



–European Policy Brief–

Policy Recommendations for Managing Risk in Social Innovation

LIPSE: Learning from Innovation in
Public Sector Environments
(Work Package 4)

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This policy brief presents the findings of the fourth work package (WP4) of the “*Learning from Innovation in Public Sector Environments*” (LIPSE) project. LIPSE is a research program under the European Commission’s 7th Framework Programme as a Small or Medium-Scale Focused Research Project (2013-2016). LIPSE focusses on studying social innovations in the public sector. Full reports can be downloaded via www.lipse.org.

1 Key Points on Risk and Social Innovation

If we are serious about promoting and supporting social innovation then a new approach to risk is required. Such a new risk paradigm recognizes risk as part of the social innovation process, balances it against the expected benefits of social innovation, and is inclusive in engaging all stakeholders. Service failure (i.e. actualized risk) as a result of social innovation should be seen as an opportunity for learning instead of triggering a 'blame game'.

- Public service professionals generally have a poor understanding of what 'risk' means - and it is usually talked about in actuarial (i.e. risk must be minimized) or health & safety terms.
- A 'blame game' culture still exists - risk is avoided if possible because of the possible damage to individual professionals or Public Service Organizations (PSOs).
- Nevertheless, risk is an essential part of social innovation: Without risk there is no innovation. So if policy makers are serious about social innovation, they need to promote an approach based on weighing potential risks against potential benefits of social innovation. The question to address is: what level of risk is appropriate for what level of expected benefit from social innovation?
- Risk in social innovation can be to service staff (e.g. health risk for medical staff), public service organizations (e.g. negative depiction in media), service users and their careers (e.g. application of wrong treatment), and to the community (e.g. pollution from failed new technology project).
- Small organizations are often at the forefront of social innovation – but our research shows that they had the least understanding of risk and its relationship to social innovation. They also had the least resources to devote to effective risk management.
- PSOs need to balance their approach to risk (and its resource implication) against the complexity of the planned social innovation. Simple innovations may only require technical approaches but more complex ones will require sophisticated approaches to risk governance and to stakeholder engagement.
- Regulatory frameworks (e.g. Health & Safety or service based) need to reinforce the overall approach to social innovation, including a more sophisticated expectation of how risk should be managed. Non-governmental funders can also be very risk averse because of reputational risk, which translates into funding calls.
- Many public services are now provided by multiple PSOs working together in service systems. Policy makers need to facilitate a common approach to risk within the system that it is shared. Individual PSOs should not end as scapegoats.
- There is an argument for national bodies to evaluate risk in public service delivery and make decisions on its governance to separate it out from the blame game at the organizational level

(e.g. analogous to medical research councils assessing risks in medical research rather than individual drug companies or healthcare organizations).

2 Risk Perceptions and Discourse

Practitioners have a poor understanding of risk in social innovation. Where an understanding of risk exists, it is dominated by health and safety or actuarial risk. Managerial staff is more likely to be able to express an understanding of the risks that their organisations are facing. Partially, this is because these positions are also associated with a more leading and strategic role in the innovation process; partially, however, this may be attributed to the distribution of evaluation and reporting responsibilities across different professional positions.

Frontline staff are more likely to focus on risk in a narrow service-user specific way, driven by governmental standards for which documentation needs to be provided. There is a culture of blame avoidance, which turns risk management into an attempt to ascertain that someone else is held responsible in case of service failure. Therefore, frontline staff seems to be aware mostly of those risks that they could be blamed for. There is little to no discussion of risk within PSOs.

The main types of risk identified in the public management literature are as follows:

- Risks to service staff
- Risks to service users
- Risks to the wider community/environment
- Risks to the organisation

3 Current Risk Management Practices

We identified three categories of risk management approaches that are currently in use:

- **Passive Approach:** No reaction or mechanism to manage risk.
- **Informal Approach:** Active approach to address risk on an ad hoc and informal basis.
- **Formal Approach:** Active approach to address risk on a strategic and formal basis that is part of the organisation's work process.

Informal approaches include:

- **Training on the job:** learning by doing, based on daily work and experience.
- **Risk Culture:** overall attitude of organisation towards risk, in particular manifested risk seen as learning experience rather than "failure"; willingness and skills to respond to risk and uncertainty spontaneously and constantly. This confirms the findings from the literature review and our theoretical framework (see LIPSE research report no. 4).

- **Communication** (informal problem-solving): informal meetings and discussions through unofficial, non-institutionalised channels, driven by individual personalities.
- **Expert status**: experience-based reaction to risk without any formal and systematic way of collecting and transmitting this knowledge.
- **Risk diversification** (unplanned): provision of a variety of services to provide alternatives if one service innovation fails due to manifested risk.

Formal responses include:

- **Monitoring/Hierarchy**: formal hierarchical structures that monitor and evaluate innovation processes and try to identify risk ex ante; mostly in the form of a board of directors, trustees, or a project steering committee; also in the form of 'check ups' when frontline staff is working on site with service users (call ins, responsible location monitor, etc.); annual reviews; information peer review.
- **Stakeholder Engagement**: activities and communication channels aimed at informing external stakeholders and managing reputational risks through institutionalised transparency.
- **Expert Evaluation**: mandated involvement of internal or external subject matter experts, such as auditing agencies or subject experts.
- **Formal training**: Prince II or Project Management Professional (PMP) etc. project management training/qualifications, down to job-specific risk management training (legislation/regulation/health and safety requirements).
- **Lobbying**: National efforts to address reputational risks and share information across organisations (Netherlands, and Italy); managing political culture regarding risk.
- **Protocols/Procedures**: either provided by regulator or internal to organisation, including checklists (e.g. for service user visits by mental health professionals or service staff on client visits).
- **Communication** (formal problem-solving): formal meetings and discussions through official, institutionalised, and regular channels, driven by individual structure rather than individual personalities (e.g. team meetings, board meetings, project steering committee meetings).

4 Conclusions

If social innovation is to be encouraged, we strongly advocate the creation of a framework for risk *governance* rather than risk *management*.¹ This is a framework in which risk is discussed across the organization as a positive variable that helps organizations to make the best decision for their

¹ Renn, O. *Risk Governance: Coping with Uncertainty in a Complex World*. (London:Earthscan 2008).

service users. Based on the evidence, we believe that the following seven principles will support PSOs in transitioning to risk governance.

1) Take into account smaller organisations when drafting policy.

Lack of trained staff and resources is a key barrier for smaller organisations to develop a comprehensive risk governance system. A network of independent experts who can advise individual boards or project teams would provide a valuable resource to overcome this burden and spark the development of risk governance even in small organisations.

2) Encourage risk culture as a learning culture and avoid the ‘blame game’.

The current stigma of risk as a factor to be avoided or at best minimised inhibits PSOs from creating an atmosphere of learning. Innovation is stifled out of the fear of failure. According to Hood’s ‘blame game’², failure outweighs the potential benefit of innovation, and deterring organisations from using a process of trial and error in order to realise social innovation in public services. Of course, risk needs to be carefully assessed and managed. However, we suggest that it should be seen as a positive contingency in the innovation process in order to achieve the best possible outcome for service users. This ideal outcome would balance expected risk and the expected benefits of innovation instead of minimising risk altogether.

3) Invite a wider discourse on risk, including public service users and communities.

Related to the aforementioned principle, reputational risk and public accountability are key contingents in public service risk approaches/strategies. Therefore, the risk discourse needs to include *all* stakeholders, i.e. politicians, service users and the community³ – not just those operating within a public service organisation. Including the public in a shared risk discourse is the only way to lessen the influence of the blame game, and transform risk culture into a learning culture. This also entails media management: currently, the media seem to target ‘failure’ as the end to innovation, making it difficult for public service organisations to justify renewed efforts at making said innovation work.

4) Provide enough flexibility in policy to accommodate a diverse provider group.

Public service organisations come in a multitude of organisational forms, sizes, and profiles. Therefore, inflexible regulation, such as in the case of mental health, may provide a minimum standard of service, but it also limits the potential for innovation. If innovation is a declared policy goal, an approach based on risk sources rather than affected service user groups may provide an

² Hood, C. The Risk Game and the Blame Game. *Government and Opposition*, 37(1), (2002): 15-37.

³ Bryson, J.M. “What to do when stakeholders matter: stakeholder identification and analysis techniques.” *Public Management Review* 6 (1), (2006): 21-53.

alternative approach for regulation that allows the required flexibility to accommodate diverse groups.

5) Be aware of clarity and consistency across governmental regulations.

Governmental regulation emerged as an important driving force of risk management in social innovation, in particular in the area of mental health (and thus potentially across ‘soft services’). It is therefore important that those regulatory bodies involved assure that their risk approaches do not overlap or even contradict each other. An example may be the social and health care in the UK, where different checklists had to be used that could potentially lead to differing results (e.g. whether an elderly patient should be discharged from hospital or not).

6) Base evaluation *outcomes* rather than (numerical) *outputs* in funding calls and regulations.

Related to the previous principle is the finding that current evaluation techniques – in governmental contracts and funding agreements, even on an EU level – perpetuate the focus on actuarial risk management by focusing on outputs rather than outcomes. More sophisticated and flexible evaluation and monitoring are likely to change the perception of risk in social innovation and provide an environment more conducive to spur further innovation. There also seems to be a certain level of organisational isomorphism among organisations that rely on external funders for their income: If funders set the focus on innovation, our empirical evidence suggests that organisations are likely to adapt and become innovation agents. However, if the current focus on numerical evidencing and actuarial risk management persists on the funders’ side, it is unlikely that organisations will be able to develop their full innovation potential with a risk *governance* rather than a risk *minimisation* strategy.

7) Explore the possibility of a risk governance council.

We recommend that policy makers consider the creation of national bodies to evaluate risk in public service delivery. These could be akin to medical research councils, which assess risks in medical research rather than relying on individual drug companies or healthcare organizations to set their own standards. Such ‘risk councils’ would make decisions on risk governance guidelines across sectors or public service systems, aiming to separate out risk governance from the blame game at the organizational level. This would also address the problem of coordinating risk governance standards across different agencies (such as, for instance, health and social care).

5 About LIPSE's Work Package 4

Work Package 4 is a multi-method comparative study, including Italy, the Netherlands, Slovakia and the UK, that seeks to provide empirical data on the connection between risk and social innovation. To this extent, it has four goals as set out and agreed in the LIPSE project initiation document:

- To identify the current range of approaches to risk in innovation in public services across European countries as well as to identify the key contingencies in two policy sectors.
- To empirically identify and evaluate current approaches for relevant stakeholders to engage in discussions about levels of risk for public service innovations and how these discussions are translated into specific risk management and governance models.
- To make recommendations regarding the formulation of relevant principles for effective risk governance in innovation in public services.
- To disseminate the results and policy recommendations among relevant policy makers and within the public management community.

The research entailed:

- 1) A survey that maps the extent and nature of the risks identified in the innovation process, current approaches to their management and governance, and the ways in which these are evaluated. 200 potential respondents were targeted in each country (100 for each policy area), totalling 800 sent out invitations overall. The total responses amount to 657 out of 800, i.e. almost 83%.
- 2) We then proceeded with a case study analysis that focuses on the processes of risk governance (or its absence) and their impact upon innovation in public services. Four case studies were identified per partner country, leading to a total of 16 case studies. Overall, this yielded a total of 106 interviews.
- 3) A document analysis was conducted in parallel to both survey and case study analyses. It entailed national policy documents relating to the two policy areas as well as internal documents on the respondents, such as websites, brochures, or sector guides.

6 Project identity

Project Name

Learning from Innovation in Public Sector Environments (LIPSE)

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Consortium

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- Ecole Nationale d'Administration (France)
- Erasmus University Rotterdam (The Netherlands)
- ESADE (Spain)
- Hertie School of Governance (Germany)
- Matej Bel University (Slovakia)
- National School of Political Studies and Public Administration (Romania)
- Radboud University Nijmegen (The Netherlands)
- Tallinn University of Technology (Estonia)
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- University Roskilde (Denmark)

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Website

www.lipse.org

For More Information about work package 4

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