

Managing innovation and risk in a public sector context – leadership challenges with specific reference to social policy

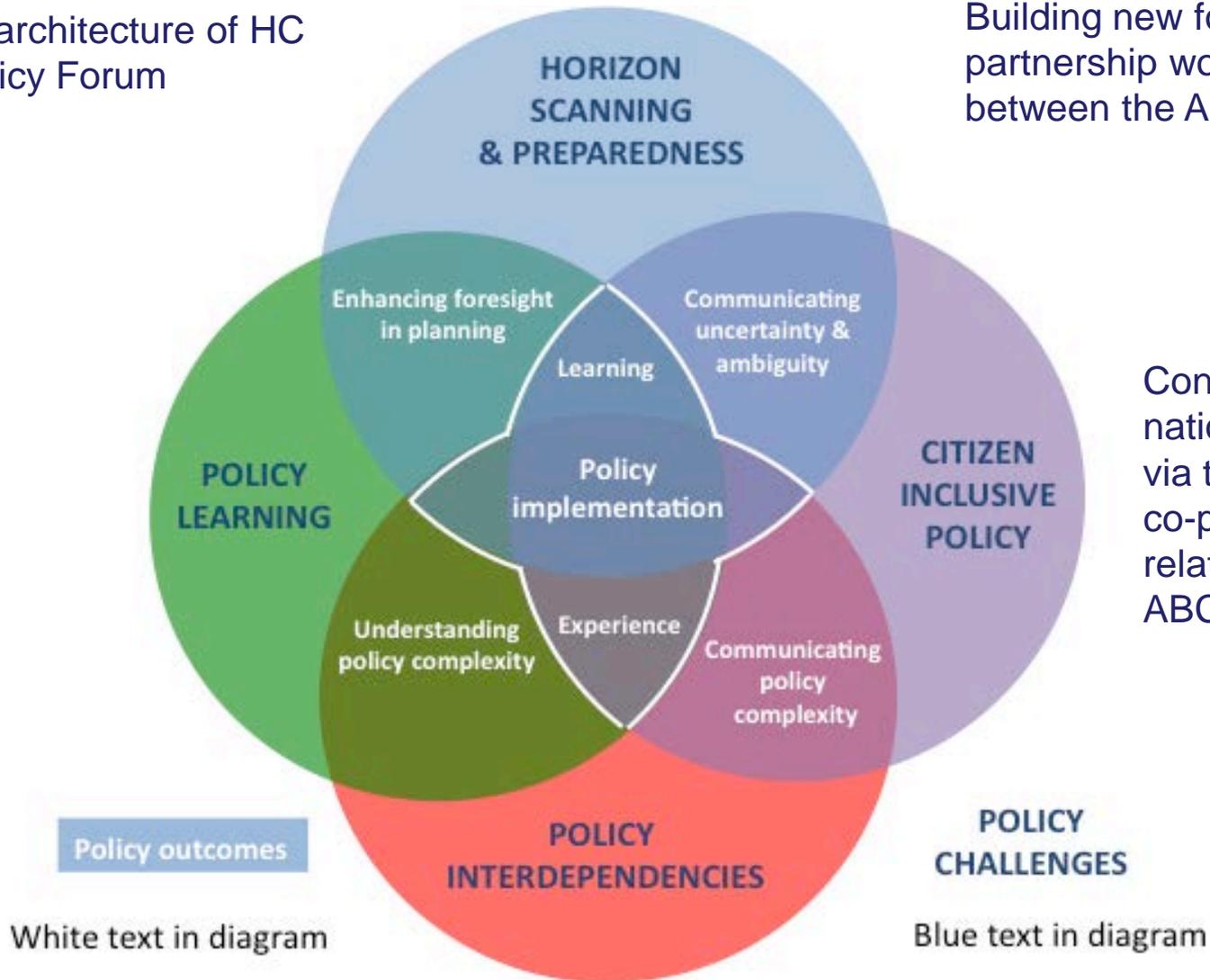
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Conceptual architecture of HC Coombs Policy Forum activities

Building new forms of partnership working between the APS and ANU



Contributing to national debates via television (a co-production relationship with ABC 24)

A heads-up on my key message

- Government is the uncertainty and risk manager of last resort
- Doing this well requires that uncertainty management is decoupled from risk management
- The public sector innovation agenda (as currently defined) borrows too heavily from private sector innovation approaches BUT has been decoupled from the public sector productivity agenda (this is not useful)
- Social policy is a great illustration of the importance of values (ethics and morality in particular) and the limits to ‘evidence-based policymaking’
- Tolerance for uncertainty strengthens social capital (hence a uncertainty can be a benefit not necessarily a problem)
- Prudent for leaders in social policy to factor these considerations into their strategic thinking: would social policy be more productive if a greater tolerance for uncertainty were designed into the policy stance?

What do governments actually mean when they speak of public sector innovation?

- Covers both policy formulation and service delivery
- Tends to involve breaking down silo problems via better partnership working – more “joined up”
- Significant ICT emphasis (data integration + “open govt.” etc)
- Improved risk management
- “Venture capital”/risk funding model – e.g. UK Invest to Save Budget
- Aligned with evidence-based policy-making ethos
- Stronger engagement with external expertise
 - Business, academia and civil society
- Public sector innovation starting to play major role in overall innovation frameworks (especially in the UK and Australia)

Risk-aware and risk-averse government

- Paradox: if we have governments to handle the uncertainties and risks that markets can't cope with then why do governments put into place such risk-averse practices and procedures?
- Consider:
 - Reactions to probity and transparency aims
 - How output-outcome budgeting has been implemented
 - Experience with fostering creativity and innovation within government
- Tendency for governments to treat risk as a problem rather than an opportunity (as it is the private sector)
- If risk is seen as something to be eliminated in operations then it is hard to articulate good public policy formulation and delivery
- Problem exacerbated by the influx of risk-averse private sector accounting methods and expertise into the public sector

Characterising private sector innovation

- Strong emphasis on business strategy
 - Global competitive intelligence
 - Strong market research
 - Careful competitive positioning
 - Effective value chain management
- Strong emphasis on investment risk management
 - Generating and selecting options in a Darwinian manner
 - ‘Failing early’
 - Exploiting trust and reciprocity (social capital)
 - Playing the risk-reward relationship game (incl. luck via portfolio methods)
 - Specialised ‘fit for purpose’ finance arrangements (internal and external)

Using the expected value (EV) equation to think about the dynamics of the innovation process

$$EV = P_S \times NPV_S - P_F \times NPV_F$$

Where:

P_S = Probability of Success

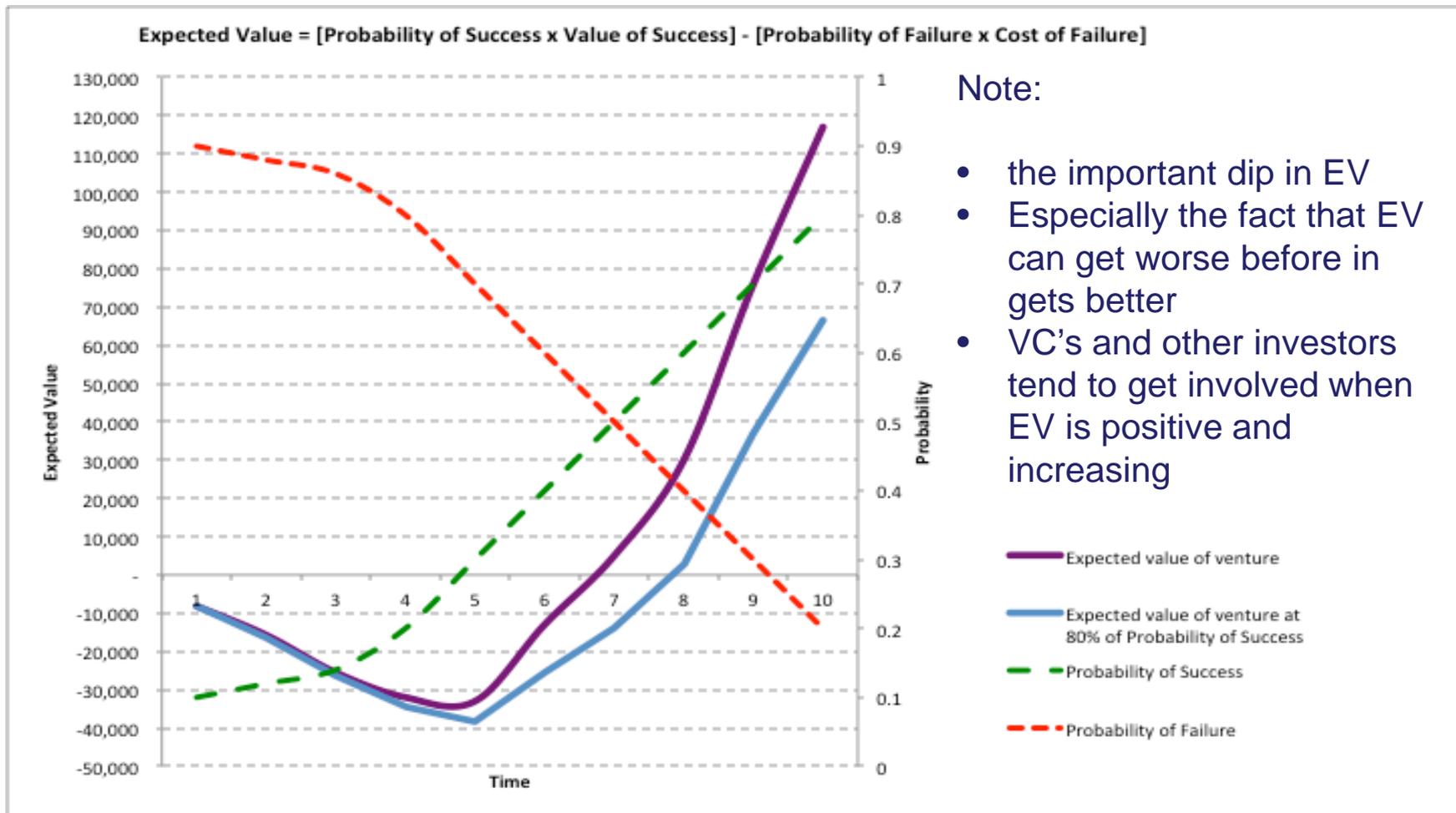
P_F = Probability of Failure
(1 - P_S)

NPV_S = Net Present Value
of Success

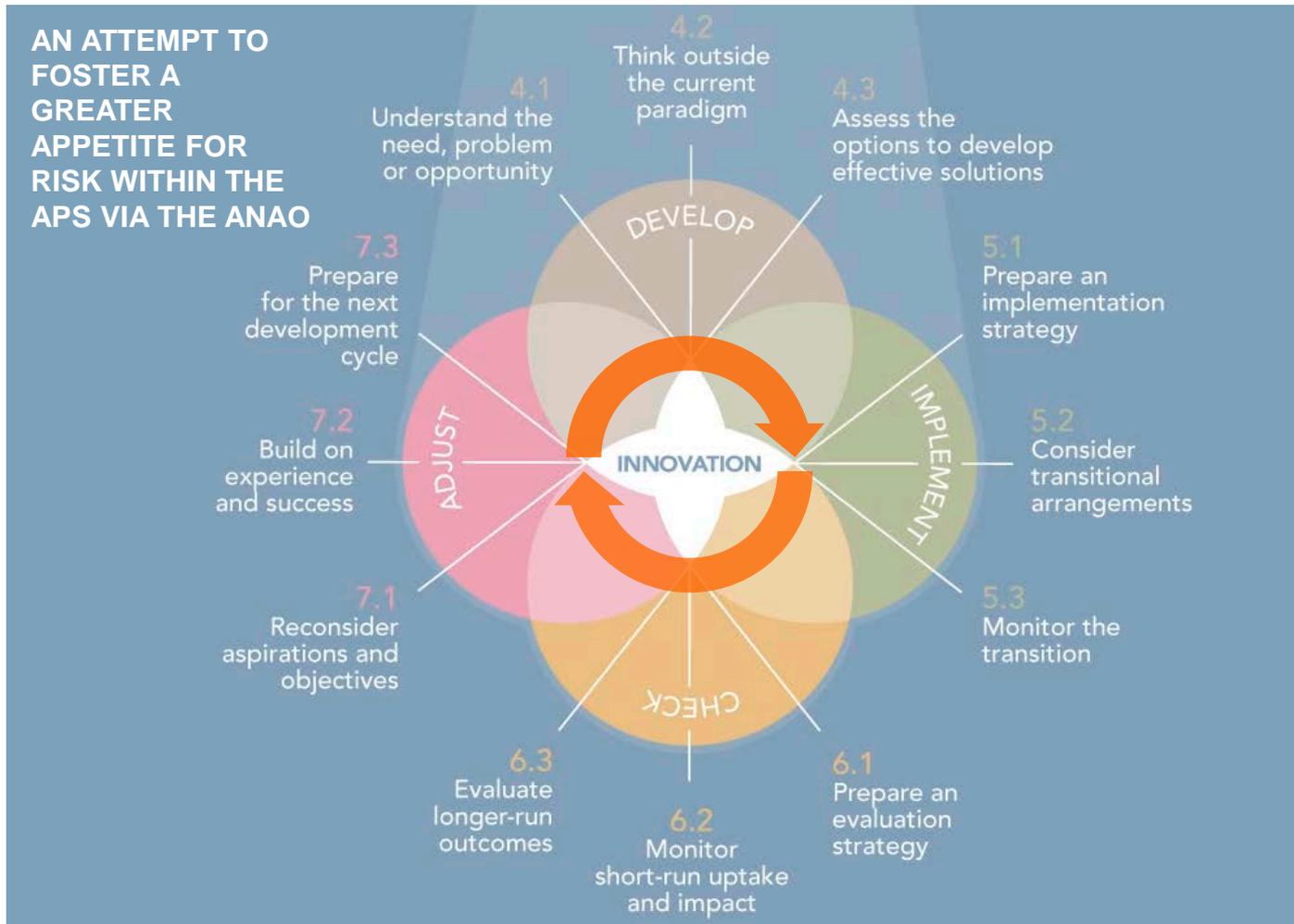
NPV_F = Net Present Value
of Failure

- A useful means of easily factoring risk into investment decisions
- Demonstrates the impact of changes in P_S and the net cost of achieving this
- More complex methods exist that expand upon these principles

Illustration: driving down the probability of failure



Learning cycles are critical: hence the architecture of the ANAO decision support framework

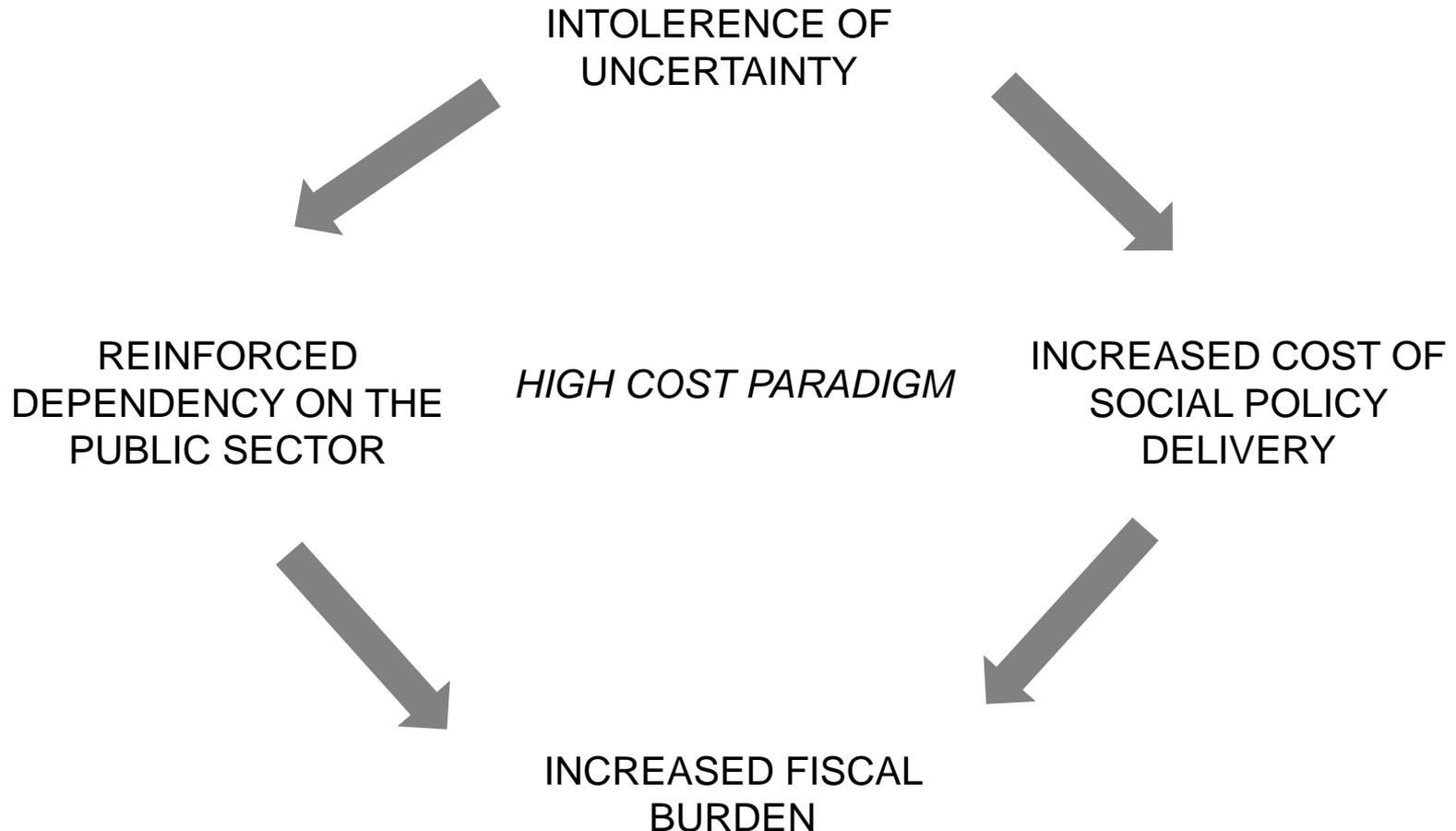


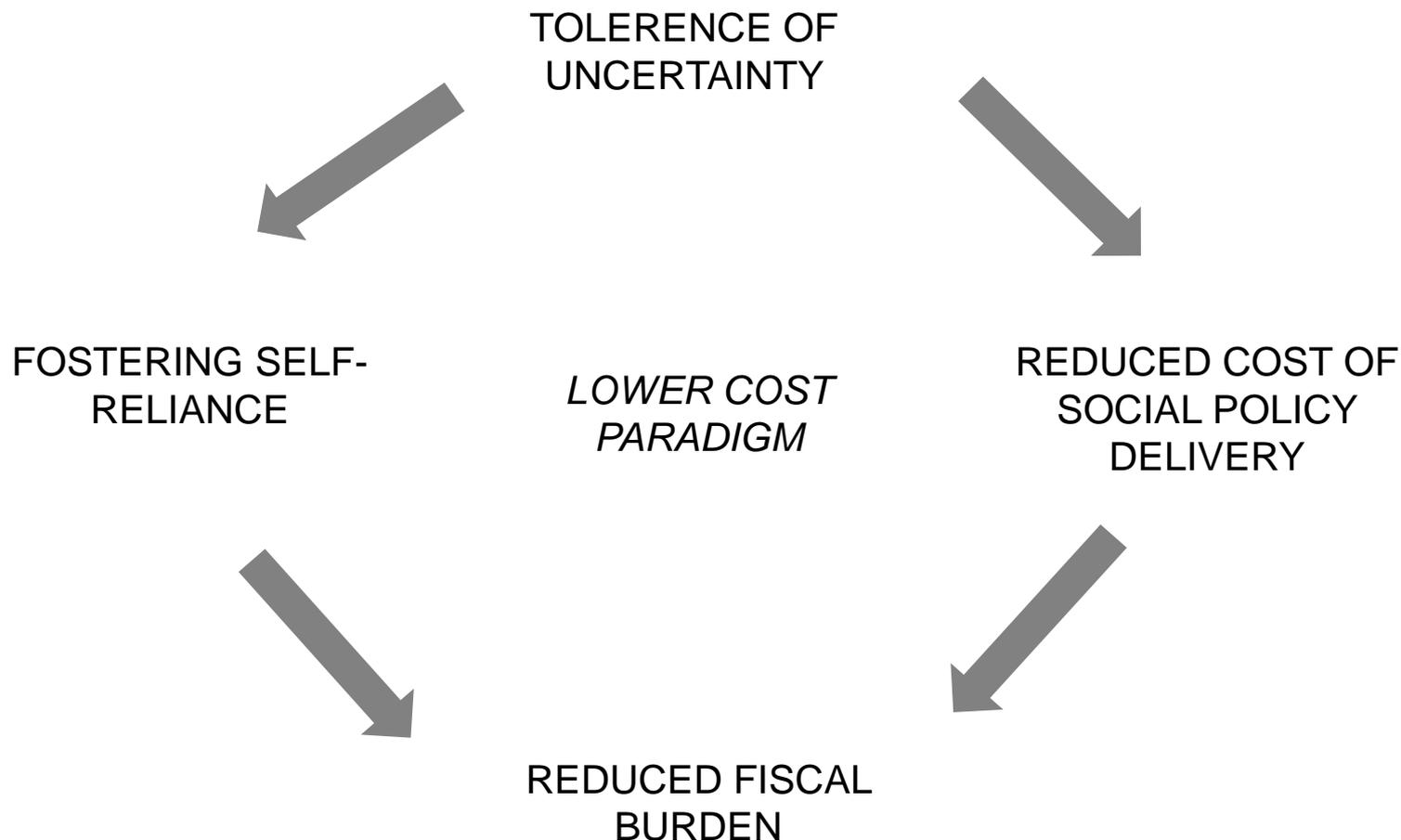
SPEED MATTERS:

CRISIS DRIVEN INNOVATION REQUIRES ACTION TOWARDS THE CENTRE OF THE DIAGRAM

Examining social policy from this perspective

- Social policy is a great illustration of the importance of values (ethics and morality in particular)
-and the limits to ‘evidence-based policymaking’ (effective policy cannot simply be deduced from accumulated evidence)
- Tolerance for uncertainty strengthens social capital (hence uncertainty can be a benefit not necessarily a problem): *if I trust you I can tolerate uncertainty about what you are doing*
- Useful to explore how the Public Value perspective could be used to design a greater tolerance for uncertainty into social policy – an investment is social capital and reduced dependency on government





Implications for leadership strategies

- Explore how efficiency and effectiveness in (social) policy formulation and service delivery might be lifted by focusing on a tolerance for uncertainty as a long-term objective – as an investment in social capital and reduced dependency on the public sector
- Frame the public sector innovation agenda against governments' distinctive role as uncertainty and risk manager of last resort
- Implies that innovation in social policy could take the form of 'nudge' trust strategies - encourage support recipients learning how to achieve greater self-reliance - but still with a safety net



Thank you