Hands-off or Hands-on Governance for Public Innovation? : A Comparative Case Study in the EU Cohesion Policy Implementation in Finland

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Introduction and research question

Innovation has become a common measure for tackling wicked societal problems, such as diverging well-being or environmental issues, through public policies (Caiden and Puniha 2011; S. Osborne and Brown 2013). To enable innovation or renewal in the public sector or in activities with public value, the knowledge and resources of for-profit and non-profit organizations have been increasingly utilized in street-level interventions (Torfing and Triantafillou 2016; Lynn 2006). As a result of the normative assumption, stemming from the New Public Management doctrine, that public administration is inflexible and inefficient, the optimal means by which the state can govern public innovation is seen as framework-setting, with non-state actors, by contrast, given influence over day-to-day matters (D. Osborne and Gaebler 1992; Peters 2010). Hands-off governance, or *metagovernance*, has been assumed to spur public innovation by allowing maximal degrees of freedom for non-state actors to innovate while creating incentives and pressure to produce results (Sørensen 2012; S. Osborne and Brown 2013).

The drawback with hands-off governance, however, is the inevitable loss of scrutiny over the activity at hand, thereby endangering public accountability (Donahue and Zeckhauser 2011). The alternative, hands-on governance or *interactive governance*, in which public administration engages in the decision-making and operative activity of the intervention, places non-state actors under scrutiny, thus ensuring accountability (Peters 2010). Nonetheless, hands-on governance has been assumed to compromise freedom of experimentation, with the possible loss of innovative power (Sørensen 2012; Torfing and Triantafillou 2016).

The governance dilemma has thus been presented as a choice between autonomy and control, or innovation and accountability. Moreover, while attempts have been made to balance between the two by mixing hands-off and hands-on strategies (Sørensen 2012; Sørensen and Torfing 2011), this combination of governance strategies tends to increase the complexity of coordination, causing new problems (Lynn 2011). Interestingly, some researchers have argued that public administration possesses latent innovation potential through its monopoly of authority and information on public processes and services, which could be put to good use by hands-on governance (Blomgren Bingham 2011; DeLeon 2007). Furthermore, some concern has also been expressed about the unintended negative consequences of the incentives and pressure directed at non-state actors by the hands-off approach (Peters 2010). Most research on public innovation governance nevertheless consists of either theoretically driven conceptual work or unique case studies, which leads to the proliferation of various potentially unfounded assumptions (S. Osborne 2010). Moreover, the few extensive empirical studies that exist have only confirmed the benefit of cross-sectorial cooperation for public innovation without explaining the actual governance mechanism (Vento and Sjöblom 2018). In the absence of empirical comparative studies, it remains unclear whether, as governance theory suggests, hands-off governance is more innovative than hands-on, or whether the assumption about the innovative potential of hands-on governance is correct, and if so, to what extent. To provide an empirically based answer to these questions, this paper compares the governance of two similar public innovation projects. The research question we seek to answer is

- *How do divergent governance strategies affect innovation in the project-driven implementation of public policy?*

The focus of the paper is the street-level governance of public policy implementation, which is studied by scrutinizing two comparable public innovation projects, of which one was governed hands-off by competition and one hands-on by interaction, thereby allowing exploration of the micro-level mechanisms at work in the two governance strategies when pursuing public innovation. For reasons of space, macro-level governance mechanisms that incentivize or penalize whole branches of business, such as tax reductions or fees, are excluded from the scope of the study. Empirically, the paper focuses on the

European Union’s *Cohesion Policy*, a regional policy which, besides being the world’s largest public transformative policy, is implemented according to a partnership principle that encourages interaction between state agencies and both for-profit and non-profit organizations (Bache 2010). Further, its implementation is regulated loosely to allow different governance strategies among and within the EU member states (Brulin and Svensson 2012). The Cohesion Policy is, however, not unique with respect to the instruments it employs to implement transformative policies. The U.S. Department of Agriculture’s Regional Conservation Partnership Program, for example, is similarly implemented through public-private partnership projects in the hope of fostering innovation (Munck af Rosenschöld and Wolf 2017). By studying the implementation of two Cohesion Policy projects aimed at renewing street-level employment management in Finland, this paper scrutinizes the potential limits of public innovation governance theories to account for the factors leading to successful public innovation.

Public innovation in theory and practice

Innovation has become the standard solution to the persistent societal problems, or wicked problems, with which welfare states have been wrestling with since the oil crises of the 1970’s – problems which have proven resistant to traditional policy measures (Peters 2010; S. Osborne 2010). This has led to a rethinking of the aims and implementation of public policies and a consequent attempt to overcome these issues by increasing knowledge and expertise, entrenching resource networks, and renewing practices and processes. Generally, this is what is referred to as innovation or renewal (S. Osborne and Brown 2013). Innovation has, however, become popular in the public sector to the point where it is attributed a multitude of meanings, thereby leading to a blurring of the concept (Anttiroiko, Bailey, and Valkama

2011).

A first crude distinction can be made between innovation with a focus on output and innovation as culture and institutions (Sørensen 2012). In the former perspective, innovation is considered a concrete product or production process that provides a firm with a competitive advantage in the market (Rogers 1995). By contrast, in the latter sense, innovation refers to reforms in organizations, institutions or systems, and the focus is the prerequisites for reforming or renewing (Hartley 2005). While both conceptions of innovation stem from the practice of businesses, the latter has proven more accurate for describing innovation in non-market circumstances (Sveiby, Gripenberg, and Segercrantz 2012).

The concept of innovation was first introduced to the public sector during the market oriented, or New Public Management (NPM) oriented, administrative reforms of the 1980s (Caiden and Puniha 2011). Because the purpose of the public sector is to generate public value rather than private value, innovation has materialized as the creation of new processes or practices and the renewal of institutions and structures rather than new products or patents (Torfing and Triantafillou 2016). More specifically, public innovation has concerned the generation of fragments of knowledge and their combination into improved knowledge and practices, which when accumulated, may lead to more disruptive reforms or changes in institutions and systems (Anttiroiko, Bailey, and Valkama 2011). The incremental renewal of knowledge and practices with a public value is sometimes referred to as *public* or *social innovation* (Clegg, Kronberger, and Pitsis 2011).

The benefit of such soft innovation, for example networking or learning, tends to emerge in the long term (Brulin and Svensson 2012). Moreover, uncertainty over how and when knowledge will become beneficial restrains evaluation of the short-term effects of soft innovation (Bessant 2003). Researchers have therefore suggested that public innovation should be regarded as:

> *An intentional, yet inherently contingent, process that involves the development and realization*

> *of new and creative ideas that challenge conventional wisdoms and break with established practices in a particular context.* (Sørensen and Torfing 2011)

A meaningful demarcation of public innovation, which this article also embraces, thus includes the activities of learning, creating new ideas, and establishing contacts with actors possessing knowledge or other resources that can be provided upon request to public institutions or that have value to the public.

Strategies for governing public innovation

Due to its bureaucratic logic, the public sector is often considered inherently incapable of innovation or renewing itself (Lynn 2011). To enhance public innovation, which necessitates experimentation with the risk of failure, combining different resources and the capacity to learn, transformative policies are thus implemented in cooperation with both for-profit and non-profit organizations (Donahue and Zeckhauser 2011). The involvement of non-state agents in the activity of pursuing public innovation means handing over some degree of power from the state on either decision-making or operative activities (Donahue and Zeckhauser 2011; S. Osborne and Brown 2013). The question for public administration is thus how to govern the activity so as to maximize the autonomy of the non-state actor while remaining in control.

Hands-off governance has long been regarded the champion of public innovation, as it refrains from direct interventions and instead focuses on coordinating through agenda setting and incentivizing the external agent (Table 1). The typical innovation mechanism of this metagovernance is competition, which is assumed to encourage bottom-up engagement and experimentation when actors are required to adopt new methods to attain an advantage over competitors. The hands-off strategy, sometimes also called the NPM-strategy (Sørensen 2012; Peters 2013), decentralizes power over both decision-making and choices in implementation and focuses on setting the stage or framework for non-state actors, from which the term metagovernance stems.

Hands-on governance, meanwhile, has been assumed to generate accountability through the participation of public administration in decision-making and productive activities (Table 1) (Sørensen 2012; DeLeon 2007). By contrast, the top-down coordination resulting from the intervention of public administration is thought to restrict innovation by decreasing non-state actors' autonomy and incentives for renewal. Judging from the proclamations of governance theory, one could easily conclude that hands-off governance is more innovative, while hands-on governance is better suited to cases where control and accountability are important.

Table 1. Key dimensions of hands-off and hands-on governance.

	Hands-off governance	**Hands-on governance**
Governing technique	Framework setting	Intervention
Source of initiative	Bottom-up	Top-down
Guiding principle	Autonomy	Control
Expected outcome	Innovation	Accountability

Some researchers have nevertheless also argued that public administration has the potential to enhance innovation through active engagement with non-state agents (Blomgren Bingham 2011). The assumption is based on public administration's monopoly of resources in terms of knowledge about regulation and policies, and, in some cases, the legitimacy that it lends to the innovation process (Ansell and Gash 2008). Lastly, governance theories seem to disregard the complexity of the public sector, which, in order to renew its processes or systems, may require problem-driven interactive cooperation with non-state actors in decision-making and operations (Lynn 2011). The governance theory of public innovation consists, therefore, of inherently contradictory assumptions, a result of a research agenda focused on theory and unique case studies (Donahue and Zeckhauser 2011; Sørensen and Torfing 2011; Anttiroiko, Bailey, and Valkama 2011).

In addition to innovation, public-private collaborations have been considered a potential means of enhancing democracy and the economic efficiency of public interventions by improving accountability and facilitating participation (Ansell and Gash 2008; Blomgren Bingham 2011). However, while these are important and potentially mutually reinforcing aspects of public governance, for reasons of space this article focuses solely on the public innovation of governance.

Governing public innovation in Cohesion Policy

In public innovation governance theories, the public sector is often treated as a monolith, despite its sectorial divisions. However, these divisions may differ widely in terms of the prerequisites for their renewal (Sørensen 2012). Interestingly, research has found notable differences between policy fields in the willingness of public sector officials and workers to embrace and advance innovation. For example, innovation readiness has been observed to be significantly higher in the field of social policy than in technical and economic fields in the public sector (Torfing and Triantafillou 2016). From this perspective, the EU's Cohesion Policy, and especially its branch of social policy, the European Social Fund (ESF) program, should represent a viable policy field for studying the governance of public innovation at the front line of policy implementation.

The ESF is focused on improving endogenous economic growth by enhancing education and employment in the poorer regions of the member states.[1] A key factor for achieving social cohesion among the regions within member states is the street-level renewal of practices, processes and institutions in employment management and social services. The means for achieving the general EU-wide objectives are defined by each nation to fit local needs. In the ESF national program of Finland, the objective is to improve the socio-economic status of poorer regions by public innovation. According to the program,

> *a social innovation can be, e.g., a change in the line of action of communities and actor networks, or a new solution to functional problems for society and the individual. Elementary is the examination of the phenomenon or problem from a new perspective.* (ESF program in Finland, 2007–2013)

The content of innovation in the ESF-program is clearly similar to the conceptual definition of public innovation discussed earlier. We will further discuss the details of the public innovation considered in this article in the practical description below of the two development projects that serve as the cases for this study.

In practice, the practical implementation of the ESF program consists of an agent applying for funding from the regional administration, which if granted, leads to the establishment of a project to achieve the goal set in the project plan (European Commission 2017). Implementation of the ESF program in Finland is administered by government-steered regional administration units (ELY Centers) responsible for the development of the economy, transport and the environment. The instructions for these administrative

[1] More generally, the ESF program is part of the Europe 2020 strategy for smart, sustainable and inclusive growth in the EU (European Commission 2013). To meet this end, the Cohesion Policy encompassed a total of 347 billion euro in the program period 2007–2013 and a total of 336 billion euro in the period 2014-2020 (European Commission 2007). Accounting for a third of the total EU budget, the Cohesion Policy can be said to be one of the most significant transformative public policies in the EU, and even further, in the world (Brulin & Svensson, 2012). The Cohesion Policy is organized as programs and implemented in partnership between the state and non-state organizations in projects (Bache 2010). Between 2007–2013 there was about 18 000 such projects in Finland alone.

units consists of general advice about the universal values of good governance (Ministry of Economic Affairs and Employment, 2011). The instructions also standardize the general phases of application and the granting of project funding, supervising the activity and ending the project, which, by no accident, are the key phases of public projects recognized in project theory (Lundin and Söderholm 1995; Godenhjelm, Lundin, and Sjöblom 2015).

The administering official is, however, given concrete options when, for instance, choosing whether to organize the call for applications as an on-going process or as theme-calls. The idea behind offering possibly divergent governance strategies for street-level administration is to allow for flexible customization of measures to efficiently implement the union-wide policy in states with divergent institutions and conditions (Piattoni and Polverari 2016). The soft regulation of the governance of ESF implementation thus allows comparison of different governance strategies for the same policy. In this article, the three phases of a project serve as frame shots for analyzing the effect of governance strategies on public innovation.

Data and methods

The governance of Cohesion Policy implementation is studied through two cases of public innovation in street-level employment management. The two projects were chosen from a total of 2200 Cohesion Policy projects that were implemented in Finland during the program period 2007–2013 and were categorized as innovation projects by the Ministry of Economic Affairs and Employment of Finland, the responsible government department for governing Cohesion Policy. The projects were chosen based on quantitative content analysis of project reports, register data on the projects from the Ministry of

Economic Affairs and Employment, and a survey among the project managers (N=1750, response rate 47%) conducted in the fall of 2013. They were selected because they were considered representative of typical large public innovation projects, comparable in terms of their organization, funding and institutional environment, but divergent in terms of innovation.[2] The projects are described in more detail in the next section. The innovativeness of the public projects was analyzed by research assistants using quantitative content analysis of official projects reports. They encoded projects with intentional and structured attempts at experimenting and learning for generating public value as innovative. The content analysis of the project reports also informed the analysis of the cases by offering a framework for interpreting and relating the interviews to the realized activities.

Semi-structured interviews with the project managers of the two projects chosen as cases and the administrative officials responsible for their funding decision and governance were conducted during spring 2014 in two large areas in Finland. The interviews were transcribed by research assistants for qualitative content analysis. For analytical purposes, the interviews were treated as respondent interviews, where the focus is not only the content of the interviews but also the motives of the interviewees. The analysis of the interviews therefore serves as a mapping of officials' and project managers' actions and the reasons behind them. These actions are analyzed through comparison to the governance strategies conceptualized above as hands-off and hands-on and by considering their effect on the process of public innovation in the projects.

Analysis of the cases

[2] For descriptives of the development projects in the Finnish Cohesion policy program, see Appendix.

The aim of the projects was to renew street-level employment management in two regions of Finland, the hope being to lower long-term unemployment. The research design follows the most similar system design logic, which, in this paper, means that the projects shared the same organizational characteristics but differed regarding steering and output (Table 2). Public administration in Finland, which exemplifies the "good governance" of the Nordic welfare states (Greve, Lægreid, and Rykkja 2016), and enjoys a high level of trust (Fotel 2011), should provide a best case scenario for fruitful interaction between administrative officials and actors pursuing innovation.

The projects, which lasted three to four years and had budgets of around 900 000 €, were large, publicly-funded attempts to find a solution to long-term unemployment. The respective regions targeted by the projects have a population of approximately 100 000 inhabitants each. Territorially, the regions are rather large. Moreover, each region has a principal urban center which accounts for approximately 50 % of its population and extensive rural territory. Administratively, the regions consist of one regional administrative unit comprising ten municipalities. The ELY Centers of each respective region were responsible for governing the projects. Project A was owned by a civic organization specialized in providing employment management services in cooperation with the local administration unit of employment. In turn, Project B was owned and managed by a public network responsible for providing social and health care services for the region. For both projects, external project managers were hired.

Table 2. Key characteristics of the projects in the case study.

Project	**A**	**B**
Task	Intervene in the structural unemployment of the region	Intervene in the structural unemployment of the region
Funding	850 000 €	950 000 €
Duration	3 years	4 years
Monitor responsibility	ELY Center A	ELY Center B

Project owner	Civil society organization specialized in managing local employment	Regional public network for social and health care services
Project manager	Externally hired	Externally hired
Result	Temporarily intensified employment service	Development of employment service model integrating key organizations

The projects had different outputs despite similarities in the problem at hand, the available resources and the projects' duration, organization and context. Project A ultimately attempted to provide the unemployed with intensive guidance, focusing on adding to the productivity of regional employment management. By contrast, Project B aimed to transform the institutions and structures of regional employment management by influencing actors' attitudes and establishing forums for cooperation between municipal administrations.

In addition to their innovation output, the projects also differed in the governing strategies to which they were subject. Project A was subject to metagovernance by competition, whereas Project B was primarily governed by a more hands-on approach from the administrative official. Thus, there is good reason to suspect that the difference in output was caused by the divergence in governance strategies.

Project A: Metagovernance by competition

Initiation and planning

Project A was established with the ambition of intervening in long-term unemployment in two large areas of the region. The civil society organization managing the project collaborated closely with the local employment administration, and the project was initiated and formed during a theme call for project applications. The region boasted several potential organizations in various fields of expertise, leading naturally to a competitive setting. Moreover, the official responsible for the funding of projects in the region actively supported this competitive setting and considered it beneficial. In addition, the official felt obliged to micromanage the formation of the projects during the competition for funding. The official thereby went beyond the pure metagovernance strategy by performing hands-on interventions. The reason for this seemed to be a lack of trust in the ability of the competition mechanism to identify the best project plans.

> *In the last five years we have not had an on-going call, and this is important to remember, because it would be possible to arrange it like that as well, but the problem is that then these projects would not compete against each other. In my opinion, it is much better for the applicant if they also recognize that there is competition in their field. We have these theme-calls, where you apply for a certain field, and it is easier to fix the applicants as competitors where they know they are not the only ones applying. . . .* [W]*e also like to mark the project plans during the application process with a grading system, and we do a lot of it, which is probably not such a passive system; we contact the projects that interest us, and after we have expressed interest in a project they get the green light at quite an early stage already, so they know when they are preparing it if it will lead to something.* (ELY Center, Official A)

The strategy did not, however, secure a streamlined project plan for innovation. Instead, it seemed that the pressure to develop the most innovative plan in the competition for funding caused the project to promise to deliver goals that were not necessarily compatible. Moreover, the intervention by the official may have accentuated the mix of goals, which ultimately resulted in an overly complex and unintelligible project plan.

> *The original plan did not pass through as such, but it was changed over and over again, and it turned out to be such a hotchpotch of measures that it was really difficult to follow.* (Project Manager 1)

The metagovernance of the initiation of a project with a public innovation objective thus failed to meet the criteria of promoting renewal and learning by incentives and pressure (Sørensen 2012). Instead, the project's complexity seemed to have led it astray from the outset.

Implementation

The problems encountered during the application and decision phase of the project quickly became apparent during the implementation stage. The various iterations of the project's design had resulted in a mix of different measures and goals, which presented a challenge for the manager.

> *We approached the funder a lot of times and asked how we should interpret this and that, because it made no sense and we did not understand what the underlying idea was, so it was a great relief to get it changed and write it all over. It was a very good thing.* (Project Manager 1)

Despite the manifest problems with the overly complex project plan, this change did not occur until the project had run for a whole year, probably in part because of the respect felt by the project manager for the authority of public officials. However, the revision of the plan necessitated interaction, which soon allowed the project manager to become better acquainted with the official and hence more comfortable discussing project matters.

> *The constellation was such that you felt that the funder was some form of a God who dictated from far above, and you needed to humbly approach and ask if this and that were possible . . .*

> *they* [the official] *have immense power, and we are after all at their mercy. . . . Anyway, I think we could communicate with this funder and ask frankly if something is possible and why something is not possible.* (Project Manager 1)

The authority of the official was initially amplified by his adopting the role of a supervisor and allocator of public funding rather than that of a public manager developing the region.

> *I would say my role has been emphasized as a funder, even if the role of a regional developer is also present. And if I coordinate something, I only coordinate the money, so I do not coordinate regional development as such. . . . [M]y task is to make sure the money is available . . . and if there is a specialist role for me, it is limited to the technicalities of applying. I think the expertise in substance is found in the field and I can have the role of a funder.* (ELY Center, Official A)

For the most part, supervision was exercised through the application procedure, mid-term reports and final reports. Coordination occurred through forums for interaction, which were primarily the steering group of the project. The official viewed this steering group as the only realistic way to coordinate the project due to a lack of time for a more hands-on approach. This role as a supervising funder rather than an active developer was reflected in the fact that the official only contacted the project manager directly if there were obvious problems, such as a failure to attend steering group meetings.

The project was eventually revised according to the preferences of the project manager and overseen by the official. The changes to the project plan may have improved the project's implementation, but they also transformed it into a production project with the goal of directing the unemployed to new work and education and to becoming entrepreneurs. Thus, it resembled an intensification of the previous employment service rather than a public innovation (Jensen, Johansson, and Löfström 2006). The need for changes during the implementation stage presents a potential problem for public innovation, since officials have an interest in legitimizing their earlier financing decisions and may allow changes that, while ensuring that the financing is not wasted and is used legally for the public good, fail to advance public innovation.

> *He always helped as best he could, and we even got, or I mean I think it was good that he was not too much of a . . . how would you put it . . . he liked to twist and turn and look for ways how this law could be interpreted and how the money could be used, and to what extent it could be applied to this and that. It was like the project was the customer's project and how you could make it work. So that it isn't so much a happy medium between how it is stipulated . . . but that we were really thinking about those ways; could this be interpreted like this so that we can do something like this . . . that was really nice.* (Project Manager 1)

The metagovernance strategy thus seems to direct the focus of public officials towards formal matters that are considered vital, such as funding, and away from substantive matters, thereby leading to an acceptance of the project owning non-state actor's preferences.

Transition

The project consequently turned away from its original task of developing new practices for the management of unemployed individuals with the gravest difficulties toward managing those made redundant because of the economic downturn, who were in a better position to obtain new work anyway. The project was thus transformed into the intensified production of employment management services, which the project manager found unproblematic. Indeed, the project manager considered the project a success based on the crude numerical goals set for it.

> *I can't recall now by heart the number of clients, but we clearly reached all the goals regarding the number of employed and education, the flow of clients and creating new jobs . . . everything went excellently.* (Project manager 1)

In terms of innovation, the project nevertheless failed to generate new knowledge or networks. Moreover, it made no attempts to experiment. The termination of the project thus required no transferal of concepts or a body of knowledge to the administration or other permanent organization.

Contrary to the predictions of public innovation theory (Sørensen 2012; Sørensen and Torfing 2011), the metagovernance strategy focusing on creating competition in the initiation and planning phase failed to push the project to innovate. The administrative official's lack of trust in the competition process as an innovation mechanism led to meddling in the planning of the project during the competition phase. Consequently, the project plan became a mélange of measures and goals because of the project manager's need to prove the ambitiousness of the project and also align it with the demands of the official. Moreover, the project abandoned its goals of innovation and renewal as a result of changes during the implementation phase that were supervised by an official focused on ensuring the lawful use of funding and customizing the project to the project manager's needs at the expense of substance.

The failure of the competition strategy reveals the problems with staging a competition for a new activity in an institutional environment not inherently suited to market mechanisms. The public value of social policy, the complexity of the problems related to long-term unemployment and the traditional entrenchment of the social policy service in the units of the state seem to require more engagement than the metagovernance strategy is prepared to provide.

Project B: Dialogue and reflection

Initiation and planning

Project B was designed to reform structures and develop new ways of coordinating and delivering employment services. In the region of Project B, there seemed to be no real competition over ESF project funding. According to the responsible official, all well prepared ESF projects were funded. In the initial phase of the application, projects were also checked for their compatibility with the ESF strategy and regional development programs.

> *Until now, there has been no serious competition between projects. If the projects and applications have been more or less reasonable and in accordance with the program and useful and well planned, then money has usually been provided, they have not failed on that.* (ELY Center, Official B)

Instead of competition pushing the project to innovate, renewal occurred through a pre-project that mapped the employment situation and the steering of employment policy in the region. Interaction between the official and the project manager was, therefore, based on a shared foundation of knowledge and beliefs from which the development project could be established and which seemed to ensure streamlined project initiation and planning.

> *This was pre-dated by a project lasting a year where we interviewed and considered all imaginable means for taking care of employment in the region and its municipalities and processes . . . The project was planned against this background, and we decided the most important area of development was the cooperation between officials over administrative borders. And then we decided not to go for the traditional customer work approach in managing*

> *employment, but instead to fix these structures and the attitudes of agents and improve know-how and cooperation.* (Project Manager 2)

The application for funding was scored by the official according to the project's accordance with the program and a project-specific evaluation of the feasibility of the plan. The administrative official's control over the project was not, however, restricted to bureaucratic supervision. ELY Center Official B emphasized the importance of interaction with the project from an early stage for successful information management. The official engaged with the project by inviting the project team for a discussion.

> *The projects are evaluated according to a point system . . . and if it seems to be ok then we proceed with discussions about it, and if it then turns out to be clearly nonsense and not in accordance with the program or in some other way really odd, then we just tell them straight that this has no chance to proceed, and ask them if they just want to cancel it or if they want a rejection and a reason for why we don't think it will succeed.* (ELY Center, Official B)

Interaction continued after this initial stage, but it was not limited to the funding official and the project manager; rather, the official also engaged in interaction with colleagues when governing the project. ELY Center Official B seemed to favor a reflective approach, transforming the interaction into a dialogue with the project manager and also with other officials over how to steer the development of the project. It thus appears that the initiation phase is important not only for setting up the project but also for establishing interaction between the administration and the project agent, a fact which has not been recognized in the theory of public innovation governance (Torfing and Triantafillou 2016; Sørensen and Torfing 2011).

Implementation

The dialogue-like interaction between the project manager and the official provided predictability and smoothness to the process of establishing the project, which may be a key factor in the success of forming and running large development projects with a focus on renewal or transformation of structures and institutions. This interaction continued in the implementation phase, with the official remaining in contact with the project as it proceeded. This was clearly a conscious practice, judging by the remarks of the official, who self-identified primarily as an adviser and guide for the projects.

> *A major part of our job is following the progress of projects. The steering group is of course a good channel for staying up to date with what is going on in the projects. The projects also inform us about their progress, and if we do not hear from them, we start asking questions. Then of course the payment applications have a certain logic, and attached to them is a written action summary. The funder gets a general idea of the action and progress by looking at the receipts and the summary. . . . And then of course we just pop by and have a look at the activities in the project and have a discussion with the project manager.* (ELY Center, Official B)

Continuous interaction with the official provided the project's activities with legitimacy and security. In addition, it seems the dialogical approach to coordinating the project created additional flexibility by promoting mutual trust, thereby allowing for controlled risk taking and a desire to correct measures that proved ineffective (Meyerson, Weick, and Kramer 1996). Such a model of dialogue has been prescribed by previous research for managing the increasingly complex public sector (Blomgren Bingham 2011; DeLeon 2007), and this study lends further evidence of its benefits for project-driven policy implementation. Moreover, the project manager had also managed the pre-project as well as other similar projects. Thus, the manager's experience, contacts and commitment seemed important for the transition from the pre-project to the actual project that implemented the development. Innovation was primarily created during collaboration to solve the problems identified by the actors when exploring the field.

> *We had a lot of things going on, we had a plan with development targets, but we had not planned how to proceed with the thing. And then it grew from the team, and there were other people involved as well, it was the kind of innovation that we need, and it was constantly on-going. And all the time we gathered a lot of information, for example about employment and finance and the needs of different civil society organizations, and organized seminars and education. These were not exactly planned; they just evolved during the project when we saw the need and wanted to answer to it.* (Project Manager 2)

The flip side of this dialogue-like interaction was the potential influence of the administration over the formulation of the project. For example, hands-on steering by the administration broadened and diversified the project's goals, making it more complex and ineffective. For instance, Project B adopted public-private cooperation as one of its major tasks due to pressure from the ELY Center officials.

> *Then one of the essential tasks in the project, which we did not plan in the pre-project but which was demanded by the ELY Center, was cooperating with private firms. They also set pretty tough goals for this, and it took up quite a bit of the project's resources when one person was almost constantly visiting companies . . . it was a major effort in the project.* (Project Manager 2)

The primary reason for abandoning interactive, hands-on governance has been problems arising from the meddling of public officials in operational activities (Sørensen 2012; Peters 2010; D. Osborne and Gaebler 1992). Nevertheless, since the metagovernance strategy seemed to cause a range of other problems that were in many ways more harmful for innovation, hands-on governance may prove to be the lesser evil.

Transition

The fact that innovation was achieved by a visionary and highly competent entrepreneurial project manager in interactive dialogue with the administrative official also made the project highly dependent on that manager. The risk of the project becoming personified was indeed realized when the project manager was recruited to another position before the end of the project, thereby causing challenges for the transition of tasks. In addition, institutional change also proved problematic for sustaining the new procedures and networks. Moreover, continuous hands-on management by the administration failed to prevent the problems caused by these developments.

> *We did not succeed in everything. . . . I was not there until the end because I changed to another project where they needed certain know-how, but we had a great goal of constructing a broad, official, actor-based, common employment program which would consider future visions and objectives to be strived for by longer projects. . . . But it did not fit in. . . . It was related to the change in the organization of the administration, and people and municipal actors had to put a lot of effort into it . . . so it was bad timing I would say.* (Project Manager 2)

Project B could be considered quite successful in promoting a change in the attitudes and values of the administration and facilitating cooperation horizontally across the administration and with private firms and civil society organizations. The renewal of street-level employment management was, however, abruptly interrupted by a national administrative reform that altered the structure of the institutions and processes for which the employment model had been created. The innovation was, therefore, not adopted as common practice. Moreover, irrespective of these problems, the official seemed to lack a concrete plan for implementing the innovation by changing the old management system.

In sum, the interactive governance strategy seemed to set the project on track through a dialogue that provided the project with guidelines and support (Torfing and Triantafillou 2016). This interaction nevertheless came with a cost when the official insisted on a goal that was not easily integrated into the project's other targets.

Conclusions

Public governance theory assumes that hands-off governance, or metagovernance, is better suited to public innovation than hands-on governance (Donahue and Zeckhauser 2011). Hands-off governance is claimed to spur innovation by creating autonomy and incentives for non-state actors to experiment and learn (Torfing and Triantafillou 2016; Peters 2010). By contrast, while hands-on governance is generally seen as beneficial for accountability, its focus on control is commonly considered harmful for innovation (Sørensen 2012). Nonetheless, some scholars have also found that hands-on governance provides some innovation benefits (Blomgren Bingham 2011; Torfing and Triantafillou 2016). These assumptions have, however, mostly been derived from theoretically driven conceptual studies that do not necessarily recognize the multitude of plausible mechanisms present in the interplay between governance strategies, agent logic and the public sector environment. This study has demonstrated some crucial differences between the actual micro-level innovation mechanisms of public governance and those long predicted by the main body of the theory of public governance.

By analyzing two similar projects in the Cohesion Policy of the EU, which aims at regional convergence in well-being by public innovation, and dissecting them at the crucial phases of initiation, implementation and transition, this paper revealed that public innovation in fact benefits from close support by the public administration, starting from the initiation of the project and continuing throughout its implementation. Renewing the complex public sector is a daunting task, meaning substantial knowledge must be attained through both in-depth research and interaction with public administration, which may possess valuable information.

The study has shown that contrary to the assumptions of the theory of public innovation governance (Sørensen 2012; Torfing and Triantafillou 2016), a hands-off strategy for street-level policy implementation based on competition fails to spur innovation in the project-planning phase. Staging a competition in the field of social policy for the renewal of a service which lacks a natural market, is firmly run by public institutions, and is merely complemented by private companies and third sector organizations seems to fall far short of generating added value in terms of innovation. Instead, projects subject to competition appear to become overly complex when not receiving the required support from public officials at the crucial initiation phase. Importantly, the lack of interaction characteristic of metagovernance may accentuate problems faced by non-state actors when pursuing innovation and, in the worst-case, raise concerns about accountability. Crucially, as this study has shown, the adoption of a flexible customer approach to metagovernance by public officials can easily lead to the abandonment of policy objectives through an overemphasis on legality.

By contrast, the interactive engagement of administrative officials seems more consistent with enhancing public innovation. In our case study, the clear role adopted by the official facilitated interaction by clarifying the project manager's expectations when seeking support and receiving instructions. The on-going engagement of the public official also created a sense of mutual trust, which encouraged the project manager to experiment and take risks. Further, intra-administrative interaction assisted the official in decision-making and guiding the project. Nonetheless, officials can decrease a project's effectiveness if allowed to influence the setting of the project's goals. Moreover, neither governance strategy seemed to provide a mechanism for sustaining the innovation in practice after the termination of the project.

Based on the information obtained from this study, public governance theories should be adjusted to account for the innovation potential of hands-on micro-level governance in complex policy fields. In order to do so, they should primarily consider the policy context before stipulating governance strategies for innovation. Contrary to the suggestions of some theoretical research (Sørensen 2012), the mixing of metagovernance with hands-on local interventions risks distorting objectives by unintendedly combining the disadvantages of these divergent governance strategies.

For the practitioner of public administration, this means active engagement with a development mind-set is preferable to the technical administration of funding. Senior officials should encourage front-line officers to adopt a hands-on approach to the projects they are coordinating, discuss the projects with their colleagues and superiors and use the knowledge institutionalized in the public sector. Importantly, officials must prepare for the transfer of innovation practices after the termination of the project.

The study findings should be primarily considered in terms of the innovation mechanisms that operate on the micro-level of public interventions. Macro-level governance, where the state can successfully govern public innovation hands-off by, for example, providing positive externalities and absorbing negative externalities was not considered in the study. Nevertheless, an interesting question is how different level governance mechanisms interact with regard to public innovation. Future research could therefore consider the effect of government measures with a multilevel model of governance strategies. The effects of hands-off and hands-on governance found in this paper should also be tested regarding their generality with a quantitative dataset of public innovation projects and within other policy fields and other administrative traditions than the Scandinavian welfare state (Lynn 2006; Greve, Lægreid, and Rykkja 2016).

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Appendix.

Table i. Organization characteristics of the 1750 development projects in the Finnish Cohesion policy program 2007–2013

Variable	Observation	Mean	Std. Dev.	Min	Max
Budget (€)	1750	498110	721419	15000	20180000
Duration (days)	1750	940	3236071	60	1826
Innovation	1591	0.39	0.49	0	1

Table ii. Organization owning the project by sector in the 1750 development projects in the Finnish Cohesion policy program 2007–2013.

Sector	Count
Subnational public administration	567
College/vocational school	318
University/research institute	261
NGO	287
National public administration	128
Private company	189
Total (n)	1750