do better to meet the evolving needs and expectations of citizens, particularly since some of the trust data from citizens has decreased in recent times due to media scandals on corruption and rising populist movements. However, overarching reform agendas do not explicitly integrate innovation and there is some disconnect between the political direction and organisational mandates.

Mandates and performance reporting of all organisations within the government include explicit priorities for government as well as a push for being more innovative in the way they achieve their goals. A national strategy to lift the innovative capacity of the government as a whole has been developed, which will further normalise and prioritise innovation alongside core activities. The strategy has outlined a range of other frameworks and processes that may need to be shifted or reviewed again in order to achieve the strategy.

There remains a tension between the risk-taking required to undertake experimental policy design and implementation and the increased media scrutiny and political pressure to deliver with little margin for error.



The public sector national school offers education in new approaches to policymaking and public administration, including specific innovative skills and methods as well as guidance on how to drive and manage innovation within a public sector organisation. Efforts are being made to institutionalise innovation through the new Innovation Strategy. However, mechanisms to collaborate across government and across sectors are still falling behind. Private sector actors are reluctant to collaborate, since funding and procurement arrangements are rarely in their favour and government policies are not always transparent.



IMPACT

The high levels and traditional nature of audit and scrutiny practices means that there is still some aversion or reactivity when it comes to reporting, evaluations and performance accountability. This can cause tensions between mandates for creativity and novel ideas and the reality of responding to audit requests or the scrutiny of media when things don't go as planned. Audit is still seen as a control rather than a strategic aid.

Despite this, concerted efforts are made across the entire government to understand and build innovation capacity and to ensure that the value and impact of innovations in policies or services, or new ways of operating, are communicated across the public service. Through the new Innovation Strategy, performance and evaluation methodologies are being adapted to be more flexible and account for the uncertainty and risk that come with innovation. However, there still is a need for systems-wide learning, which could include the creation of an innovation network.

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SYSTEMS-LEVEL REFLECTIONS ON GALATICA

Based on the above assessment of the situation in Galatica, a number of systemslevel insights can be derived:

1. RISK-TAKING IS NEEDED TO BREAK PATH DEPENDENCY OF THE SYSTEM

In Galatica, public servants are generally wary of taking risks, out of fear of being held accountable in the event of failure. The accumulation of failures and the media scrutiny has made each successive attempt more and more politically untenable, delaying benefits for society. The Audit Office is perceived as a controller, performance and accountability frameworks seen as rewarding loyal implementation rather than new solutions and incentives to develop innovative approaches are few are far between.

Shifting attitudes around risk demands a change in performance management frameworks at the individual and organisational levels, including those of management. Current frameworks in Galatica focus on consistent implementation, including the ability of individuals and teams to stay within budgets and deliver on schedule. However, such frameworks do not push individuals consider how status-quo operating methods fall short in meeting the needs of citizens, and consequently, few incentives exist to test new approaches that could result in more effective government services, policies and programmes. Moreover, when failure results from new pilot projects, performance management frameworks tend to penalize that failure rather than rewarding deliberate learning around it.

There is no doubt that being aware of and managing risks is important. However, this is not a blanket rule. Different types of risks call for different appetites and approaches, and completely avoiding risks does not allow for exploitation of opportunities. Galatica needs to consider how to shift the mandate, empowerment, appetite and capacity to support individuals and leaders to engage courageously and intentionally with risk. Without engaging with risk, it's difficult to break away from the status quo.



2. LEARNING, SHARING & SCALING SOLUTIONS WILL REDUCE THE BURDEN OF INNOVATION

In many countries, the majority of innovative efforts are copied from other organisations or countries and are adapted and implemented into new contexts. This approach helps reduce the resources involved in developing and testing new ideas and also reduces the risk burden for risk-intensive experiments. However, this approach of spreading solutions is only possible with deliberate learning loops and mechanisms to spread that learning across the public sector system. In Galatica, learning and spreading of solution rarely occurs beyond individual team levels.

Galatica could benefit from the establishment of learning loops and collaboration mechanisms including working groups and networks across thematic policy focus areas that enable the spread of learnings from both successes and failures. Such networks and mechanisms should be tied into decision-making and future attempts at innovative projects and policies. Moreover, reflective processes should be established to systemically reflect on learnings from test pilots and initiatives – this could include incubator or accelerator programmes with an explicit learning function.

3. A HUMAN-CENTRED FOCUS FOR UNLEASHING DATA AND TECHNOLOGICAL CAPABILITIES

Increased data capabilities open up transformational opportunities to deliver even more efficient services to the citizens of Galatica. However, the decision-making bodies and governing mechanisms have not yet adapted to this new capability to ensure that digital and data capabilities have a strong human-centred focus. Current processes do not encourage diligent and empathetic use of the data to explore and improve policy and service design for the population. As such, the public sector is at risk of losing its ability to engage with ethical and human dimensions of using data in policy and service design. Furthermore, deliberate new processes need to be established to ensure the effective use of data across the entire public sector system to improve the way the public sector tackles complex problems and delivers integrated services. Citizen centric practices and approaches enshrined in frameworks will give an edge to Galatica's pubic sector – the alternative will see the country lose its ability to navigate and capture the benefits of technology. Without deliberate mechanisms for systems-wide sharing and learning, there's a risk of duplicating failures and wasting resources.

Without strong citizen centric approaches enshrined in performance and budget processes, the benefits of data and technology are not optimised.



INNOVATIVE CAPACITY AROUND THE WORLD

INNOVATIVE CAPACITY AROUND THE WORLD

Over the last 5 years, OPSI has conducted numerous innovation studies and scans, uncovering initial insights on the purpose, potential, capacity and impact of innovation. OPSI is continuing to work with countries to use this Framework to understand and enhance the capacity for innovation within public sector systems.

Below are some initial insights on the key challenges and strengths in innovative capacity from action-oriented research with governments around the world.



PURPOSE: WHAT IS DRIVING THE INTENT TO INNOVATE?

Reform agendas

Public sector reform goals have provided impetus for public sector transformation and in many cases leverage innovative approaches and initiatives.

Efficiency

A push for efficiency in policymaking or efforts to decrease complexity in bureaucracy are common drivers of innovation.

Leadership support and culture

Bottom-up innovation is an important part of innovation activity, best supported by leadership imperative to stimulate engagement with innovation throughout the organisation.

Relationship with the public

Social trust, repairing or building a relationship with citizens can be a key driver for innovation. To legitimise the effectiveness and longevity of innovation efforts, social trust needs to be an essential part of the innovation scope.

POTENTIAL: WHAT DETERMINES WHETHER INNOVATION EFFORTS ARE ATTEMPTED?

Risk aversion vs. motivation

Risk aversion and barriers to individual motivation and engagement continue to plague public sectors around the world. If people feel like they are taking high personal risks, rather than risks that should be borne by the system, the trade-off to innovate versus doing nothing will depend on individual comfort levels(dependent on autonomy, authority, and ability) or the ability to persuade others.

Rigidity in legal and accountability frameworks

While building trust and improving the relationship between governments and citizens can be a driver of innovation, the motivation to tackle issues of citizen trust, such as transparency and corruption, can have unintended consequences for innovation. For example, countries may add rules and complexity to the system in response to corruption, making the rules and frameworks more rigid and less conducive to innovation.

Distribution of power and relationships between levels of government

Innovation often happens on the forefront of service delivery, which often occurs at the local level. When the relationship between local governments and between local and national levels is strong, innovations can be scaled and learned from.

Strategic direction

Innovation strategies can help create the ideal environment for innovation to consistently flourish across public sector systems.

Deliberate and consistent stewardship across the system

Stewardship can help ensure that strategies, mandates and visions come into fruition. In many cases, stewardship across the public sector system is lacking, with only pockets of support available to public servants in some organisations, leading to small pockets of innovation rather than consistent activity across organisations. This lack of stewardship and consistent support can lead to a disconnect between vision/ambition and reality.

Fragility of innovation agendas and initiatives in the absence of system support

In many cases, innovation support structures are fragile, lacking either consistent funding or consistent political and bureaucratic leadership support.



CAPACITY: WHAT IS NEEDED TO CARRY OUT INNOVATIVE EFFORTS?

Build capacity at individual level

If public sectors wish to attract and retain motivated and skilled individuals then they need to provide them with the ability to creatively make a difference. They also need to equip individuals with opportunities to learn and develop skillsets.

Technology and digitalisation

The public sector needs to explore how technology can be used in innovative ways to improve public outcomes. To deliver innovation when needed, organisations need to leverage assets, technology and resources (financial and skills).

Build networks, relationships and effective information flows

Professional relationships or networks – both formal and informal – were identified as one of the most important factors for sustaining and inspiring innovation across the public services. These factors are crucial for information sharing, collaboration, learning and spreading and scaling innovations.

Funding

Funding for innovation is often not aligned with the innovation lifecycle. This can be remedied by establishing funding mechanisms outside of traditional procurement or funding lifecycles – such as consistent funding for incubators.

Bottom-up strengths need to be bolstered

Individuals, including leaders, will often be better placed to see emergent opportunities or challenges than slower-moving organisations or systems. In these bottom-up contexts, it's important that these solutions are shared and learned from across the system.

Clear understanding of system actors

To build innovative capacity, it's crucial to develop an understanding of the systems' diversity of actors, initiatives and ambitions. This will enable the development of strategic and targeted interventions, leading to improved outcomes.

Rigidity of rules, laws and regulations

On the one hand, the rigidity and complexity of laws can lead to overly legalistic and complex systems that inhibit the motivation and ability of individuals and organisations to innovate and respond to changing demands. On the other hand, rules and regulations have been used by countries in different formats to stimulate innovation, such as anticipatory or sandbox-style regulation.



IMPACT: HOW IS THE IMPACT OF INNOVATIVE EFFORTS UNDERSTOOD AND INFORMING FUTURE PRACTICE?

Using evidence to drive results and innovation capacity

Governments are increasing efforts to improve intelligence about what works and why – these insights provide useful signals for innovation – showcasing what works and what needs to change. The OECD encourages countries to evaluate and critically assess interventions, regardless of the outcomes, to ensure innovation projects are a source of learning and knowledge. Data-informed strategies will continue to be critical levers for countries seeking to improve user-satisfaction as well as building innovative capacity.

Navigating public scrutiny

Governments are accountable to the public for spending and delivery of results. This accountability often causes risk-aversion, fear of uncertainty and is a barrier to trying new things. Including citizens in the innovation process and communicating clearly about innovation can help to mitigate this.drivers of innovation.

Leadership support and culture

Innovation projects, pilots, incubators, experiments etc. are an excellent source of insight on how to do things differently. It's crucial to build constant learning mechanisms to ensure that the results and learnings from innovation, be they positive or negative, form a basis for future work.

Using evidence to build the business case for innovation

Understanding the impact of innovations and reporting on results can help build the business case for future innovation projects.



WHERE DOES THE INNOVATIVE CAPACITY FRAMEWORK FIT INTO THE LARGER INNOVATION DISCOURSE?

OECD INNOVATION FRAMEWORKS AT A GLANCE

To build innovative capacity across public sector systems requires an understanding of the diverse innovation types (facets) and capacities and activities that can help deliver value in a given context. Over the past decade, the OECD has been exploring how countries have adapted their governance frameworks to enable a more systematic use of innovative approaches, both in terms of internal operations and in delivering policies and services (OECD, 2011).



THE DECLARATION ON PUBLIC SECTOR INNOVATION

The **OECD Declaration** – adopted by 43 countries so far – introduces five key principles and associated actions that governments can take to support the capacity of the public sector to innovate across individual, organisational and systemic levels (OECD, 2019a):

A. Embrace and enhance innovation within the

public sector: Highlights the importance of innovation, showcases how innovation can help governments achieve their goals and establishes stewardship, resources and support mechanisms for innovation to occur. This principle can create **purpose** for innovation.

B. Encourage and equip all public servants to

innovate: Fosters a culture conducive to innovation, encourages entrepreneurial and experimental approaches that require risk-taking, recognises and supports skills and capacity development for innovation and develops support structures, processes and working conditions for innovation to flourish. This principle is important for creating **potential** and building **capacity** for innovation.

C. Cultivate new partnerships and involve different voices: Connects diverse actors, builds partnerships and engages, co-creates, listens to and integrates new and emerging voices into policy, service design and decision-making. This principle links strongly to building potential, capacity and understanding impact of innovation.

D. Support exploration, iteration and testing:

Supports experimentation and exploration, tests new approaches, nurtures a diverse portfolio of innovation activities and commits to learning from results and experiences of innovative practice. This principle enables **potential**, builds **capacity** and improves understanding of **impact** of innovation.

E. Diffuse lessons and share practices:

Encourages systemic learning from innovation activities, fosters learning networks, peer support and the sharing of ideas, creates feedback loops and develops evaluation practices to learn from and steer the innovation process and assess the value of outcomes. This is crucial for building **capacity** and understanding of **impact**.



||| Adaptive innovation

Testing, trailing and scaling new approaches in order to respond to changing operating environments.

Enhancement

-oriented

innovation

Upgrading

practices, achieving

better results and

structures.

building on existing

efficiencies and

Mission Oriented Innovation

Focusing innovation efforts around a clear overarching goal, mobilising new approaches and resources to achieve that goa

Innovation Facets & Portfolios (Portfolio Exploration Tool)

Declaration on Public Sector Innovation

Establishing commitment for innovation, providing legitimacy, setting clear purpose, and providing capacity building opportunities through the **Playbook**

Understanding the relative diversity of different types of innovation and balance of the innovation "portfolio" approach in order to understand the direction of innovation efforts to achieve certain goals or ambitions.

Anticipatory Innovation

Exploring and engaging with emergent issues that might shape future priorities and future commitments.



Behavioural Insights

Strengthening policy intervention, processes or approaches with behavioural insights methods and tools



Innovation Capacity Framework

Broad-based, overarching framework, provides a lens to systemically examine innovative capacity



OPSI'S INNOVATION FACET'S MODEL

OPSI's **Innovation Facet's Model** also plays an important role in understanding and nurturing the different types of innovation and balancing different goals, ambitions and contexts of innovation. The model enables governments to understand the different key capacities needed to nurture different types of innovation. OPSI argues that different types of innovations can be leveraged within public sector systems to achieve public value and outcomes. The type of innovation likely to flourish often depends on the degree of directionality and certainty in a given context. Building capacity for a diversity of innovative activities (or facets) helps to ensure that public sector systems are equipped to innovate in the face of immediate and future challenges. As each of these types of innovation activities require different supports and drivers at the individual, organisational and systems level, it is crucial to understand the innovation facets and innovation portfolio management within the context of their public sector system.

OPSI's Innovation Facets Model presents four types of innovation facets that can be leveraged and supported by the public sector (OECD, 2021h):

Enhancement-oriented innovation

Innovative activities that focus on upgrading existing practices, structures and processes and achieving efficiencies and improved results (for example, digitalising an existing process to improve efficiency).

Mission-oriented innovation

Innovation focused on a clear overarching goal to be achieved, requiring mobilisation of new approaches and resources (for example, innovation to achieve CO2 emission targets).

Adaptive innovation

Focuses on responding to a changing environment with new approaches (for example, rapid shift to telework during the COVID-19 crisis).

Anticipatory innovation

Engages with new shifts and possible futures before they become established (for example, leveraging strategic foresight scenarios to help plan for the public sector of the future).

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ANTICIPATORY INNOVATION GOVERNANCE (AIG) MODEL

Governments need to adapt and understand the systemic effects of changing trends in order to cope with long-term challenges (Tõnurist, 2020d). This demands an openness to risktaking, experimentation and creative solutions. The **Anticipatory Innovation Governance**. **(AIG) model** supports countries to take a future-oriented approach to policy making by helping them explore plausible futures and using those to inform decision-making in the present for better futures.

Anticipatory innovation governance is the "broad-based capacity to actively explore possibilities, experiment, and continuously learn as part of a broader governance system" (OECD, 2020a). Consistent and deliberate support for the individual, organisational and systems levels is needed for AIG to be successful – without it, AIG can easily get lost in the multitude of activities required in a governance system (Tõnurist & Hanson, 2020).

The AIG model, which is showcased in depth in this Framework, seeks to offer an integrated approach to future-oriented, experimental innovation which compliments the innovative capacity model. Many of the specific mechanisms explored within the categories of agency and authorising environment are also highlighted in the Innovative Capacity Framework. However, the Anticipatory Innovation Governance Model goes into greater depth on the means of leveraging governance mechanisms and building capacity to deliberately support future-oriented, exploratory innovative practices and approaches.

V Source: <u>Anticipatory Innovation Governance (AIG) model</u>





MISSION-ORIENTED INNOVATION

Missions are measurable, ambitious and time-bound targets that have the potential to become one of the most significant vehicles for change and innovation. They work to tackle complex challenges such as climate change and global health challenges, by taking a purpose-oriented, market-shaping approach. The public sector takes an active role in convening and coordinating actors around complex, cross-sectoral issues that cannot be solved by individual actors alone. A **mission-oriented innovation** includes any new or improved technological, social and organisational solution (product, process or service) that aims to respond to one or several of the grand societal challenges (missions) and create public value to society (e.g., climate mitigation, clean oceans, sustainable economic growth and well-being etc.). Supporting the development and diffusion of such innovations often requires specific policy interventions and capacity in government (to manage portfolios, evaluate projects and work across government levels).

Other specific innovative capacities: Other capacities, such as the use of systems approaches to tackle complex, interconnected issues, or use of **behavioural insights** to deepen understanding of how humans make decisions to improve policy outcomes, may also be identified and strengthened to support countries in achieving their goals.



TAKING THE NEXT STEP: NAVIGATING THE INNOVATION JOURNEY

TAKING THE NEXT STEP: NAVIGATING THE INNOVATION JOURNEY

Looking beyond the COVID-19 pandemic, countries and governments are facing more complex and interconnected public challenges that require new and innovative approaches to meet the changing demands of citizens and to deliver public value. Innovation is not an easy task and building innovation capability across an entire public sector innovation system is even more difficult. However, in order for government to delivery policy solutions and services that meet the needs of the population – especially in an environment of rapid change, advancement, global interconnectedness and complexity – innovation no longer is a choice.

> Successful innovation requires a balancing act between autonomy to operate and responsibility and accountability for actions and outcomes. Innovation needs to be connected clearly to mandate and vision and have its own explicit strategy to avoid it being a patchy, scattered activity that happens in pockets of government.

 Governments need to strategically leverage and focus innovation and innovative approaches to address complex challenges, missions and societal goals. > Breaking the path dependency of government and moving beyond the status quo requires risk taking, openness and iterative work, which often runs contrary to current bureaucratic models. Managing this tension demands that innovative practice and experimentation be embedded in the everyday work of governments.

Focus systemically on strengthening innovative capacity and target the weakest links.

> Every government has key strengths that should be leveraged: build on strengths and small victories and leverage those opportunities to build momentum for a systemic innovation agenda.



BUILDING AND UNDERSTANDING INNOVATION CAPACITY

The Framework highlights key focus areas for building and understanding innovation capacity. It also showcases how innovation needs to be embedded and interact with the entire public administration and governing system; including how it interacts, is understood and is influenced by drivers, factors, capacities and supports across the system.

Ultimately, now more than ever before, strengthening innovative capacity is a must for governments. To achieve sustainable and meaningful outcomes for citizens and society, innovation can no longer be an afterthought.

While it may seem like a daunting task to begin this journey, the time is now. The OECD
 Observatory of Public Sector Innovation is working alongside countries such as
 Ireland, Denmark, Slovenia, Finland, Canada, Israel, Brazil,

 Latvia and Romania to support their journeys and will continue to showcase
 research findings, tools and resources to support governments worldwide. These resources

 include the Innovation Case Study Navigator, Innovation Portfolio Exploration Tool,
 Anticipatory Innovation Governance Portfolio, Mission Action Lab, Innovation Toolkit.
 Navigator, Behavioural Insights Resources and the Innovation Playbook.

For more information on how OPSI can work directly with countries, you can contact **opsi@oecd.org**.

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Innovative Capacity of Governments: A Systemic Framework

