

## PDF hosted at the Radboud Repository of the Radboud University Nijmegen

The following full text is a publisher's version.

For additional information about this publication click this link.

<http://hdl.handle.net/2066/152677>

Please be advised that this information was generated on 2017-12-05 and may be subject to change.



**LIPSE**

# **Risk Definition and Risk Governance in Social Innovation Processes: A comparative case study across 4 EU-countries**

Sophie Flemig\* (University of Edinburgh) and Stephen Osborne (work package leader, University of Edinburgh), Taco Brandsen (Radboud University Nijmegen), Marieke van Genugten (Radboud University Nijmegen), Valentina Mele (Bocconi University Milan), Beata Mikusova Merickova (Matej Bel University Banská Bystrica), Juraj Nemec (Matej Bel University Banská Bystrica) and Maria Svidronova (Matej Bel University Banská Bystrica).

*\*corresponding author*

University of Edinburgh Business School

29 Buccleuch Place

Edinburgh EH8 9JS

UK

[sophie.flemig@ed.ac.uk](mailto:sophie.flemig@ed.ac.uk)

The research leading to these results has received funding from the European Union Seventh Framework Programme under grant agreement No. 320090 (Project Learning from Innovation in Public Sector Environments, LIPSE), Socioeconomic Sciences and Humanities. LIPSE is a research programme under the European Commission's 7<sup>th</sup> Framework Programme as a Small or Medium-Scale Focused Research Project (2011-2014). The project focuses on studying social innovations in the public sector ([www.lipse.org](http://www.lipse.org)).

## Table of Contents

Executive summary .....	4
1. Introduction.....	10
2. Framework for Analysis .....	12
2.1 Defining Risk and Social Innovation .....	12
2.2 Different Risk Approaches .....	14
2.3 Hard versus Soft Risk Approaches.....	23
2.4 Theoretical framework.....	24
2.5 Conclusions: Framework of Analysis.....	27
3. Research Design and Methods.....	29
3.1 Case Selection: Countries.....	29
3.2 Case Selection: Policy Areas .....	33
3.3 Case Study Sites .....	34
3.4 Research Design .....	34
3.4.1 Survey.....	35
3.4.2 Case Studies .....	35
3.4.3 Document Analysis .....	35
3.5 Conclusions.....	36
4. Scoping the Landscape: Range of Risk Management Approaches .....	37
4.1 Survey Results Overview .....	37
4.1.1 Organisational Characteristics .....	37
4.1.2 Respondent characteristics.....	39
4.1.3 Innovation Behaviour .....	39
4.2. Risk Perceptions.....	42
4.2.1 Risk Definitions .....	42
4.2.2 Types of Risk Identified .....	43
4.2.3 Nexus of Risk and Innovation.....	45
4.3 Risk Management Approaches in Practice .....	46
4.4 Conclusions.....	48
5. Mental Health and Sustainability: Key Contingencies of Risk Approaches and Discourse.....	50
5.1 Case Study Results .....	50
5.2 Key Contingencies.....	53
5.3 Discourse on Risk.....	56

5.4 Conclusions.....	57
6. Conclusion: Formulating Policy Recommendations for Effective Risk Governance in Public Service Innovation .....	59
6.1 Policy Recommendations for Risk Governance.....	59
6.2 Next Steps.....	62
7. References .....	63
Appendix 1: Survey Questions.....	70
Appendix 2: Semi-Structured Interview Protocol .....	73
Appendix 3: Detailed background of cases.....	74

### Executive summary

#### Introduction

- Social innovation has become a key component of governmental reform agendas and funding calls across different fields of policy and different European countries. However, there is a general lack of specific literature focusing on risk in public sector social innovation, and the literature that does exist requires further empirical testing. Therefore, there is a clear need for primary research to address the nexus between the risks involved in social innovation from a specific public service point of view.
- The goal of Work Package (WP4) is 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 and to empirically identify and evaluate current approaches for relevant stakeholders to engage in discussions about levels of risk for public service innovations. It also investigates how these discussions are translated into specific risk management and governance models.
- This report suggests a holistic framework on risk approaches in social innovation processes. Based on a thorough search of the literature, the WP4 framework (Flemig, Osborne and Kinder, forthcoming) differentiates between risk and uncertainty. Risks are those outcomes that have been identified but whose likelihood cannot be precisely determined; uncertainty denotes unforeseen outcomes that need to be addressed as they arise. These two types of risk are plotted against different forms of social innovation to suggest different theoretical options for optimal risk governance in public service social innovation.

#### Methods

- The empirical research of WP4 is based on a four country comparative study including Italy, the Netherlands, Slovakia and the UK, and spans two policy areas: mental health and sustainability. Our case selection is based on variations in types of governmental and societal system as well as the types of risk and risk audiences involved. WP4 thus entails a representative sample of unitary and decentralised governments, different civic cultures, and different administrative strategies, as well as of person-oriented and technology-oriented risks on various levels (corresponding to soft and hard services, respectively).

- Based on the theoretical findings and the holistic framework, a multi-method research design was adopted: beginning with a survey analysis with 800 requests for responses and 657 responses, WP4 then proceeded through the identification of 16 case study sites (4 per country, two in mental health, two in sustainability). In depth-interviews were conducted with all key stakeholders in each of these case studies yielding 104 interviews in total.

### Research Findings

- Some interesting findings on organisational structure emerged: providers of public services in the area of sustainability tended to be small, young, and private non-profits, whereas mental health public service providers tended to be either based in the public sector or associated with the public sector through contracting or Public-Private Partnerships (PPPs). They also tended to be bigger and more established, although this did not necessarily have any consequences for the current state of risk management.
  - One of our recommendations is therefore that more support should be offered for young and small non-profit organisations to build up professional social innovation risk approaches. This can be done in the form of a network of experts to support key policy areas, serving on boards and project steering groups.
- There was also a tendency of more of senior management level staff to respond. Their awareness of risk and risk management in the innovation process, as well as their involvement in innovation itself was higher.
  - On the one hand, this means that the managerial level of staff should be targeted in order to affect risk behaviour; however it also highlights the need to increase the discourse on social innovation and risk across the entire organisation, service users, and the wider community.
- Risk perceptions were almost entirely fuzzy. Few respondents felt comfortable to provide a definition for the term “risk” in the context of their organisation. However, when provided with examples or when free qualitative responses were analysed, there was clear evidence that every organisation necessarily followed at least one risk management approach, although in most cases not explicit based on the risks of social innovation.
- Financial risk tended to be high up on the list for UK organisations, but these were almost seen as operating on a different level to direct risk to service users. Findings from the other three countries are less pronounced on financial risk as an overall factor, but all four individual country case studies

indicate that frontline staff are more likely to identify and discuss service user risk (immediate risks), whereas managers and legal staff seem more concerned with financial and reputational risks to their organisations (i.e. risks from a strategic long-term perspective). The latter are also concerned with more strategic long-term issues, such as continuity in service provision and public accountability.

- Generally, bigger and more established organisations tended to exhibit more professional risk management approaches in place. In the Netherlands, however, even bigger organisations did not show much awareness of risk management in social innovation outside of governmentally set standards.
- In the case of mental health, risks were more tightly controlled through common standards in the form of regulation or legislation. Sustainability, on the other hand, seemed to benefit from more flexibility, but also a more confusing legal and regulatory landscape as there was no single source of legislation or regulation in any of the four countries (unlike for mental health).
- Bigger and more established organisations tended to be more likely to adopt private sector methods (e.g. Prince II, Project Management Professional (PMP), etc.), although the main and most explicit evidence is based on the UK alone. Further research must investigate the link between the professionalization of public service provision and risk perception, discourse, and approaches.
- It is important to note that service-level staff was also engaging in risk management albeit they did not a) identify their activities as such or b) pursue their risk management strategies in any systematic or interconnected way. Initiatives tended to emerge based on individual teams and in the guise of “making work easier/safer”. This seems to confirm the image of front-line staff as “street-level bureaucrats” that affect policy through their day-to-day activity. Further research is needed to explore how such unintentional policy-making affects the results of higher level policy-making.

### **Policy Recommendations**

- Overall, the risk discourse is dominated by actuarial risk approaches that focus on financial gain or loss above all other risks. This was attributed to a focus by most funders and governments on financial data to indicate success or failure. While some organisations reported that learning was part of the innovation process, and failure therefore inevitable, this atmosphere was limited to

consequences within the organisation rather than affecting service users or funding relationships (such as contracts with the public sector or private funders).

- We therefore recommend to review the process of evidencing success in public service innovation, moving away from a strict focus on outputs expressed in monetary terms. A more holistic framework of evaluation is needed in order to allow for a more sophisticated – and overall beneficial – discourse of risk in social innovation to emerge. This is also a key requirement in order to encourage an organisation- and community-wide risk awareness culture. At the moment, it is in particular small organisations, such as citizens’ initiatives, that suffer from the policy focus on outputs rather than outcomes.
- The risk discourse takes place mainly at the level of management with few designated risk managers across public and private organisations. This was attributed to a lack of funding for overhead staff to take on the role of risk managers. Moreover, the interviews also indicated a perceived public attitude that such roles were not part of the role of public service provider, in particular in the non-profit sector.
- Regarding the discourse on risk itself, the data strongly suggests that the predominance of actuarial risk management results in a negative connotation of risk (albeit risk to the organisation’s reputation, to service users and the wider environment were also identified). Rather than seeing it as a necessary part of any social innovation, risk is still perceived as a concept to be minimised or even avoided, an attitude, which comes at the cost of social innovation initiatives. For many organisations across all four countries, in particular those working closely with the public sector, risk was a perceived “no go”. Non-profits, in particular in sustainability, were dependent on funders’ willingness to tolerate the risks associated with innovation.
  - We recommend that the inclusion of the wider community (service users and non-service users, as well as the media) is necessary to create a risk *governance* structure that allows organisations to treat risk as a positive contingency, i.e. a factor to be balanced against the expected benefits of innovation, instead of a factor to be altogether avoided.
- This ties in with our findings on evidencing outputs and a need to evaluate outcomes instead. Often, it was reported that more budgetary flexibility within the remit of innovation projects was needed in order to flexibly respond to emerging uncertainties.
  - We also recommend to specifically target funding bodies: the formulation and evidencing in funding calls has been identified as a key driver of risk governance in social innovation over technical actuarial risk management.



- The risk management and governance methods in practice showed little variation in technique, and differed mostly in the number of staff involved. Overall, a classical system of project teams reporting to project steering groups and boards, operating according to a detailed project plan, was the dominant form of risk management, if formal responses to risk existed. In most cases, interviewees also referred to formal and informal communication structures driven by project managers. As aforementioned, this system tended to be based on financial indicators and driven by managers, with little involvement of service staff. The described structure particularly applied to the mental health case studies. As a result, both innovation and risk management tended to be top-down, which is less risky than the bottom-up innovation strategy of the sustainability case studies.
- Innovation and risk management are primarily funder-driven in the case of sustainability, with more opportunities for bottom-up innovation and a (slightly) more pervasive awareness of risk management in social innovation. This can be attributed to the small organisation size and private non-profit nature of sustainability service providers. In fact, funding sources seemed to produce a discernable level of organisational isomorphism, i.e. it seemed to encourage similar structures across organisations whose main form of income was external and competitive funding. Targeting funders is thus an important part of affecting the risk and social innovation approach of public service organisations.
  - Further research will need to address this nexus between the direction of innovation across an organisation and its respective risk management structure, as well as how top-down and bottom-up innovation should be balanced.
- The realisation of identified and unidentified risks in social innovation projects seemed to result in their general categorisation as a “failure” rather than an important learning opportunity to avoid future occurrences of the respective risks. This ties back to the negative and limited risk discourse within and across organisations and the public. The “blame game” (Hood, 2012) phenomenon seemed to dominate risk culture in so far as the avoidance of risk was seen as insulating the organisation (or individual employees) from reputational risks resulting from potential failure. Of course, such an outlook has consequences on the willingness to engage in social innovation, in particular when vulnerable service user groups are involved.
- All these suggested recommendations aim at the creation of a risk *governance* structure, in which risk and social innovation are balanced based on the particular context of each innovation project. On the one hand, this entails flexibility to adjust risk management according to different levels of

risk, with the sophistication of risk approaches increasing the higher the level of risk. On the other hand, it also entails widening the risk discourse across public service organisations, their service users and the wider community. The goal should be to shift the perception and discourse of risk to a positive instead of a negative contingency in social innovation. Only if organisations can be confident that reputational risks are not going to endanger potential challenges in social innovation projects can they begin to adapt a learning-oriented approach to risk taking and potential failure.

- A separate policy brief will be published by 31<sup>st</sup> March 2015. At this stage, we would like to stress the need for a more pervasive risk discourse across the entire organisation.

## 1. Introduction

Social innovation has been embraced as a key driver of public service excellence. Some even call it a ‘magic concept’ (Pollitt and Hupe, 2011) that is essential in order to overcome social challenges and fiscal austerity across the EU. Yet it is also an intrinsically risky business: The process of innovation is full of unknowns, both in terms of procedural externalities and outcomes. As Hartley aptly states “[i]nnovation, by definition, is uncertain in both process and outcome” (Hartley, 2013). Tidd and Bessant (2009) estimate that about 45% of innovation projects in the private sector fail while over 50% exceed their initial budget and/or timeline. Numbers in the public sector are likely to be similar. Yet, it remains a common notion that the public sector is inherently risk adverse<sup>1</sup> (Jayasuriya, 2004; Patterson et al., 2009), while governments demand increasingly more (risky) innovation (e.g. DIUS, 2008). In the light of Current economic rigours and media scrutiny of any form of public service (Patterson et al., 2009), an aversion to risk does not seem surprising.

Moreover, “risk” in common parlance denotes a multitude of different concepts. Some risks are known variables, and governments more often than not provide a framework for managing them, for instance regulation in the medical, social care, and environmental sector (Flemig, 2015). However, risks and uncertainties arise in different contexts, with differing degrees of probability and different audiences. While it is clear that risk in any form needs to be adequately addressed and managed in order for innovation to succeed, little is known about how this can and should be done (e.g. Nesta/Young Foundation, 2013).

Work Package 4 (hereafter referred to as WP4) seeks to address this lack of empirical data on the connection between risk and social innovation. To this extent, it has four goals as set out and agreed in the 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.

---

<sup>1</sup> The UK National Audit Office reports that six in ten public sector managers feared the risk of missing an opportunity to improve service delivery because of a general tendency for risk minimization (UK National Audit Office, 2000: p.5).

- 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

Chapter 2 sets out the research framework, including the conceptual framework and the state of current scholarship. The following chapter 3 presents a justification for the case selection as well as details about the research design and methodology employed for WP4. Chapter 4 presents the findings on the current range of risk approaches, based on the survey data. Subsequently, chapter 5 discusses the key contingencies for the adoption of risk approaches and provides empirical evidence for the current level of risk discourse within and across public service organisations. Finally, chapter 6 concludes with some principles for effective risk management and risk governance, which will form the basis for the policy recommendations that will follow by 31<sup>st</sup> March 2015. Following the bibliography, a selection of key documents that was used in the research is provided in the appendices.

## **2. Framework for Analysis**

This chapter will describe the theoretical framework the LIPSE team employed for its research strategy and design. It will discuss, firstly, how risk and innovation can be defined (section 2.1), and then present findings from the current public administration and public management literatures on different approaches to risk (section 2.2.). In section 2.3 risk approaches identified in the literature are grouped into hard and soft approaches. Finally, section 2.4 presents the theoretical framework on which the empirical research in WP4 is based, concluding with a brief note on the advantages and limitations of our chosen framework of analysis (section 2.5). For further information on this framework and the preliminary theoretical analysis, please refer to the LIPSE WP4 working paper.

### **2.1 Defining Risk and Social Innovation**

Featuring widely across the academic literature – as well as common parlance – both “risk” and “innovation” are terms with many meanings. This is itself problematic and leads to a lack of definitional clarity within the social sciences. For sociologists, risk is studied as a social construct (e.g. Green, 1997 and 1999; Zinn 2008a and 2008b), while financial management scholars mainly focus on actuarial risks defined in monetary terms (e.g. Andreeva et al., 2014).

Our focus is a public policy context for both scholars and practitioners. For the purpose of WP4, we adopt Brown and Osborne’s (2013) preferred definition of innovation as “the intentional introduction and application within a role, group or organization of ideas, processes, products or procedures, new to the relevant unit of adoption, designed to significantly benefit the individual, the group organization or wider society” (West and Farr, 1990:3). As such, innovation is not synonymous with any change process. Rather, it is “a distinctive category of discontinuous change that offers special challenges to policymakers and service managers alike” (Brown and Osborne, 2013: 188). Innovation in public services thus takes the form of non-linear developments (Van den Ven et al., 1999). Building on Brown and Osborne (2013), risk is conceptualised here as entering the innovation process not only at the “development and implementation” stage (Brown and Osborne, 2013: 189) but already at the prior stage of formulating the change (“invention stage”). It is here that uncertainty inevitably becomes part of the process. We argue below that this type of risk can be both a trigger and an obstacle for innovation.

Such innovation in public services can furthermore be categorized into *evolutionary innovation*, *expansionary innovation*, and *total innovation* (Brown and Osborne, 2013: 198). Evolutionary innovation denotes new skills or capacities that are used to address an existing need (e.g. the introduction of e-government processes in public administration); expansionary innovation describes new needs that are being addressed by existing policies, skills or capacities (e.g. the differentiation between mental health care for children and adults, the former being introduced as a new service). Finally, total innovation stands for a new need being addressed by a new skills or capacities (e.g. the formation of a local energy cooperative as alternative provider) (Brown and Osborne, 2013: 199). Brown and Osborne stipulate that technocratic risk management, focusing primarily on financial/actuarial risks, provides a framework for evolutionary innovation. Decisionistic risk management, which includes several parts of the PSO in the risk discourse, can accommodate evolutionary and expansionary innovation. Transparent risk *governance* as opposed to the previous *management* techniques, on the other hand, provides the most comprehensive framework that also provides a suitable context for total innovation; this involves spreading the risk discourse across the entire PSO as well as the public/local community involved.

Furthermore, Brown and Osborne (2013) suggest that risk can be conceptualized on three different levels (“locus of risk”): *consequential risk* at the level of the individual, *organizational risk* on the level of the organization and its staff, and *behavioral risk* at the level of the wider community and environment. This matches Renn’s (2008) differentiation between three approaches to risk: technocratic risk management, decisionistic risk management, and transparent risk governance.

Technocratic risk management is based on the minimization of risk through expert decision-making. Risk, in this view, can be defined objectively and minimized through scientific evidence (Brown and Osborne, 2013: 197). However, Renn points out the shortcomings of technocratic risk management, which are bounded rationality in all human decision-making and the fact that (acceptable) risk is more often socially constructed than it is objectively defined (ibid).

Decisionistic risk management extends technocratic risk management by including into the process the possibility of discourse on the evaluation of identifiable risks. While risk is now vetted in both positive and negative terms, the decision authority in Renn’s decisionistic risk management is still limited to politicians, excluding a vast number of other stakeholders. This leads to a limited point of view from which risk is being analysed (Brown and Osborne, 2013: p.195).

Finally, Renn’s third approach, transparent risk governance “is the core of a genuine engagement with the nature, perceptions and contested benefits of risk in complex situations” (Brown and Osborne, 2013: p.198). This approach is inclusive of all key stakeholders and transparent in its decision-making, a process that is aided by new Information and Communication Technologies that help to connect

stakeholders in public services. Brown and Osborne suggest that this description fits most closely to the risk environment of modern public policy and propose, therefore, that “risk governance, rather than risk minimization or management, is the appropriate framework for understanding and negotiating risk in innovation in public services” (Brown and Osborne, 2013: p.198).

## **2.2 Different Risk Approaches**

This section will present the approaches to risk in social innovation that are identified in the current literature. It builds on Brown and Osborne’s (2013) review article on risk and innovation in public services, which is the most recent comprehensive treatment of the topic. They advocate more in-depth empirical research on the connection between risk and innovation (Brown, 2010; Osborne and Brown, 2011a), finding that the current literature does not adequately deal with risk and its role in public service innovation. They identify four main works: Harman, 1994; Hood, 2002; Lodge, 2009; and Vincent, 1996. Whereas Harman discusses the negative impact of risk management on public sector accountability, Vincent argues that the public eye is fiercely watchful of public sector activities, leading to increased risk management as a means of avoiding the blame of other officials and the wider public. Along similar lines, Hood introduces the imagery of a “blame game” as risk management. Risk management on his account is about avoiding blame and/or attributing it to other parties. Lodge, finally, agrees with Brown and Osborne that different “variations in instruments” (Lodge, 2009: p. 399) are necessary to offer effective risk management in the public sector. He also identifies the obsession with regulation to “insulate” public services from risk and advocates a more complex system of risk appraisal that moves beyond Hood’s observed “blame game”.

Commencing with Brown and Osborne’s (2013) review, a further literature search was conducted using Web of Science, JSTOR, and Google Scholar. In a first step, the search terms were restricted to “public sector”, “public service”, “innovation”, and “risk”, with all terms treated as necessary and the domain limited to peer-reviewed articles. This search yielded only one further result, in a non-peer-reviewed publication for the New Zealand government (Bhatta, 2003).

Bhatta (2003) also acknowledges the gap in empirical knowledge regarding the relationship between risk and innovation in public services. In particular, he notes that there is a qualitative difference between the public sector and the private sector as far as risk is concerned – namely the existence of “wicked problems” and the fact that decisions, even when made under uncertainty, need to live up to

the standards of democratic scrutiny rather than being unilateral “executive decisions”<sup>2</sup> (Bhatta, 2003: p.2). “Wicked problems” (Churchman, 1967) denote problems that are either very difficult or impossible to solve due to a host of factors, such as competing moral values, interdependencies, lack of information, etc. Public services are particularly prone to such wicked problems because allocation choices do not just result in monetary differences, but are attached to public goods, such as health or defence. Moreover, media scrutiny has increased rapidly over the last 50 years, and public service organisations have had to battle numerous scandals of mismanagement and service failure.

This means that success – unlike in the private sector – cannot be judged “on average”: even if the majority of a public organisation’s service decisions turn out to be beneficial and successful, there is still little tolerance for any sort of even occasional “failure”. This leads to “playing safe” behaviour and “incremental pluralistic policy formation that enables the policies to move forward but only marginally at a time” (Bhatta, 2003: p.6). Bhatta concludes that, if innovation in the sense set out in this paper is truly to happen, we must learn more about the factors that influence public service managers’ risk appetite; he suggests different institutional, contextual and political variables that could be explored in this context (Bhatta, 2003: p. 9).

To extend the previous results further, the search was widened to include “uncertainty” as an alternative for risk, and made the word “public” optional. Moreover, the grey literature was included. The resulting search brought up over 350 results that were narrowed down by manual evaluation. This provided several additional groups of literature in support of those in Brown and Osborne (2013).

### 1) *Financial Accountability and Risk*

As described by Brown and Osborne (2013), risk management in the public sector is usually associated with a technocratic, quantitative assessment of potential financial risk. One stream of this literature associates this financial due-diligence and technocratic risk management with democratic and public accountability. A special issue of *Financial Accountability and Management* (August 2014) dedicated to public sector risk entails two articles that – while not directly addressing innovation – offer interesting insights for the innovation process in public service organisations (PSOs). Palermo (2014) finds that risk managers themselves are a source of innovation in the public sector by defining best practices for their respective service area (p. 337). He also emphasises that key skills for the successful risk manager include communication and relational abilities. Far from the technocratic approach, Palermo suggests

---

<sup>2</sup> While this is a *de facto* possibility even in democratic systems, there is always a potential loss of reputation and, at worst, votes that looms as a consequence, even if a decision should prove overall beneficial.



that soft skills and experiential learning evolve new risk management techniques. This experiential communication approach rooted in technocratic financial accountability could apply to all three different types of innovation described by Brown and Osborne (2013). Empirical testing beyond Palermo's case study will be necessary however to show whether such flexible approaches really can accommodate innovation in a more flexible way.

Similarly, Andreeva et al. (2014) argue that risk management all too often results in regulation. Hard guidelines, however, result in a loss of flexibility that can stifle innovation. Regulations also do not address unforeseeable risks; rather, their rigidity often makes it even harder to address previously unanticipated risks. PSOs are thus not necessarily better insulated from risk just because of regulatory standards. Rather, they suggest, "knowledgeable oversight" should be exercised, offering a more flexible approach to risk management, much akin to Palermo's relational communications model. However, the responsibility for the provision and maintenance of public good provision and the balancing of market failures is no longer solely in the hand of governments. Andreeva et al. (2014) find that such "knowledgeable oversight" is exercised by a wider group of stakeholders, including the private and the non-profit sectors. At the same time, this dilution of responsibility also poses important new challenges to accountability for public services.

What both papers demonstrate is that accountability and risk management are inextricably linked in public service provision. For ease of scrutiny and comparison, financial data seem to remain the preferred unit of measurement. Risk management and democratic accountability are thus two sides of one coin. As Bhatta (2003) suggests, creating more capacity for innovation in public services will require a change in the sector's risk aversion and in the context that produces this phenomenon. Introducing new forms of accountability through novel regulatory approaches that move beyond the numbers seem to be one strategy of doing so, at least based on Palermo's case study findings. This also resonates with Renn's (2008) third approach of risk governance.

### *2) Public-Private Partnerships (PPP) and Private Finance Initiative (PFI)*

If risk management is a form of public accountability in the democratic process, and accountability requirements, vice versa, are among the main reasons for public sector risk aversion, the question arises who is actually accountable for which risk in public service provision. As Andreeva et al. (2014) demonstrate, accountability is spread across different actors that go beyond the public sector. Public-private partnerships (PPPs) (i.e. the contracting out of services to for profit and non-profit

organisations) has not only been hailed as a potentially significant source of innovation, it has also become common practice across advanced welfare states (Freshfields et al., 2005).

Evaluating Labour's encouragement of PPPs, Hood and McGarvey (2002) found that Scottish local authorities tended to make inefficient risk allocation choices when it came to PPPs. In particular, they highlighted that there was too little awareness of risk management in collaborations across different sectors. Most importantly, they noted that the inability to manage risk efficiently and effectively was what led PPPs to lag behind commercial operators in terms of value for money and innovation.

Four years later, Hood et al. (2002) also pointed out that PPPs "have been criticised as representing poor value for money" (p.40) and highlighted that a lack of transparency in risk management – on both sides – was inhibiting democratic accountability. Further research will need to show whether this could also apply to the potential to innovate.

In a non-peer reviewed discussion paper, Lewis (2001) also described PPPs as essentially risk-sharing relationships between the public and the private sector, and links the optimal allocation of risk to efficiency and innovation in outcomes. However, Lewis does not describe what such an optimal risk allocation would look like.

One particular form of PPP that is said to promote innovation is the Private Finance Initiative (PFI), however, the evidence is at best ambivalent. The PFI is a special form of PPP that "relates to the provision of capital assets for the public service" following a "highly prescriptive legal framework" (Ball and King, 2006). Based on their review of the literature, Ball and King (2006) argue that risk transfer is key for a PFI to deliver value for money. Data from various assessments (e.g. HM Treasury Task Force, 2000; Commission on Public Private Partnerships, 2001; National Audit Office, 1997 and 2000) however, suggest that risk is inefficiently allocated and outcomes not superior to those provided by the public sector only. On the contrary, PFI projects tended often tended to lead to negative outcomes, such as higher costs or severe time delays (Ball and King, for instance, posit that "it might require £1 billion to bring the stock of PFI schools up to standard" in Scotland alone; Ball and King, 2006: 39).

More recently, Ball et al. (2010) concluded that that the risk transfer between the public and the private sector is asymmetric in so far as "if things go well [...] the private sector will benefit, but if things turn out badly then the public sector client finds it hard to exact the penalty regime laid down" (Ball et al., 2010: 289). This confirms a similar conclusion previously made by the Commission on Public Private Partnerships (2001). Ball et al. furthermore formulated three policy recommendations. These were that evidence-based risk assessment should be preferred over purely subjective risk assessment (the latter remaining the standard in the public sector), if there were few but crucial risks, then risk transfer should

concentrate on these, and that contracts and indicated figures should be seen as *estimates* that require thorough risk assessments in order to fully appreciate their value.

On a more positive note, Corner (2006) used British data to evaluate the PFI and found it ambivalent regarding risk allocation and cost efficiency, but also, as innovation driver. However, this is contingent on efficient risk management. He concluded that the advantage of the PFI had been to shift the risk focus away from a purely financial perspective to decisions about efficient risk allocation in the delivery of services.

Based on Laughlin's previous work on PFIs, Broadbent, Gill and Laughlin (2008) furthermore analyse PFIs in the context of the British National Health Service (NHS). They find that actuarial risk management prevails in PFIs, i.e. the predominant focus on quantitative risk management crowds out more qualitative concerns, such as reputation or social risks. In subsequent project evaluations, PFIs also followed a strict accounting logic in terms of retrospective risk analysis, which led to a narrow emphasis on certain quantitative risks while all qualitative risks were ignored. Broadbent et al. (2008) suggest that efficient risk allocation in PFIs must take into account both quantitative as well as qualitative risks in decision-making processes, which can only be achieved if risk management approaches move beyond a strict accounting basis.

Finally, Wall and Connolly (2009) build on Broadbent and Laughlin (1999) previous analysis of the performance of PFIs in the UK. They acknowledge that previous appraisals of PFIs have been largely negative, but instead point to a slow, but steady learning curve. For instance, they find that a similar level of public service infrastructure investment would not have been possible without the PFI. At the same time, Wall and Connolly caution that the transfer of risk will always entail one stronger and one weaker contracting partner. They welcome further developments in the refinement of PFI structures and contracts.

### 3) Private Sector Risk and Innovation Analogies

The assumption of risk aversion permeating the public sector has been strongly implied by the previous papers, and generally permeates the public service management literature. Thus, Borins (2014) seems to take it as a given that the public sector (and those that collaborate with it) is intrinsically risk averse (p. 91).

Hood and Rothstein (2000) differentiate this picture by pointing to the various types of risk that the public sector faces. These do not just include financial risks and risks to service users, but also risks to

third parties and to the service providers themselves (p.1). Therefore, they criticise the one-size-fits-all approach that has been adopted across government. Like the private sector, Hood and Rothstein argue, the PSOs need to adapt their risk management strategies to the specific type of risk and point in the planning process in order to reach similar levels of innovation and efficiency. In their view, this can be achieved through a systemic approach to risk management, based on open and extensive deliberation and communication *across* and not just within policy domains.

Nonetheless, the comparison with the private sector and its approach to managing risk and innovation can provide useful insights for the public sector. In fact, Bozeman and Kingsley (1998) take a different approach and challenge the assumption of a risk averse public sector. Their study finds “very little evidence of the *incidence* of risk aversion or that the incidence is greater in the public than in the private sector” (p.116). Instead, they identify three factors as indicative of the risk approach taken by *any* organisation: 1) the more trust employees feel they have from their superiors, the more calculated risks they are willing to take; 2) clarity of goals also leads to a more open risk approach; and 3) the more formalism and red tape, the more risk averse an organisation’s culture. Thus, factors such as size and management style seem to be more indicative of an organisation’s risk management approach than the differentiation between public and private sectors. Hartley (2013) confirms this by comparing public and private features of innovation, indicating that organisation size and maturity in particular accounts for differences in behaviour between the two sectors.

#### 4) Political Accountability

One difference that affects the relationship between innovation and risk, however, is highlighted in the literature on public policy and regulation: accountability and transparency. Hartley (2013) points out that PSOs can learn from the private sector as regards decision-making processes. For instance, she suggests that PSOs adapt management tools, such as constructive challenge meetings or competitor analysis (Hartley, 2013: 53). But accountability markedly differs from the private to the public sector. The public sector’s values demand a high degree of transparency at all stages of innovation, often, as Hartley points out, in “the full glare of media publicity” (p. 54).

This ties in with Hood’s model of the blame game that was part of the original review by Brown and Osborne (2013) and dominates the public policy literature on risk and its possible nexus to innovation. As describes beforehand, the blame game affects risk management at all phases. Because public scrutiny and the potential cost of being responsible for a failure are high, there is an incentive for those in decision-making powers (on an individual and organisational level) to shift risks to other stakeholders

within their policy network. This thematic category thus highlights the importance of reputational risk in particular.

Feller (1981) refers to this as “public-sector innovation as ‘conspicuous production’”, echoing Hartley and Hood by pointing out that in PSOs, the sanctions associated with a failed innovation are often perceived as more severe than the benefits derived from a successful public service innovation. Therefore, individual employees in PSOs have little incentive to innovate unless they are induced by specific reward schemes, for instance innovation prizes (e.g. Borins, 2014 in the context of the USA).

### *5) Economics Literature on Risk*

The economics literature on risk offers further insights on the contextual factors that link uncertainty and risk to innovation (e.g. Varian, 1992; Mack, 1971; Kahneman and Tversky, 1979). Mack juxtaposes how risk and uncertainty can affect innovative alternatives in public services. She suggests that PSOs may use uncertainty as a tool to deselect innovative alternatives, although their “net utility (...) could be expected to be greater than that of the tried and true” (Mack, 1971: p. 5). The more uncertainty is attached to a particular option, the more likely it is to be discarded, uncertainty weighing as a criterion against its expected benefits. Moreover, Kahneman and Tversky (1979) find that agents are more averse to potential risk losses than to resulting gains, again skewing risk attitudes in favour of security over social innovation.

However, uncertainty can also work in favour of innovation. Mack suggests that uncertainty can provide some “leeway for a rearrangement of fact and emphasis” (p.7). In other words, uncertainty may mask potential risks or potentially undesirable outcomes that are associated with a particular innovative option, which enables its proponents to enact it. Uncertainty of results is thus a contextual variable, and may work as a barrier or a driver of innovation at the same time.

On risk, Mack also emphasises the importance of context. As long as a potential risk is known and considered manageable, it is not necessarily a barrier to innovation. However, other contextual factors, such as political accountability, may deter PSOs from choosing innovative service options that are associated with risks deemed unacceptable or inopportune, even if they are manageable. Renn’s (2008) discussion of the social construction of risk provides further evidence for Mack’s point.

### 6) Practitioner's Guides

Treating more specific scenarios and/or audiences, think tanks and international organisations have been publishing practitioner's guides on managing risk and innovation. However, their usefulness for extrapolating wider best practice findings is limited in scope.

Brown and Osborne (2013) refer to guides published by think tanks, such as the National Endowment for Science Technology and the Arts (NESTA) and the Young Foundation (NESTA/Young Foundation, 2008). The UK government has furthermore issued broad guidance (Brown and Osborne (2013) cite HM Treasury, 2004; NAO, 2000; the Audit Commission, 2007; and the UK White Paper "Innovation Nation, DIUS, 2008). None of these publications, however, offers concrete policy recommendations or a conceptual nexus of innovation and risk beyond the acknowledgment that the two are related.

In a British context, Michael Power (2004) discusses "The Risk Management of Everything" for London-based think tank Demos. Arguing that risk pervades every decision but is particularly relevant for the public sector since it aggregates responsibility for its citizens, Power also points to the "moral economy" of risk (p. 60). He concludes that, while more attention to risk has led to overall better decision-making in government, what needs to be addressed is the sector's occupation with reputational risk management over quality. This, so he concludes, prevents important innovation in public services (p.60).

There is also a dedicated membership organisation for risk management professionals in the public sector and in public services, ALARM. Its goal is to provide a pool of shared knowledge focused on making "a positive contribution to loss reduction in the Public Sector" (ALARM website). This mission statement highlights the organisation's understanding of risk management in what Renn (2008) denotes as technocratic risk management with a narrow emphasis on the minimisation of financial risk.

Similarly, the CCAF addresses a North American audience and suggests that innovation and risk management do not necessarily have to cancel each other out as long as formal rules are minimised and regularly reviewed for their continued relevance. This is referred to as "tailored rules" and confirms the importance of flexibility mentioned by previous strands of the theoretical literature.

The World Bank published a discussion paper on "Innovations and Risk Taking" (Campbell 1997) in the context of local government in Latin American and the Caribbean. While the content is very much geared towards the context of Latin America and emerging democracies, the report concludes that decentralising decision-making and the spread of responsibility across different levels of government – with a preference for bringing the responsibility of services to the lowest possible level of government

– can spur innovation on a local level. This insight may be of value for public services, however, further research is required to assess the applicability of Campbell's (1997) findings for PSOs.

The aforementioned practitioner's guides provide, in certain cases, some empirical evidence that can help us understand how different approaches to risk management affect innovation in PSOs. Some echo findings from the more theoretical research literature presented beforehand. For instance, Campbell's (1997) policy recommendation for the spread of responsibility for risk management to all levels of a PSO confirms the gist of Palermo's (2014) decentralised communication model. ALARM and the CCAF firmly stand in the more traditional fields of the actuarial risk and health and safety literatures and do not engage with the concept of innovative behaviour as a separate goal of risk management. Power's (2004) "moral economy" and its effects on risk management take up Renn's (2008) concept of socially constructed risk. It also reinforces Hood's (2012) "blame game" approach, emphasising that risk management may be a political exercise for PSOs in which reputational risk is a constant factor in the delivery of public services.

### Conclusion: State of the Literature

Including these additional strands of literature into the review have highlighted some further leads on the relationship between risk management and innovation in public services. The financial risk management literature has considerably widened beyond a technocratic risk management approach, now including soft factors, such as communication structures (Palermo, 2014) or the division of responsibility for risk management (Andreeva et al., 2014). Empirical evidence on PPPs has been mixed at best, with PFIs in particular being criticised for their inefficient allocation of risk and their effect on obstructing rather than spurring innovation in public services, at least outside of Australia (e.g. McGarvey, 2004, Ball et al., 2010). Moreover, PSOs do not seem to be intrinsically more risk averse than the private industry (Bozeman and Kingsley, 1998), although Hood and Rothstein (2008) caution that media scrutiny and political accountability are strongest for PSOs, affecting their approach to risk management. This is also confirmed by Hartley (2013), and further developed by Hood (2012) in his work on "blame game" strategies, evidence for which has been found in the field of medical professionals regulation by Flemig (2014). The economic literature and its differentiated assessment of the sometimes counteracting effects of risk and uncertainty on innovative behaviour in PSOs further emphasises that importance of differentiating between the two concepts. Finally, practitioner's guides provide some empirical support for the theoretical findings, be it in a Latin American (Campbell, 1997), British (ALARM, Power, 2004) or North American (CCAF) context.



Nonetheless, both the current research literature on risk management as well as the grey literature lack a direct focus on the connection between risk management approaches and innovation in public services. Further research is required to test the applicability of the findings presented beforehand in the context of social in PSOs. The following sections 2.3 and 2.4 make a first attempt at providing a conceptual framework for such research. They also guide the empirical work undertaken in WP4.

### **2.3 Hard versus Soft Risk Approaches**

The main risk management tool in public policy described in the aforementioned literature is regulation at a high level (especially Hood, 2002). Risk management thus follows a top-down direction. We suggest that tools, such as regulation and rules, can be summarized as “hard” risk management. It encompasses technocratic and rule/regulation-driven risk management set at a higher policy-level. Standards of behaviour are set and guide actions at the implementing organizations. This provides a higher level of standardization in how risks are managed, but also leaves little to no room for personal decisions and risk evaluations at implementation level.

In contrast, “soft” risk management tools refer to Renn’s (2008) risk governance approaches, based on communication and the adaptation of organizational culture that are also recommended by other authors (Bozeman and Kingsley, 1998; Hood and Rothstein, 2000; Hood, 2002; Andreeva et al., 2014). Here, risk management decisions are delegated to the lowest possible level, such as line-managers of sometimes even frontline staff with regular communication on an individual and team basis. An example is social care, where assessments regarding suitability of service users for home care are conducted by frontline social workers. Guidelines are set on a decentralized level, although they may follow a broader national policy standard, which is monitored by a regulator or auditor. The goal of soft risk management tools is to create a pervasive culture of risk governance, in which individuals have a joint responsibility for finding the appropriate measure to address any particular risk. This can result in autonomous evaluations that are tailored to individual scenarios. This creates an opportunity to formulate and adopt social innovation. However, the necessary dilution of direct responsibility can also mean that individuals may play the “blame game” at a lower level. Table 1 summarizes this proposition.



Type of Risk Approach	Technocratic Risk Management	Decisionistic Risk Management	Risk Governance
<b>Hard</b>	Actuarial Minimization	Regulation/Rules	---
<b>Soft</b>	---	Delegation of Risk Management Across Organisations	Communication and Deliberation

Table 1: Hard and soft risk management approaches.

## 2.4 Theoretical framework

Brown and Osborne (2013) propose the following holistic framework for risk governance and innovation in public services (see table 2 below). They connect the three risk management approaches identified by Renn (2008) with three types of innovation as defined by Osborne (1998b). As mentioned beforehand, these are evolutionary innovation, in which new skills or capacities are used to address an existing service user need, expansionary innovation, in which new service user needs are being addressed by existing skills or capacities, and, finally, total innovation, which denotes a new service user need being addressed through new skills or capacities (Brown and Osborne, 2013: 199). Brown and Osborne stipulate that technocratic risk management provides a framework for evolutionary innovation, while decisionistic risk management can accommodate evolutionary and expansionary innovation. Transparent risk governance, on the other hand, provides the most comprehensive framework that also provides a suitable framework for total innovation.

Type of Risk Approach/Innovation	Technocratic Risk Management	Decisionistic Risk Management	Risk Governance
<b>Evolutionary</b>	X	X	X
<b>Expansionary</b>	---	X	X
<b>Total</b>	---	---	X

Table 2: A typology of risk approaches, adapted on Brown and Osborne (2013:p.199), reproduced with permission of the authors.

Extending Brown and Osborne’s (2013) holistic framework of risk and innovation, this paper includes two further propositions that have been highlighted by the six thematic strands discussed in the previous section.

*Proposition 1: Risk management approaches should differentiate between risk and uncertainty in their effects on innovation.*

The economic theory literature highlighted the distinction between risk in the classical sense (referred to as “operational risk”) and uncertainty, i.e. unquantifiable risk that cannot be appraised *ex ante* (see for instance Mack, 1971). As mentioned in the previous section, these two types of risk are likely to have different, and probably even conflicting, influences on innovation. Therefore, we propose that they require different risk management approaches when it comes to spurring innovative behaviour. The underlying reasoning is as follows: Known risks can be assumed to drive innovation in so far as they provide the opportunity to find new ways of harnessing these known risks (e.g. new waste management techniques in environmental sustainability, new medication in mental health treatment, etc.). Thus, known risks most likely spur expansionary innovation.

At the same time, these known risks may also be barriers to innovation, namely through regulatory and contracting specifications they invite. Statutory bodies initially bear responsibility for all service risks that they then selectively transfer to service providers if necessary. Quantifiable risks are often addressed through extensive regulation and other attempts to make control and minimise risk. In service contracts, this is likely to lead to a decreased potential for innovation – innovation may be “in breach of contract” although it may bring a net benefit for all parties involved.

Uncertainty, on the other hand, can spur innovation by ways of sudden shocks. Since uncertainty is unquantifiable and cannot be known *ex ante*, the innovation it can potentially spur is likely to be of spontaneous nature and not planned. At the same time, as findings from the private sector suggest, environments and organisations that are prone to high levels of uncertainty will be perceived as “riskier” overall and there may be a decreased willingness for innovation or in fact any change that deviates from the status quo (Bozeman and Kingsley, 1998; Mack, 1971). In this case, the approaches described by Palermo (2014) and Andreeva et al. (2014) on informal and more extensive communication networks across the entire organisation provide strategies for PSOs to manage uncertainty. Uncertainty can thus only be managed through an organisational culture open to constant change. Innovation spurred by uncertainty is therefore likely to be total, encompassing new skills and new needs to be addressed. This follows the reasoning of Peters (1989), who suggested that organisations will need to proactively manage chaos (similarly defined as uncertainty) and channel its driver for constant innovation in order to succeed.

Type of Innovation/Risk	Risk	Uncertainty
<b>Evolutionary</b>	Technocratic risk management (actuarial)	---
<b>Expansionary</b>	Decisionistic risk management	---
<b>Total</b>	---	Organisational Culture

Table 3: Identified risk approach by type of social innovation and risk.

Proposition 2: Risk management can be divided into proactive and reactive management techniques

Reflecting on the literature, there seem to be two different, and possibly separate, risk management strategies. *Proactive risk management* focuses on avoiding a risk from materialising in the first place, or, at least, minimising its occurrence or magnitude. It is also a part of the organisational culture necessary to manage uncertainty, i.e. the need for sudden and unanticipated innovation.

*Reactive risk management*, on the other hand, addresses risks that have already materialised and whose effects need to be mitigated. It applies to risk rather than uncertainty because of risks being known ex ante. It is likely to spur evolutionary and expansionary innovation as a reaction to previously identified risks. Best practices that are shared across PSOs can be an example of reactive risk management approaches.

Recent policies in the UK seem to confirm this differentiation. There has been a policy drive towards anticipating and preventing risks (e.g. the integration of health and social care in UK councils, seeking to prevent physical and mental isolation rather than facing their potential consequences of hospital or care home admission).

Type of Innovation/Risk	Proactive Risk Management	Reactive Risk Management
<b>Evolutionary</b>	---	Risk
<b>Expansionary</b>	---	Risk
<b>Total</b>	Uncertainty	---

Table 4: Expected type of risk by type of social innovation and proactive versus reactive risk management

We use the aforementioned stipulations as a starting point and incorporate our two additional propositions to provide a framework for further empirical testing. As discussed, we differentiate between risk and uncertainty, which are mapped against hard and soft risk approaches to risk (table 5).

Type of Risk Approach/Risk	Risk	Uncertainty
<b>Hard</b>	Evolutionary Innovation (Top-Down Management)	Stagnation (Risk Minimisation)
	Expansionary Innovation (People-Driven Risk Governance)	Total Innovation ("Thriving on Chaos")

Table 5: A framework for managing risk in social innovation.

We suggest that PSOs will never deal with only one type of risk at a time. Rather, PSOs must address risk and uncertainty constantly, and at different levels. For instance, there may be known risks for service users in care homes, such as their frailty and specific patient history. At the same time, there may be uncertainty about future funding for a new initiative or the effects of a new service, such as the cooperation with a primary school. The holistic framework we propose points to the most appropriate risk management approaches given a known risk or an uncertain situation. It also provides an insight on the kind of innovation that is most likely to succeed given the particular combination of risk type and risk management approach.

## 2.5 Conclusions: Framework of Analysis

There is a rich literature on risk management *per se*, however, little research has focussed specifically on approaches to risk in social innovation. Based on the current state of the literature, we identified six theoretical sources of public sector risk approaches. They are summarised in table 6 below.

Area Number	Source of Risk Approaches
1	Financial Accountability and Risk
2	Public-Private Partnerships (PPP) and Private Finance Initiative (PFI)
3	Private Sector Risk and Innovation Analogies
4	Political Accountability
5	Economics Literature on Risk
6	Practitioner's Guides

Table 6: Areas of public sector risk approaches based on the literature review.

These insights were used to formulate a holistic theoretical framework for the empirical analysis for WP4, highlighting the differentiation between hard and soft risk approaches as well as between risk and uncertainty. The holistic framework suggested in table 5 allows policy makers and other practitioners

to identify the most appropriate form of risk approach based on the type of social innovation they seek to achieve and the type of risk they are facing.

Of course, these theoretical stipulations require empirical testing. Within the remit of LIPSE WP4, we used first-hand data from four European countries (these are Italy, the Netherlands, Slovakia and the UK) to conduct this test. The case selection is discussed in our research design and methodology chapter 3.

### 3. Research Design and Methods

In this chapter, we introduce the research strategy we used in order to accomplish the research objectives stated in chapter 1. Moreover, we will explain the underlying rationale of our case selection and provide some contextual background regarding the countries under consideration and the policy areas chosen. We then introduce the 16 individual case studies before discussing the research design and the methods used.

#### 3.1 Case Selection: Countries

WP4 entails four European partners, which are Italy, the Netherlands, Slovakia and the UK. They have been chosen based on a number of considerations. Firstly, the selection criterion included variation in the form of government between unitary and decentralised (federal) states. Secondly, the balance of power between central and local governments was taken into account. Finally, our choice was guided by considerations of policy making processes and potential windows of opportunity currently present in the individual countries. These criteria are summarised in table 7.

Country	Supporting characteristics
<b>Italy</b>	<ol style="list-style-type: none"> <li>1. Decentralized country, lots of responsibility for autonomous communities</li> <li>2. Political and social unrest</li> <li>3. Strong local governments.</li> </ol>
<b>Netherlands</b>	<ol style="list-style-type: none"> <li>1. Decentralized unitary state</li> <li>2. Policy is made by various stakeholders</li> <li>3. Relatively strong local governments</li> </ol>
<b>Slovakia</b>	<ol style="list-style-type: none"> <li>1. Financially relatively weak, but fully independent local governments.</li> <li>2. Strong central government.</li> <li>3. Shared responsible for policy-making at regional and central level.</li> </ol>
<b>The United Kingdom</b>	<ol style="list-style-type: none"> <li>1. Decentralised quasi-federal state.</li> <li>2. Policy is made by stakeholders on various levels of national and regional government.</li> <li>3. Weak local governments with a strong central government.</li> </ol>

Table 7: Summary of governmental characteristics of the case study countries, based on Pollitt and Bouckhaert (2004).

Furthermore, our selection also took into account a more qualitative analysis of the individual policy-making background in the individual countries. A short overview of the four respective polities and their policy-making system is presented below.

### ***Italy***

Since the 1990s, Italy, a unitary state, has been undergoing a complex process of decentralisation. So far, this has resulted in the devolution of responsibilities and competences from the central state to the regional governments. This has also determined an enhancement in the leadership capacity of mayors and regional presidents vis-à-vis their legislatures.

Although the Ministry of Health is ultimately responsible for the administration of the Health Service in general, and mental health in particular, funds, planning and responsibility have been shifted to the Regions and onto the Local Health Authorities known as ASL (*Azienda di Sanità Locale*). Civil society organizations are very active in this area, (nonprofit associations, cooperatives, foundations), providing mental health care services free of charge.

In the area of environmental sustainability, the Ministry of Environment is the ultimate responsible. The Ministry is in charge of the protection of the territory and natural resources at large (i.e. water and air), as well as of energy policy. In the specific area of environmental sustainability at the local level we have found two main institutional actors that are particularly active: cooperatives - which include consortia, renewable energy cooperatives, cooperatives of community and social cooperatives - and non profit organizations - associations and foundations.

### ***Netherlands***

The Dutch state can be classified as a decentralised unitary state. It has a three-layer system throughout the country: local government or municipalities, provincial government, and central government. These bodies are all autonomous, but restricted by (higher) law. Central government law must be implemented by the lower levels of government - an arrangement called “shared governing” (*medebewind*). One of the characteristics of the Dutch decentralised unitary state is that municipalities and provinces have their own jurisdiction. In many policy areas, provinces (the Dutch meso-level) supervise municipalities, as central government supervises provinces. However, the provinces are the weakest link in the

government chain and, after recent budget cuts, are increasingly so. Municipalities have a general competence (“open household”) which is constitutionally protected. Hence, within their borders, municipalities can make their own by-laws, levy taxes and develop their own policies on any policy area, as long as it does not conflict with “higher law”.

It must be noted that “unitary state” does not imply centralisation. Unity is visible in cases of equity, such as income and social security policies (e.g. the level of benefits is not related to one’s place of residence or local politics). Local government must comply with higher law. Also, the share of local taxes in municipal income is low and central financing comes with strings attached. Furthermore, municipalities are for a large part – two-third – dependent on national government for their financial means. The remaining third is collected by municipal taxes and profits from municipal companies or property. Approximately the half of national funding of municipalities is received through the Municipalities Fund, which can be spent according to local preferences. The rest of the national funding must be spent on specific goals.

Still, much room is left for municipalities to develop their own policies according to local circumstances or political ideologies. In core areas such as spatial development and planning (e.g. public housing), education, social care, culture and recreation, transport, environment and health care, municipalities are responsible for implementing national policies, but have autonomy to decide how to do so. Because of the large autonomy of local government, the policymaking method most often used is co-governance. This means that central government will consult local governments on national laws and plans in order to assure local compliance. Thus, supervision of higher government in this context takes the form of approval or non-resistance, instead of direct hierarchy. In many cases, municipalities are free to determine the contents of mandatory tasks. This is of course especially relevant to the local services central in this project.

A final point worth noting is that, because of the history of a society built on a structure of distinct pillars, many public services are delivered by formally private non-profit organisations.

### ***Slovakia***

Slovakia is a unitary state with a standard political structure (i.e. a President as the representational head of state with few powers, in addition to a parliament and an executive. The country has two self-government levels (municipalities and regions) with very high levels of independency from the central government.



Mental health care is coordinated by the central government (Ministry of Health) and by the regions, who are also responsible for the network of providers. The majority of the mental health budgets derives from the health insurance system, state and regional government grants, but direct payments by service users are also important. The role of NGOs in service delivery and especially in fighting against the stigma of mental illness as well as providing mentally handicapped with work positions, is very important.

Sustainability is the domain of the Ministry of Environment. This ministry is responsible mainly for the protection of environment, water, air protection, waste management, evaluation of environmental impact, protection of fauna and flora. The main strategic document in the area is the Strategy for Sustainable Development of the Slovak Republic.

### ***United Kingdom***

The UK is an officially a unitary state, but as a result of the devolution process in the late 1990s best described as quasi-federal. Consociational assemblies have been formed in Northern Ireland (Northern Ireland Assembly) and Wales (Welsh Assembly) whereas Scotland has its own parliament (Scottish Parliament) with considerable law-making powers, in particular in the area of health. The quasi-federal character of the UK's system of government is likely to become more pronounced once the Smith Commission recommendations are being implemented. This process has been largely driven by the Scottish independence movement and the ensuing referendum in September 2014, which resulted in a vote to remain part of the United Kingdom.

Mental health care is provided predominantly by the National Health Service (NHS) and third sector organisations (NHS website, 2015) on a local level. At the same time, policy decisions are made on a national, or, in the case of Scotland, regional level. NHS funding is distributed from the central government in Westminster to the regional government structures. However, the current system will be subject to further changes in the wake of the Smith Commission and the general election in May 2015.

Sustainability is the domain of the Department for Environment, Food & Rural Affairs led by the minister Elizabeth Truss (Conservative). In February 2011, the DEFRA published its vision for a sustainable future (DEFRA, 2011) and guiding principles for sustainable development. While general policy decisions are made at the level of the national and regional governments, sustainability is strongly driven by the Third Sector. Some policy is led by governmental standards for the public sector, such as a commitment to reduce greenhouse gas emissions by 80% by 2050 (e.g. Department of Energy & Climate Change, 2013). However, most services are provided by the Third Sector, either as a contracting

partner in a Public-Private Partnership (PPP) or in response to funding calls by the UK or EU governments and private funders.

### **3.2 Case Selection: Policy Areas**

WP4 focuses on two policy areas: mental health and sustainability<sup>3</sup>. Why have these policy sectors been chosen? In mental health, the risks involve vulnerable adults, and directly focus on people. It is also a field where risks and benefits are invariably contested among users, citizens and professional groupings. This makes risk management a vital aspect in any innovation. Sustainable public services, on the other hand, often use technologically driven innovations and invariably involve the integration of a range of public service units in responding to, for instance, climate threats. Therefore, the research design aims to provide a representative sample of different types of risk and risk approaches across state systems and societies. The following three variables have been identified through the literature review as most important in terms of providing a range of variation across the selected cases. They are risk locus, risk timing, and organisational/operational differences.

#### ***Risk Locus***

Mental health services address vulnerable user groups. There is thus a clear risk to service users, which, in many cases, extends to service staff. Environmental sustainability poses operational risks mostly on the level of the wider community and the environment. Both share common traits of financial, reputational, and political risks.

#### ***Risk Timing***

Whereas mental health services deal with the status quo of patients and evoke more immediate risks, environmental sustainability projects often work on a far longer timeframe. This increases risk as uncertainty of outcomes and is likely to affect both reputational and financial risks for environmental sustainability organisations.

#### ***Organisational/Operational Differences***

Whereas mental health services are mostly embedded into a network of statutory bodies, environmental sustainability presents a more diversified set of *modus operandi*, in which single issue groups and private sector actors are often taking the lead. There is also an increasing commercialisation in

---

<sup>3</sup> While the initiation document referred to “environmental sustainability”, the feedback we received during our empirical work led us to adopt the term “sustainability” instead. This is because a recent consensus of leading experts in the field emphasizes that sustainability must be based on all three pillars, i.e. the environment, society, and economy.

operation that again translates into risk potential at the level of, amongst others, an organisation’s reputation.

### Soft versus Hard Services

The two policy areas also exhibit different structures in terms of innovation potential. Mental health care relies heavily on service and process innovation, with occasional innovation potential in medication. It is thus a “soft” service area. In contrast, innovation in the area of sustainability is technology-prone rather than service-oriented, and thus a “hard” service area.

### 3.3 Case Study Sites

Table 2 shows an overview of the names and goals of the cases that have been selected for mental health and sustainability. For more details about the selection of individual cases, please refer to Appendix 3.

Country	Case 1	Case 2
<b>Italy</b>	Family Counselling Service	Mental Health Charity
<b>Netherlands</b>	Non-profit mental health organisation	Non-profit mental health organisation
<b>Slovakia</b>	Mental Health Charity	Psychiatric Hospital
<b>United Kingdom</b>	Listening Support Organisation (Regional Chapter)	Local Council Mental Health Team

Table 8: Name of chose cases from the policy field “mental health”.

Country	Case 1	Case 2
<b>Italy</b>	Community-based energy cooperative	Community-based energy cooperative
<b>Netherlands</b>	Sustainable energy cooperative	Sustainable energy cooperative
<b>Slovakia</b>	Municipal bioenergy provider	Municipal energy company
<b>United Kingdom</b>	Habitat restoration charity	Building and estate management services in Scottish higher education institutions

Table 9: Name of chose cases from the policy field “sustainability”.

### 3.4 Research Design

This section describes the research methods used for the empirical data collection of WP4. It has three elements: a survey, case study analysis and document analysis. Further information on the WP4 research design can be found in the initiation document.

### **3.4.1 Survey**

The survey is intended to map 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. It was designed for both in-person interviews as well as online questionnaire form and originally drafted in English. Each non-English speaking partner then translated the survey into his or her respective country's official language. As per the initiation document for WP4 (p.5, "Methodology"), 200 potential respondents were targeted in each country (100 for each policy area), totalling 800 sent out invitations overall. Respondents were identified through the initial framework and an initial online search of public service providers across all geographical areas in each partner country.

Response rates were comparatively high, with some partners achieving 100% (Italy and Slovakia) through in-person interviews and other partners reaching about 60% (Netherlands) and 70% (UK) through online surveys. The total responses amount to 657 out of 800, i.e. almost 83%.

The complete survey is reproduced in Appendix 1.

### **3.4.2 Case Studies**

The goal of the case study analysis is to focus on the processes or risk governance (or its absence) and their impact upon innovation in public services. Based on the theoretical and conceptual framework as well as the survey, four case studies were identified per partner country, leading to a total of 16 case studies. These were analysed in more detail, with an in-depth review of written materials on- and off-line (see the subsequent section 3.4.3) as well as interviews with all key stakeholders within the organisation. Overall, this yielded 22 interviews in Italy, 22 interviews in the Netherlands, 32 interviews in Slovakia and 30 interviews in the UK, amounting to a total of 106 interviews.

Interviews were conducted by the respective partners in their own language and summarised in a common case study analysis form in English. Most interviews were conducted in person in order to allow for some non-participative observation. A minority of interviews was conducted via phone or Skype.

### **3.4.3 Document Analysis**

The 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. At the stage of the case study analyses, some

case study partners also provided internal documents regarding risk management practices. While these remain confidential and cannot be reproduced, the insights gained from such documentation will feature prominently in the overall analysis in subsequent chapters.

### **3.5 Conclusions**

This chapter described the underlying premises of the case selection in terms of countries and policy areas, as well as the procedures used to identify suitable respondents for the survey and the case studies. The individual components of our tripartite research strategy were explained and put into the context of the theoretical and conceptual framework.

Qualitative research has the great advantage of providing an in-depth engagement with a research site; researchers become familiar with all key stakeholders within the organisation and can thus identify the channels of communication, the modes of discourse, and the general official and unofficial organisational structure. Naturally, the reliance on personal interviews also means that there is a potential for reporting bias. However, our tripartite research strategy addresses this bias. Firstly, the interview data is corroborated with internal and sector wide policy documents; secondly, all partners have made sure to include all key stakeholders in their interviews. Opposing view points within (and beyond) the organisation are thus represented. Finally, the researcher does not just record what he or she is told – there is also an element of “reading in between the lines”, i.e. the highlighting of tensions between respondents’ perceptions, or between their perceptions and other forms of data. Therefore, we are confident that the insights yielded by the empirical research in WP4 provide a reliable basis to explore the nexus between risk and social innovation.

## **4. Scoping the Landscape: Range of Risk Management Approaches**

This chapter marks the first part of the empirical data analysis. It focuses on the first aim of WP4, namely the identification of risk perceptions and risk approaches in current practice. For this part of the analysis, we predominantly relied on data gathered through the survey. Chapter 5 will analyse the case study data in order to identify key contingencies and the general discourse regarding risk in social innovation in public service organisations.

### **4.1 Survey Results Overview**

As described in chapter 3, the first step of our empirical work took the form of a survey. Invitations were sent to a minimum of 200 respondents (100 in mental health, 100 in environmental sustainability) per country, totalling 800 overall invitations. The survey's goal was to:

- a) provide a first impression of the perceptions and discourse on risk in social innovation across the four country and two policy areas;
- b) provide a first impression of how PSOs across the four countries and two policy areas are managing risk in social innovation;
- c) and to help identify four in-depth case study sites per country (two in mental health, two in sustainability);

This section provides a short summary of the general survey results regarding respondent and organisational characteristics and their innovation behaviour. Subsequent sections will focus specifically on the overall research goals, considering risk perceptions and risk management approaches respectively.

#### **4.1.1 Organisational Characteristics**

The general trend across all countries is a correlation of age and organisational size, i.e. older organisations tended to be bigger. With the exception of the UK where there were a few larger sustainability organisations with more than 50 members of staff, sustainability seems to be dominated by privately-led small organisations with 3-8 members of staff (paid and unpaid). Mental health organisations based in the public sector tended to be older than 10 years and were relatively large (over

50 members of staff). The underlying pattern across both policy areas and all countries is that private non-profits tend to be younger and smaller than organisations in mental health, although there are some notable exceptions (e.g. a habitat restoration charity in the UK which was founded in 1904 and has over 100 employees).

Moreover, the data suggest that environmental organisations are more likely to be based in the private non-profit sector. In the UK sample, there are only 17 public sector responses out of 63 total responses in sustainability, while 30 out of 72 respondents in mental health were based in the public sector. In Italy, the case was even clearer where 100 out of 100 responses in the sustainability area were private non-profits while only 20 out of 41 were non-profits in the case of mental health. The Dutch sample, on the other hand, contained only non-profit organisations in the field of mental health.

There is less of a clear trend for mental health organisations although it is discernable that there is more direct public sector involvement, either through the actual provision of public services (e.g. the Scottish local council or the Slovakian psychiatric hospital) or through contracting out of services and PPPs (both mental health charities in Italy and the Netherlands as well as one mental health non-profit in Slovakia).

Country/ Sector	Public Sector	Private Non-Profit	Private For Profit	Other or N/A	TOTAL RESPONSES
<b>Italy</b>	21	120	0	63	<b>204</b>
<b>Netherlands</b>	25	78	10	4	<b>117</b>
<b>Slovakia</b>	100	32	15	53	<b>200</b>
<b>United Kingdom</b>	43	70	0	23	<b>136</b>

Italy stood out in so far as sustainability seemed to be almost exclusively driven by private initiatives based on cooperatives, associations, and social enterprises, whereas other countries saw diversity across sectors. The survey data identified that the “public or business sector plays a significant role depending on the single initiative, but in most cases their support turns just into a sponsorship or a collaboration” (Italian research report).

Moreover, all countries exhibit the same trend that risk management strategies – even if they are few and informal overall – increase with the number of employees. In the Italian case, a threshold of 50 members was identified, although a strong awareness of health and safety regulations suggested a lower threshold in the case of the UK. Whatever the precise threshold, as a rule of thumb, the data indicates

that the more managerial staff an organisation has, the more risk awareness and risk management processes there are in place. This point is further investigated in the case studies.

### 4.1.2 Respondent characteristics

Generally, it should be noted that there is a certain degree of inevitable response bias in so far as those who felt comfortable to talk about risk management were likely to respond to the survey; they “self-selected” themselves out of the pool of respondents. In fact, this was a common feature of personal survey requests in the UK, where many initial contacts suggested another person within their organisation who was “more qualified to comment on risk management”. Looking at the roles of those who responded, it is a common feature of all four countries that the highest category of respondents is in managerial positions (directors or below). Few responses came from frontline staff (unless they also head a team-leading role). This first impression suggests that risk is considered an “expert matter” for more senior levels of staff. Overall, however, the response rate has been rather favourable (see previous section), with over 80% in responses.

### 4.1.3 Innovation Behaviour

WP4 acknowledged the general LIPSE theme that innovation is complex and prone to terminological “fuzziness”, within and outside of academic circles. Therefore, the survey provided the respondents with the following definition of innovation:

*By ‘innovation’ we do not mean an ordinary change to a service that you provide. An innovation is a distinct form of change that involves either a clear departure compared to what your organisation used to do (e.g. a new service) and/or meeting new needs compared to what your organisation used to do.*

Given this particular definition of innovation, respondents were asked to identify recent innovations that have taken place in their organisations. Not all respondents were able to answer this question, but just over 60% across the overall sample identified one or more example.

In the area of mental health, respondents in Italy, the Netherlands and the UK almost exclusively referred to service and process innovation, (e.g. the provision of a new service targeting refugees and the homeless in Italy, or new dementia support as part of previously social care oriented services in the UK, blended e-health is an innovation that was brought up repeatedly in the Dutch sample). Only



Slovakia provided a significant number of responses concerning product innovation in the form of new drugs or therapies. This may represent a slightly differing mental health practice in Slovakia.

Respondents from the mental health area also often referred to paradigm shifts in their field of work, often triggered by policy changes on a national level. We define a paradigm shift for the purpose of this project as the adoption of a new ideological framework, which consequently leads to the formulation and implementation of a new methodology. The more prominent examples were the fusion of health and social care services in the UK. The resulting paradigm shift was mentioned by almost all respondents in the UK and was repeatedly cited as a source of innovation – sometimes this was welcome, but some respondents also noted that the innovations induced through this change presented somewhat of a nuisance, in particular when several innovations had been triggered in parallel and resulted in conflicting change management processes. In Italy, a similar example is the integration of child and adult psychiatric services, aimed at improving a seamless provision of high quality mental health services.

In line with the distinction of different kinds of innovation, we can summarise the innovations mentioned in the area of mental health in three categories:

- ***Innovation in the organisation of mental health care***: changes to organisational structures and collaboration across departments/service providers, e.g. the change towards a different distinction between basic and specialist care.
- ***Innovation in the delivery of mental health care***: improvement to existing services, widening them to new patients, or changing the delivery mode of existing services e.g. the reduction of clinical treatment places in favour of outpatient treatment.
- ***Innovation in the co-production of mental health care***: the growth of online self-help, the growth of “blended e-health” treatments and self-directed care.

Interestingly, findings from the Netherlands, the UK and Slovakia suggest that innovation in mental health are largely a top-down process, i.e. innovation impulses are set by central governments and/or national organisations, such as insurance providers. Such an innovation strategy ultimately reduces risk as it limits the agents who can introduce innovation, offers a clear chain of responsibility, and also suggests that any innovation will have to be screened at the top-level, making it more likely that a thorough appraisal of potential externalities (positive and negative) has taken place. Thus, top-down innovation can be described as more risk averse. However, none of the respondents directly commented on this connection. Further research will need to investigate whether this nexus is a conscious choice or an unintended causal connection.

This ties in with a second overall finding: compared to sustainability, respondents from the area of mental health were less likely to identify innovations. Different forms of risk discourse may lie behind this variation. This presents an insightful cue that will be investigated in more detail in the case study analysis.

In the Netherlands, for instance, 58% of respondents discussed specific innovations, but they were even more likely to do so in the area of sustainability where the “practice and/or discourse [on risk seems] far more prevalent” (Dutch research report) compared to mental health.

In the area of sustainability, product innovation was more likely, as has been pointed out in chapter 3, when discussing the technological component of sustainable innovations. Thus, sustainability responses can be grouped into the following three categories:

- ***Innovation in technologies:*** The development of renewable solar energy (panels) or wind energy (turbines).
- ***Innovations in the use of resources:*** facilitating energy generation through the more effective use of public space (for example, by placing solar panels on the otherwise unused roofs of school or library buildings); use of renewable sources of energy (RES) and waste materials; energy saving techniques.
- ***Innovation in citizen awareness and involvement:*** the production and/or acquisition of renewable energy through newly founded cooperatives; or independent energy production by individual citizens (consumers), especially through solar panels; instruction or awareness campaigns on the use of RES and/or energy conservation among citizens.

In contrast to mental health, innovations in sustainability appear to be mostly generated as collaborative ventures of groups of citizens, local governments and businesses, i.e. they are driven by grass-root level agents. Such bottom-up innovation is reported and specifically commented on by respondents from Italy, the Netherlands, and the UK. Compared to the more regulated top-down innovation, allowing for bottom-up innovation presents a riskier approach. Grassroot staff may have a limited perspective to assess potential externalities, leaving more variables uncertain. At the same time, innovations are more likely to match service user needs more directly. Further research is needed in order to assess the balance between these two forms of innovation and their respective risk factors, and how they can be best balanced.

As mentioned beforehand, organisation size may be a factor leading to this difference. Moreover, there is less centralised regulation; instead, sources of legislative and regulatory frameworks are dispersed across different levels of government and auditing bodies. Finally, as the Dutch cases indicated, organisations in the area of sustainability also relied on the professional skill background of their volunteers, which provided these organisations with the necessary expert knowledge.

## **4.2. Risk Perceptions**

### **4.2.1 Risk Definitions**

A remarkable feature that clearly stood out across all four countries was the great difficulty that respondents had in defining risk without further prompts by the interviewing researcher. In this case, a definition of risk as problems, difficulties and uncertainties associated with the innovation process was volunteered. Even so, respondents agreed with the definition in theory but found it hard to think of appropriate examples from their daily work. Two trends are borne out by the data: Firstly, the UK has the highest level of risk definitions without prompt; however, the risk understanding is predominantly driven by the already strong health and safety culture in the UK. Secondly, there is a clear variation of responses according to the respondents' role in the organisation: managerial staff is thus far more likely to be aware of risk and risk approaches in the social innovation process. 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. Thus, their awareness of risk is dominated by actuarial/financial risks, regulatory/bureaucratic risks (such as failure to report or a change in the existing regulatory environment), and reputational risks to the organisation. Frontline staff is more likely to focus on risk in a narrow service-user specific way, driven by governmental standards for which documentation needs to be provided.

Organisational maturity (in terms of size and age) also drive the level of risk awareness, and the ability of staff to define risk in their working context. However, the Dutch case highlights the limitations of the overall understanding of risk in social innovation: even mature mental health service providers do not seem to have developed a pervasive risk culture, with respondents struggling to define risk.

In the following discussion and/or responses, it became clear that respondents described risks when talking about their everyday work experience, even though they may not have identified them as risks when asked to provide an explicit definition.

### 4.2.2 Types of Risk Identified

Researchers noted the various types of risk that were used in examples en lieu of more conceptual definitions. In addition, respondents were asked to rank the importance of a pre-defined list of risks. These have been identified based on the literature review and WP4's theoretical framework. They are:

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

All four countries reported a similar pattern, according to which:

- Mental health service organisations put risks to the service user first.
- Frontline staff are more likely to mention direct service risks to users and themselves.
- Financial risks and risks to the organisation were predominantly mentioned by managerial/strategic staff (in both policy areas).
- Sustainability organisations rarely identify individual risks to staff or service users, but emphasise the importance of risks to the organisation in terms of financial risk and reputational risk.

The risks identified by respondents are as follows:

- Financial/economic/market risk
- Bureaucratic/regulatory/policy risk
- Communication risk (internal and external)
- Participation risk (internal and external) and resistance to change
- Technical risk

Note that the academic literature categorised risks according to who is affected, whereas respondents' own risk rankings focus on the *source* of risk. This is an important point in terms of policy formulation and will be revisited in the final chapter as well as the separate policy recommendations deliverable for WP4.

Most important seems the aforementioned finding that perceived risks are dependent on an individual's role and the respective policy area: The data strongly suggest that individuals take only those risks into account with which they are faced in their actual work, either through materialised risk or the existence of specific regulation or legislation. This corroborates Hood's blame game model (2012): In other words, agents seem to be aware only of those risks that they could be blamed for. As a result, strategic risk approaches are difficult to formulate holistically across the organisation, and individual agents may behave myopically during the innovation process, possibly deterring organisations from social innovation in public services.

In addition to these general findings, there also are further country-specific patterns that emerge:

- In Italy and Netherlands respondents talked about risk as “something that has happened” rather than future outcomes; referring this back to our theoretical framework, it seems that this risk awareness neglects uncertainty while it addresses risk.
- The UK stood out in terms of a higher awareness of risk based on a strong health and safety culture with heavy and detailed regulation on work standards. This ranges from mental health care standards for patients (such as e.g. the time dedicated to individual service users) to safety briefings for manual processes in sustainability (such as e.g. work process statements in terms of sustainable building and estate management or the use of agricultural machinery).
  - Sustainability respondents suggested this was hindering their innovation efforts, while mental health respondents took such general guidelines as “set in stone”.
- In Italy, respondents intuitively differentiated between exogenous and endogenous risks along the theoretical differentiation between uncertainty and risk identified in the conceptual framework of WP4. This goes hand in hand with the belief that organisations cannot prepare for uncertainty, in particular when the legislative/regulatory environment was in the process of change. As one respondent remarked, “[a]ll the predictable risks have been identified beforehand” and form of uncertainty can only be managed ad hoc when it materialises. This supports our theoretical stipulation that uncertainty is not only neglected, but also that it can only be dealt with through a pervasive change in the risk culture across an entire policy sector, leading to an infrastructure of true risk governance (see chapters 1 and 2).

- In Italy, it also emerged that respondents from the same organisation had radically different perceptions of risk and their organisation's approach to risk. On the one hand, this reinforces the previous finding about the specific "position lens" that determines an individual's perception of risk. On the other hand, it also points to a lack of internal discourse on risk across the different members of the organisation. Although this finding was identified explicitly only in the Italian data, it fits the context of the remaining three WP4 country cases as well, and will be discussed more specifically in chapter 5 on the case study findings.
- An expert in the UK remarked that the blame game described in the literature review (Hood, 2012; Flemig, 2015) also determines risk approaches: thus, potential risks to service users have been reported to be used as excuses to minimise risks to service staff (in the form of blame avoidance). The example mentioned involved the use of cutlery in a care home for dementia patients; knives were removed with the justification that service users could hurt themselves, whereas it is more likely that those in charge actually sought to reduce the responsibility of service staff.
- Slovakia mentioned the risk of fraud as the only country across the sample. Thus, a respondent identified the risk that "funding has been misused". Further evidence is needed to identify whether this is just an individual perception or an actual risk within the Slovakian public service system.

### 4.2.3 Nexus of Risk and Innovation

Given that respondents mostly struggled to define risk in their work context (and sometimes even to identify specific examples of innovations), they also exhibited great difficulty in describing the role of risk in the social innovation process. As stated in the previous section, higher levels of managerial staff are more likely to be involved in the innovation process and therefore also to be able to understand the role of risk in social innovation. Several implications emerge:

- Organisational learning, a key element in a system of risk governance, is limited to segments of the organisation (or sometimes not present at all). The importance of allowing for risk and potential failure as learning process in the social innovation journey is therefore apparent to only a select few. Chapter 5 will illustrate how this affects the risk discourse at various levels of an organisation.

- Those involved in innovation processes are thus also more likely to understand risk as a strategic issue rather than an immutable element of their day-to-day work. In other words, they grasp the trade-off involved in varying degrees of risk and social innovation. The UK data on mental health emphasises this role divide.
- Slovakia stands out in so far as respondents make few mention of the connection between risk and innovation until innovations have actually been implemented. However, this may be explained by the top-down nature and the relative paucity of social innovation initiatives in the Slovakian mental health sector.
- Italy further demonstrates the applicability of the blame game model: Southern respondents seem to attribute failure in social innovation to uncertainties in the exogenous environment, in particular “inefficient bureaucracy” (Italian respondent).

### 4.3 Risk Management Approaches in Practice

Respondents mentioned a variety of risk management approaches; in line with the findings in the previous section, these risk management approaches were identified mostly through examples from the respondents’ everyday working life rather than an explicit identification as risk management approach. Risk management approaches in the area of mental health were driven by regulatory frameworks in all four countries; they also exhibited a strong public sector focus. Sustainability organisations, in contrast, varied in their risk approaches according to size: smaller organisations tended to be almost entirely informal in their risk management for innovation, while larger organisations, especially in the UK, have evolved a complex structure of project management-based risk appraisal, akin to the private for-profit sector.

Based on the data, we can identify three categories of responses, which we will now discuss in turn:

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

#### *Passive Responses*

In Italy, almost 17% of respondents reported that their risk approach consisted of a passive response. Similar levels prevail in the Netherlands and in the UK. Almost 50% of Slovakian respondents reported a passive response strategy. In the words of one respondent “We do not manage risk”.

Nonetheless, there is some difficulty in interpreting the data: Reporting a passive response to risk may result from a lack of knowledge or lack of personal experience by the individual respondent rather than a true absence of such structures within the organisation. As one respondent from the UK put it: “This is info[rmation] is not filtered [down] to my level.”

In Italy, the Netherlands and the UK, a clear majority describes their organisation’s approach as active, partially enforced by regulation and funding requirements (e.g. necessity to public reports including risk management statements, etc.). Further constraints, such as time and staff/financial resources also lead to passive responses in the face of materialised risks: “[We manage risk] poorly. We try to look at what and how within a meeting discussion but this does not always happen due to time constraints” (UK respondent).

### *Informal Responses*

Informal responses indicate an active engagement with risk and its consequences, however on a non-systematic and case-by-case basis. This also means that informal responses can vary in execution and effectiveness. One UK respondent suggested that “[r]isk is managed constantly by front line staff, and there is not really anyone else to do the job, innovations or not. It’s a qualitative task which is ever-evolving.” The Italian data suggests that on third of respondents operate on informal risk management only. Forms of informal responses 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
- **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

These findings tie in with the image of front-line staff as “street-level bureaucrats” who determine policy by their everyday actions. Further research is needed to investigate in how far front-line staff action



affects policy choices made on a higher (governmental or organisational) level, and how the two can be balanced.

### ***Formal Responses***

Formal responses can mirror some forms of informal responses to risk and uncertainty, but in a formalised, institutionalised manner. Formal responses that were mentioned in the survey 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 PMP etc. project management training, 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)

## **4.4 Conclusions**

The survey analysis has provided mixed results: on the one hand, there seems to be little systematic awareness of risk in the social innovation process; on the other hand, however, a whole range of formal and informal risk management approaches is currently used in practice across European countries and policy areas. In many cases, there seems to be a tendency to avoid the term “risk” at all costs in favour

of a less negatively connoted expression (such as uncertainty, eventuality, project assessment, etc.). More on this issue will be discussed in the following chapter 5 on the risk discourse within organisations.

Overall, the data have suggested a connection between policy area, organisation size, and political culture. Risk management methods based on different forms of communications seem to be most popular. This is in line with the theoretical findings from chapter 2. Differences in risk approaches between mental health and sustainability seem to derive from three main sources: Firstly, the organisational form, with mental health organisations being more tied to the public sector, both through regulation/legislation, but also through funding. Sustainability organisations seem to operate on a non-profit but still decidedly private sector logic, which suggests that this sector may be more open to copy formal risk management approaches from the private for-profit sector. Thirdly, mental health and sustainability represent soft and hard service respectively, potentially pointing to different consequences in terms of innovation behaviour and risk strategies. Further research is needed to explore this connection in more detail.

## 5. Mental Health and Sustainability: Key Contingencies of Risk Approaches and Discourse

### 5.1 Case Study Results

Based on the insights of the survey analysis and our conceptual framework, all WP4 partners chose 4 case studies for closer investigation, two in the area of mental health, two in the area of sustainability. Below is a short summary of the background of each case study, respecting the anonymity of organisations and individual respondents that were a key condition for their kind support.

#### *Italy*

##### Mental Health

A local health center established in 1995, operating in the region of Sardinia. As a local public institution, it provides several services to regional citizens. The family counseling department is part of the health centre. It consists of 30 members who are involved in the provision of services to families and single mothers living in the region.

A non-profit association active in the field of ethnopsychiatry since 2000, helping people from different ethnic and cultural backgrounds, i.e. immigrants and their descendants through counseling activities and anti-discrimination projects. Its aim is to promote integration by fostering the dialogue between different cultures and securing mutual respect, equal opportunities, and the development of common ground.

##### Sustainability

A non-profit association created by the public sector that consists of citizens and for-profit private companies. Overall, there are 5 staff members who are currently employed by the organisation. There more developed sister branch that involves about 30 members by now. Other projects are being initiated within five more municipalities; hence the organisation comprises approximately 150-200 members in its network. Its mission is to raise the awareness of the local community towards the active role that each individual may have in changing unsustainable regional energy needs and in carrying out concrete actions to impact on local energy planning.

A grassroots non-profit association founded in 2010. Its mission is to promote and produce renewable sourced energy throughout the municipal area and its surroundings. To do so, it operates at a social, cultural and institutional level, mostly by organizing awareness campaigns, social initiatives within schools and by establishing partnerships with the local municipality in order to build energy production facilities in public spaces.

### ***Netherlands***

#### Mental Health

A small citizen-led initiative in a municipality in a rural region, started in 2010. It has since then become a cooperative, with a formal legal structure, with 600 members, 300 customers, and 4 project-based paid advisors. Members decide the strategy, but not all of them make use of the organisation's services. The municipality has individual membership and is as such involved in internal deliberations, but is not on the board.

A sustainable energy cooperative. Like our other case on environmental sustainability, it is originally a citizen-led initiative. It currently has 60-80 members and 40-50 customers. Gradually, as it grew, it evolved from an informal group towards a social enterprise.

#### Sustainability

A non-profit service provider in the field of mental health care, active primarily in the regions of Zuid-Holland. It came into existence in 1999 after a merger of three organisations, though its history can be said to go back to the late 14<sup>th</sup> century. It is composed of three units, two regionally based, the other focused on activities aimed at reintegrated clients in mainstream society. Like other health care providers, they distinguish between basic care, specialist care and general practitioner support.

A non-profit service provider in the field of mental health care, active primarily in the region of Overijssel. It came into existence through the merger of three independent providers in 2008, but it claims a history dating back to around 1470, making it slightly younger than the organisation discussed in our other case.

### ***Slovakia***

#### Mental Health

The most progressive mental health hospital in south Slovakia, delivering the full structure of inpatient and outpatient services. The hospital exhibits an advanced system of quality management and we expected that it should be the innovation leader in the area and in the country.

A charitable non-profit organisation operating nationally as umbrella organisation for NGOs active in the area of mental health in Slovakia. Its history started in 1999 and in 2001 it was established as umbrella organisation of all NGOs active in the area of mental health in Slovakia. Core activities are the prevention of mental illness, the fight against the stigmatisation of mental illness, improving the quality of life of the mentally ill and those treated for mental illness.

#### Sustainability

An association of eight small municipalities in one Slovak region. The idea behind this association is to help those municipalities without gas supply. It originated from an NGO who knew about the possibility of gaining support via start-up investment through non-returnable financial contributions from EU funding and therefore addressed mayors and the council leaders of these municipalities. Altogether they prepared a project how to use waste as a source of energy instead of gas and/or coal.

A municipality council that focuses on the production, distribution and sale of energy for heating and hot water with use of agricultural waste to generate electricity. The originator of the process is a local farmer and entrepreneur who also owns a company. The municipality uses the waste as secondary raw material for industrial and energy production purposes. The goal was to make use of the local waste and agricultural surplus.

### ***United Kingdom***

#### Mental Health

A council in Scotland with a dedicated mental health team, reaching across the social and health care divisions. The team draws on wide array of professions, such as physiotherapists, nurses, social workers, across several layers of seniority. Service users are predominantly elderly, however, the mental health team is also responsible for young adults (over 16 to 30).

A mental health non-profit organisation operating nationally. We focused on a remote regional chapter with a highly dispersed public and very little service density in terms of mental health support. Respondents were drawn from frontline service staff, who are in direct client contact, to managerial staff such as regional chapter leaders, trustees and board members. The non-profit organisation operates mostly through phone contact but also offers web-based services as in-person visitation at local branches.

### Sustainability

A large non-profit organisation operating across the UK, focussing on the protection of natural habitat for sustainability purposes. The organisation has over 50 employees and works closely with regional non-profit organisations, as well as local or national governments.

A Scottish higher education association, with a focus on the sustainability staff. Respondents were drawn from individual universities' building and estate management divisions, as well as sustainability officers, private sector contractors in the building industry, and strategic managerial staff at the level of the Scottish higher education association.

Across these 16 case studies, the WP4 team collected 106 interview responses, with interviews ranging from 45 to 90 minutes. These data will be used in the following sections to address point two of our research goals (see chapter 1), which are to identify key contingencies for risk approaches and the current form of discourse on risk. Where possible and appropriate, reference is being made to the previous survey analysis discussed in chapter 4.

## 5.2 Key Contingencies

What are the factors that influence the effectiveness and type of risk approach? What are the drivers and barriers to successful risk management in public service organisations? This section summarises the case study insights on the key contingencies of effective risk governance, based on the previous survey analysis results. Key contingencies can be grouped into external and internal structures:

### *Internal Structure*

- **Size of Organisations:** The case studies corroborate the survey analysis in so far as there seems to be a correlation between organisational size and the degree of sophistication of the organisation's risk approach. The Dutch sustainability case studies, just like the Italian case

studies, are based on citizen-led initiatives in the form of energy cooperatives. In both countries, risk approaches are almost entirely informal and rely on the close interaction that among stakeholders as well as their shared values. While the UK provided a more formal structure of risk management even for smaller organisations, such as the regional chapter of a listening support charity, these systems relied on loosely formalised procedures, taking advantage of the possibility to address risks through common deliberation. Organisational size is thus also related to risk culture.

- **Organisational hierarchy** (board, trustees, experts, etc.): Most organisation –even those with loose and informal risk management approaches – followed a basic organisational chart of members/employees and a board of directors or trustees. They served as steering committee for social innovation projects. Thus, the UK case of a regional chapter of a listening support organisations replicated this organisational template even in small localities. The aim was to create a clear line of responsibility based on template risk management across all localities. All Slovakian cases exhibit a particularly strong emphasis on organisational hierarchy across different levels of management. This also entails that employees on lower levels of the hierarchy are often little involved in strategic risk approaches, as has been discussed in the previous chapter.
- **Employment Structure:** Another key contingency is the internal composition of PSOs. While sustainability organisations tended to be small and relatively young, they also relied on citizen initiatives; the data from the Dutch and Italian case studies strongly support this point. Indeed, some Italian respondents indicated that they felt reluctant to put too much of a burden on unpaid volunteers, both in terms of effort, but also because of their relative lack of experience in formal management in the energy market. But the specific composition of paid staff and volunteers is but one example. The Italian energy cooperatives heavily relied on the professional experience of their volunteers; this enabled them to rely on informal approaches to risk management. In contrast, the Slovakian mental health studies lie on the opposite end of the spectrum, with a strongly professionalised, public sector employed staff roster.
- **Membership:** On a related note, it is not uncommon for third sector based public service providers to be formed as a membership organisation. The UK sustainability case study on the habitat conservation charity illustrates this case: being dependent on the support (and funding) of its members, the organisation early on adopted a transparent approach to risk management and succeeded in creating a risk culture across the organisation. This has become a valuable risk management approach in itself as far as reputational risk is concerned.

### *External Structure*

- **Policy Environment (statutory/regulatory):** As was mentioned beforehand, mental health is a fairly regulated and centralised policy area in all four countries. The presence of policy guidelines in the form of legislation or regulation provides a governmentally set framework in which organisations need to operate. The underlying rationale is first and foremost to guarantee a minimum quality of care standard for service users. Sustainability provides the opposite case with little governmental standards (in particular in Italy, where governmental involvement is limited to funding and contracting) and dispersed regulatory norms that are not overseen by a single body. The UK sustainable building and estate management in the higher education sector illustrated that this left a wider degree of flexibility for stakeholders to take individual risks; however, it also meant that individual staff members had to be specifically trained in order to grasp the full extent of different regulatory regimes (e.g. a contractor working for a large UK university described the process of having to manage the council, construction law, the challenge of listed buildings, and other official stakeholders when implementing a more energy efficient heating system).
- **Sources of Funding:** The case studies also confirm the importance of funding sources as key contingency in shaping an organisation's risk approach. Sustainability is largely funder drive, with respondents in the UK and the Netherlands remarking that funders currently seem preoccupied with innovation at the cost of supporting existing projects once these are not "novel" anymore. On the contrary, mental health is closely tied in with the public sector, which binds mental health organisations closer to a common standard of service and innovation. Thus, the Dutch mental health cases emphasise the top-down nature of innovation and risk management in the field, a point corroborated by the UK data.
- **Dependence on cooperation of other stakeholders/public:** Prime examples are Italy's energy cooperatives which heavily rely on public support in order to guarantee their own sustainability. Similar situations are highlighted by the UK data, where the listening support organisation stressed the importance of being a trusted partner to the public, not just for service users but also to recruit volunteers.
- **Public Perception:** Finally, public perception drives risk approaches in so far as it serves as a magnifier of the blame game: the UK local council mental health team, for instance, reported that reputational risk had become a key priority after a number of scandals received headlines in the local and national press. This forced them to adopt a more formalised and professional risk approach to respond to the bad press. The existence of a public auditing body exerts a similar pressure, as is demonstrated by the Slovakian mental health cases.



It is important to note that the current perception of risk is predominantly as a negative contingency, i.e. a factor to be minimised if not altogether avoided. Out of all interviews, only one respondent from the UK referred to risk as a positive contingency that helped his organisation to assess its choices in the best interest for service users, i.e. balancing the expected benefit of a particular innovation against the expected risk and uncertainty. Thus, risk needs to be positively managed rather than avoided. The following section will provide a more thorough discussion of the empirical evidence on the risk discourse across the case study sites.

### 5.3 Discourse on Risk

The survey has already indicated rough insights on the internal discourse on risk that takes place across mental health and sustainability organisations. This section uses the more in-depth case studies to provide further insights on this topic.

- **The role-based lens:** The case studies corroborate the finding that risk discourse largely depends on an individual's position within the company. More managerial roles are far more likely to be involved in innovation and grasp the connection between risk-taking and innovation potential. Across all case studies, irrespective of country and sector, frontline staff was most likely to identify operational risks (and corresponding risk approaches) relating to service users, while managerial staff focused on financial risks and risks to the organisation, including the staff they were managing. With the exception of one UK case study on habitat conservation, no case study reported a pervasive culture of risk discourse. If organisations were small enough (such as in the case of the sustainability case studies in Italy and the Netherlands), the risk discourse can take place through informal channels, but still within hierarchical lines leading to the board of directors/trustees, who ultimately bear responsibility for innovation projects and the associated risk management.
- **Top-down versus bottom-up innovation:** The characterisation of mental health as a top-down innovation field compared to sustainability as a bottom-up innovation area also emerged from the case analysis. Slovakia forms a clear example, with mental health being dominated by public sector organisations and a public sector culture; risk management follows governmental guidelines, but there is little evidence of innovation. Mental health in the other countries, in particular the Netherlands and the UK, was also described as an area dominated by regulation

and top-down policy innovation. In the UK, a limited scope for small-scale innovation among frontline staff was observed, however on a very limited basis with hardly any uptake outside of the respective team structure. Risk management was thus rudimentary and based on purely informal communication among a small subgroup of stakeholders. Overall, further research is needed to explore the context and nexus of what is perceived as less risky top-down innovation strategies compared to more risky bottom-up innovation, and how the two can be balanced.

- **Size component:** The previous section provided insights on organisational size as a contingency for risk management; in terms of its effect on the internal risk discourse, there is a clear relationship across all cases and countries that small organisations with up to 20 employees/volunteers tended to rely on informal responses, trusting in close and frequent communication among stakeholders on an informal basis.
- **Risk management as “common sense”:** Respondents in one of the Italian sustainability case studies referred to risk management as “common sense”, a sentiment that was echoed among frontline staff in the UK mental health case studies, as well the Dutch environmental sustainability case studies. Finding it difficult to divorce the internal discourse on risk from the actuarial risk management approach of risk minimisation, respondents in all case studies suggested that – while it would be desirable to have more formal risk governance processes in place – a common sense approach paired with professionalism was enough to engage in the various stakeholders in a discourse on risk in social innovation.
- **The governmental factor:** Finally, the role of governmental regulation should be noted. Countries with a strong central government and policy making system, such as Slovakia, and to a certain extent the UK, also exhibited a risk discourse that was coined by statutory and/or regulatory parameters (such as the health and safety-dominated risk culture in the UK). Often, these parameters were seen as a limiting factor for innovation (UK); however, other case studies did not make the link between tight governmental frameworks and risk aversion at the cost of innovation potential explicit (especially mental health in Slovakia).

### 5.4 Conclusions

The case studies have yielded a wealth of in-depth information of which this is just a short summary; further publication in academic journal will discuss the country-specific and comparative findings in more detail. Even so, a relatively clear picture emerges.

Firstly, the surveys first indication of key contingencies for effective risk management was corroborated: size, professionalization of staff, and the policy environment proved to be the most important factors in the case studies as well. Based on the more detailed data, contingencies could be divided into external and internal factors, while also highlighting the relationships between them.

Secondly, with the exception of the UK, the case studies demonstrated that current practice in risk management is based largely on informal, communication-based measures. Partially, this can be explained by contingency factors, such as size or policy environment. However, there is more to the story. Organisations expressed a desire for more formalised structures, but since no “ideal” system was in place, the set-up cost were considered too high. Therefore, ad-hoc and need based communication within loosely defined risk management structures (such as project management and board oversight) were considered to be the most workable and effective means. Referring back to our conceptual discussion in chapter 2, it seems that organisations are – for the most part – stuck at the level of decisionistic risk governance: trying to involve various stakeholders and deliberate the risk management process, the discourse still has not spread to encompass the entire organisation, making it almost impossible to address uncertainty as opposed to risks that can be identified *ex ante*.

Furthermore, only strategic positions seemed to grasp the role of risk in social innovation. Overall, the term still carries a stigma of blame and failure, and there is a widespread sentiment that risk should be minimised (actuarial risk management), even if this is just based on a “common sense” understanding based on professional experience. There are thus three key points to note:

- a) The risk discourse is limited to self-contained islands within organisations (frontline versus material staff), preventing a full risk culture from developing.
- b) Key contingencies seem to hold across policy sectors, predicated on the level of governmental guidance issued at a central level, however, the perception of risk is mostly as a “negative” rather than a “positive” contingency in the innovation process.
- c) Given the current state of risk perceptions, discourse, and approaches, organisations have trouble addressing risk as a strategic component and almost entirely disregard uncertainty, describing it as “unplannable” and “exogenous” to their actions (Italian respondent). Theory suggests that a model of full risk governance (Renn, 2008) may provide a solution, however, a change in overall risk culture is necessary for such risk governance to develop. Until then, the potential for social innovation is likely to be constrained by the reduced range of risk management approaches used in practice.

## 6. Conclusion: Formulating Policy Recommendations for Effective Risk Governance in Public Service Innovation

### 6.1 Policy Recommendations for Risk Governance

Based on the data presented in chapters 4 and 5, we can revisit the research goals that WP4 set out to achieve:

- 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.
  - ➔ *In line with the literature, we identified financial risk, risk to reputation, risk to service users and providers, and risk to the wider community as prevailing across the four countries. These were met with a predominantly actuarial response and a classical risk management structure based on a hierarchical chain of command (mental health) and a project management team reporting to a board of funders/directors. We chose mental health (soft service) and sustainability (hard service) as policy sectors to be studied.*
- To empirically identify and explain to what extent it is possible 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.
  - ➔ *We found that there is little risk discourse across the entire PSO. Rather, it is those in middle management (and higher) that are involved in the risk discourse and the adoption of a particular risk approach. Front-line staff was hardly ever included (some smaller sustainability organisations forming the exception). Service users participate in the risk discourse even more rarely. This structure translates into a predominantly actuarial/hard regulation based risk management approach, with a project manager/team reporting hierarchically to a board of funders/directors to address emerging risks on an ad hoc basis.*
- To make recommendations regarding the formulation of relevant principles for effective risk governance in innovation in public services.

→ *Our recommendations are based on our finding that only a holistic risk discourse, involving the entire PSO and the public, is called for if we want to assure that risk in the social innovation process is being managed efficiently. Only such an encompassing structure will allow PSOs to move from risk “management” to risk “governance” in social innovation. This section summarises our recommendations. Further policy recommendations will be published in a separate policy brief by 31<sup>st</sup> March 2015.*

- To disseminate the results and policy recommendations among relevant policy makers and within the public management community.

→ *WP4 has so far presented its research at two international conferences (2014), with three more to come in 2015. Furthermore, publications in peer reviewed journals will enable us to communicate our findings to the public management community. Moreover, we have presented our emerging findings at the LIPSE mid-term conference in Brussels (February 2015). Once the policy recommendations are published, we will begin to target relevant policy makers with specific engagement events, such as practitioner’s workshops, seminars, and a research “road show”. We will also involve the local and international press in order to further disseminate our findings.*

Detailed principles for the formulation of risk governance structures will be published in a separate policy recommendation document. At this stage, we are presenting a short summary of the key principles derived from the theoretical and empirical research of WP4.

- **Support for smaller organisations**

- 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.

- **Encouragement of risk culture as a learning culture**

- The current stigma of risk as a factor to be avoided or at best minimised inhibits public service organisations from creating an atmosphere of learning. Innovation is stifled out of the fear of failure. According to Hood’s (2012) blame game, 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.

- **Invite a wider discourse on risk, including public service users and communities, to create holistic *risk governance***
  - 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, 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.
- **Flexibility 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 alternative approach for regulation that allows the required flexibility to accommodate diverse groups.
- **Clarity in Governmental Regulation**
  - 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).
- **Evaluation based on outcomes rather than (numerical) outputs**
  - 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 or 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.

## 6.2 Next Steps

As a next step, the findings presented in this report will be adapted for a practitioner's use. By 31<sup>st</sup> March 2015, we will provide a separate deliverable in the form of policy recommendations. These will be vetted and discussed with our case study sites and other civil servants and practitioners.

Moreover, the WP4 partners will engage in dissemination work across practitioners (in the form of workshops and networking events), as well the academic community (in the form of publications in academic journals). At the time of writing, papers based on WP4 research have been accepted for conference presentations in Hungary and China, with further activities to be organised. For more information, please refer to updates on our LIPSE website at [www.lipse.org](http://www.lipse.org).

For further questions and suggestions, please contact the corresponding author Sophie Flemig ([sophie.flemig@ed.ac.uk](mailto:sophie.flemig@ed.ac.uk)).

## 7. References

ALARM – The Public Risk Management Association website, accessed on 06 January 2015 at <http://www.alarm-uk.org/>.

Andreeva et al. Governance and Accountability of Public Risk. *Financial Accountability and Management*, 30(3), (2014): 342-361.

Audit Commission. *Seeing the Light. Innovation in Local Public Services*. (London: Audit Commission, 2007).

Ball, R. and King, D.N. The Private Finance Initiative in Local Government. *Economic Affairs*, 26 (1), (2006): 36-40.

Ball, R., Heafey, M., and King, D. The Private Finance Initiative in the UK. *Public Management Review*, 9(2), (2007): 289-310.

Bhatta. G. “Don’t Just Do Something, Stand There!” Revisiting the Issue of Risks in Innovation in the Public Sector. *The Innovation Journal: The Public Sector Innovation Journal*, 8(2), (2003): Article 3, available online at [http://www.innovation.cc/scholarly-style/8\\_2\\_3\\_bhatta\\_innovate-risk.pdf](http://www.innovation.cc/scholarly-style/8_2_3_bhatta_innovate-risk.pdf).

Borins, S. *The Persistence of Innovation in Government*. (Brookings 2014)

Bozeman, B. and Kingsley, G. Risk Culture in Public and Private Organizations. *Public Administration Review*, 58(2), (1998): 109-118.



Broadbent, J. and Laughlin, R. The Private Finance Initiative: Clarification of a Future Research Agenda. *Financial Accountability and Management*, 15(3), (1999): 95-114.

Broadbent, J. and Laughling, R. Public private partnerships: An introduction. *Accounting, Auditing & Accountability Journal*. 16(3), (2008): 332-341.

Brown, L. and Osborne, S.P. Risk and Innovation. *Public Management Review*, 15(2), (2013): 186-208.

Campbell, T. *Innovations and risk taking: The engine of reform in local government in Latin America and the Caribbean*. (World Bank Discussion Paper, 1997).

CCAF-FCVI. *Innovation, Risk and Control – A public sector guide to encouraging innovation, understanding control, managing risk, reducing red tape... and delivering better results for citizens*. Internal Publication (CCAF, 2010).

Churchman, C.W. Wicked Problems. *Management Science*, 14(4), (1967): B141–B142.

Commission on Public Private Partnerships. *Building Better Partnerships: the final report of the Commission on Public Private Partnerships* (London: Institute for Public Policy Research 2001).

Corner, D. The United Kingdom Private Finance Initiative: The Challenge of Allocating Risk. *OECD Journal of Budgeting*, 5(3), (2006): 37-55.

Department for Innovation, Universities and Skills [DIUS]. *Innovation Nation*. (London: HMSO 2008).

Feller, I. Public-Sector Innovation as “Conspicuous Production”. *Policy Analysis*, 7(1), (1981): 1-20.

Flemig, S.S. A Game of Responsibility? The Regulation of Health and Social Care Professionals. *Public Money and Management*, 35 (2), (2015): 169-170.

Freshfields Bruckhaus Deringer and United Nations Environment Programme Finance Initiative (UNEP FI). A legal framework for the integration of environmental, social and governance issues into institutional investment. *Asset Management Working Group Report*. (UNEP FI 2005).

Green, J. Risk and the construction of social identity: children’s talk about accidents. *Sociology of Health & Illness*, 19(4), (1997): 457-479.

Green, J. From Accidents to Risk: Public Health and Preventable Injury. *Health, Risk and Society*, 1, (1999): 25-39.

Harman, E. Accountability and Challenges for Australian Governments. *Australian Journal of Political Science*, 29, (1994).

Hartley, J. Public and Private Features of Innovation, in Osborne, S.P. and Brown, L. *Handbook of Innovation in Public Services*. (Edward Elgar 2013).

HM Treasury. *The Risk Programme. Improving Government’s Risk Handling. Final Report to the Prime Minister*. (London: HM Treasury, 2004).

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

Hood, C. and Rothstein, H. *Business Risk Management in Government: Pitfalls and Possibilities*. (London: National Audit Office: 2000).

Hood, J. and McGarvey, N. Managing the risks of public - private partnerships in Scottish local government. *Policy Studies*, 23(1), (2002): 21-35.

Hood, J., Fraser, I. and McGarvey, N. Transparency of Risk and Reward in U.K. Public–Private Partnerships. *Public Budgeting & Finance*. 26(4), (2006): 40-58.

Jayasuriya, K. The New Regulatory State and Relational Capital. *Policy and Politics*, 32(4), (2004): 487-501.

Kahneman, D. and Tversky, A. *Prospect Theory: An Analysis of Decision under Risk*  
*Econometrica*, 47(2), (1979): 263-292.

Lewis, M.K. Risk Management in Public Private Partnerships. Centre for Globalisation and Europeanisation of the Economy (CeGe) research paper (Georg-August-University Göttingen, 2001).

Lodge, M. The Public Management of Risk: The Case for Deliberating among Worldviews. *Review of Policy Research*, (26(4), (2009).

Mack, R.P. *Planning on Uncertainty: Decision Making in Business and Government Administration*. (Wiley Interscience 1971).

National Audit Office [NAO]. *Supporting Innovation: Managing Risk in Government Departments*. (London: Stationary Office, 2000).

National Audit Office [NAO]. *Innovation in PFO Financing. The Treasury Building Project*. (London: Stationary Office, 2001).

National Endowment for Science, Technology and the Arts [Nesta]/Young Foundation. *Social Innovation*. (London: 2013).

Palermo, T. Accountability and Expertise in Public Sector Risk Management: A Case Study. *Financial Accountability and Management*, 30(3), (2014): 322-341.

Patterson, E. et al., *Everyday Innovation. How to Enhance Innovative Working in Employees and Organizations*. (London: Nesta 2009).

Peters, T.J. *Thriving on Chaos: Handbook for a Management Revolution*.

(Pan 1989).

Pollitt, C., & Bouckaert, G. *Public management reform: A comparative analysis: A comparative analysis* (Oxford University Press, 1999).

Pollitt, C., & Hupe, P. Talking about government: The role of magic concepts. *Public Management Review*, 13(5), (2011): 641-658.

Power, M. *The risk management of everything: rethinking the politics of uncertainty*. (Demos, London, UK, 2004).

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

Taylor-Gooby, P. and Zinn, J.O. *Risk in Social Science*. (Oxford University Press: 2006).

Tidd, J. and Bessant, J. *Managing Innovation. 4<sup>th</sup> edition*. (Wiley 2009).

Varian, H.R. *Microeconomic Analysis*. (W. W. Norton & Co.; International 2<sup>nd</sup> revised edition 1984).

Vincent, J. Managing Risk in Public Services: A Review of the International Literature. *International Journal of Public Sector Management*, 7(3), (1996): 57-64.

Wall, A.P. and Connolly, C. The Private Finance Initiative: An Evolving Research Agenda. *Public Management Review*, 11(5): 707-724.

West, M.A. and Farr J.L (eds.) *Innovation and Creativity at Work: Psychological and Organizational Strategies*. (Chichester: Wiley 1990).

Zinn, J.O. *Social Theories of Risk and Uncertainty*. (Blackwell Publishing 2008a).

Zinn, J.O. Heading into the Unknown: Everyday Strategies for Managing Risk and Uncertainty. *Health, Risk & Society*, 10(5) (2008b): 439-450.

## Appendix 1: Survey Questions

Note to respondents: We are not looking or expecting to find established patterns of risk governance. We simply want to know what happens now. All information is confidential and no respondents will be reported in a way that allows them to be identified.

### **A. General information**

Closed questions on:

1. Name and role (optional)
2. Organisational structure/affiliation
3. Numbers of participants/clients/staff members
4. Year of formation/involvement

### **B. Types of innovation(s)**

*By 'innovation' we do not mean an ordinary change to a service that you provide. An innovation is a distinct form of change that involves either a clear departure compared to what your organisation used to do (e.g. a new service) and/or meeting new needs compared to what your organisation used to do.*

1. What are the most significant innovations in your field of work or organisation that have been developed over the last three years and who have they been developed by, if any (identify up to two)?

### **C. Type of Risks (Perceptions)**

2. In your own words, can you define what you associate with "risk" from the point of view of your professional role or organisational affiliation?
3. Which of these risk types do you find relevant for your organisation/services?
  - a. A direct risk to service users
  - b. Risk to the service staff
  - c. Risk to organisations (e.g. political/reputational)

- d. Risk to the wider community
4. Can you rank them in order of importance?

***D. Risks and Innovation***

5. Do these risks also affect the innovations you mentioned beforehand? Can you specify for each innovation that you listed what risks were associated *prior to implementation*, and who was affected?
6. Which of these risks have become real (or not), what has been the consequence and how has your organisation tried to deal with them?
7. In retrospect, did any of these innovations have risks that were not identified prior to implementation and what was their impact and on whom?

***E. Risk management/governance***

8. In my line of work/organisation there are systems in place to identify any risks involved in innovative service development
- a. Agree
  - b. Disagree
  - c. don't know
9. In my line of work/organisation there are systems in place that deal with the consequences of any risks involved in innovative service developments.
- a. Agree
  - b. Disagree
  - c. don't know
10. Can you name examples of any risk management strategies?



11. My organisation has systems in place to negotiate with key stakeholders (e.g. service users, their families, the community, politicians, etc.) about the consequences of any risks involved in a new service development.
  - a. Agree
  - b. Disagree
  - c. don't know
  
12. Who is responsible in your organisation for identifying the risk involved in service development? This could be a dedicated person or role for each development.
  
13. If an innovative development goes wrong, how is this failure dealt with?

## Appendix 2: Semi-Structured Interview Protocol



### Learning from Innovation in Public Sector Environments (LIPSE)

**LIPSE**

*Work Package 4: Risk definition and Risk Governance in  
Social Innovation Processes*

#### ● Interview Protocol ●

1. Please describe your organisation and its line of work.
2. What is your role in the organisation?
3. How would you define the main risks your organisation faces on a day-to-day basis?
4. Please name the most notable innovations that your organisation has implemented over the last 5 years. This can be a new service, a new policy, or a new way of providing existing services.
4. Can you describe the risk management process for these innovations at the stage of a) design, b) implementation, c) dissemination of innovation to other organisations/areas?
5. Please describe your organisation's risk management process for innovations. Who is involved, what is the timeline? Does your organisation utilise any form of risk assessment framework or evidence-based approach? [If no response, suggest frameworks, such as innovation funnel, constructive challenge meetings etc.]
6. Please describe an innovation that did not go according to plan in your eyes. How did you manage the situation? Was the cause a foreseen or an unforeseen risk?
7. From your personal experience, what role does risk management play for new innovations at the stage of a) design, b) implementation and c) dissemination of innovation to other organisations/areas?
8. What are, in your view, the most important barriers that risk management poses for innovation?
9. Do you think that risk management can also help to innovate? If so, how and when?
10. In your own words, how would you describe the ideal way of managing risk for your organisation? Does your current practice differ from this ideal? If so, how?
11. [Any other interesting points to pick up on from any particular interview.

### Appendix 3: Detailed background of cases

Country	Policy domain	Case Studies	Selection Justification
Italy	Mental Health	<ol style="list-style-type: none"> <li>1. Family Counselling Service</li> <li>2. Mental Health Charity</li> </ol>	<ol style="list-style-type: none"> <li>1. Innovative take on new services for mental health.</li> <li>2. Non-profit mental health charity rather than public sector organisation.</li> </ol>
	Sustainability	<ol style="list-style-type: none"> <li>1. Community energy cooperative</li> <li>2. Community energy cooperative</li> </ol>	<ol style="list-style-type: none"> <li>1. and 2. Novel form of sustainability non-profits hence assumed to offer wide range of innovation.</li> </ol>
The Netherlands	Mental Health	<ol style="list-style-type: none"> <li>1. Non profit service provider</li> <li>2. Non profit service provider</li> </ol>	<ol style="list-style-type: none"> <li>1. Best practice in the West of the Netherlands</li> <li>2. Best practice in the East of the Netherlands</li> </ol>
	Sustainability	<ol style="list-style-type: none"> <li>1. Sustainable energy cooperative</li> <li>2. Sustainable energy cooperative</li> </ol>	<ol style="list-style-type: none"> <li>1. Best practice, rural region, type of government involvement</li> <li>2. City, type of government involvement</li> </ol>
Slovakia	Mental Health	<ol style="list-style-type: none"> <li>1. Mental health hospital</li> <li>2. Charitable non-profit organisation (also umbrella body)</li> </ol>	<ol style="list-style-type: none"> <li>1. Most progressive mental health hospital with full range of inpatient and outpatient services and an advanced system of quality management; expected to be innovation leader.</li> <li>2. Umbrella organisation for mental health non-profit organisations since 2001</li> </ol>
	Sustainability	<ol style="list-style-type: none"> <li>1. Energy cooperative (run by 8 municipalities)</li> <li>2. Public-Private partnership energy cooperative.</li> </ol>	<ol style="list-style-type: none"> <li>1. Unique partnership of rather small municipalities.</li> <li>2. Public private partnership originating in private sector, hence expectation of innovative risk management strategy.</li> </ol>

UK	Mental Health	<ul style="list-style-type: none"> <li>1. Listening Support Charity</li> <li>2. Local Council Mental Health Unit</li> </ul>	<ul style="list-style-type: none"> <li>1. Geographical reach: dispersed and small population in remote areas; subject to recent regulatory changes</li> <li>2. At the heart of current policy paradigm shift in mental health service innovation; oldest population in the UK, i.e. prone to a wider variety of risks</li> </ul>
	Sustainability	<ul style="list-style-type: none"> <li>1. National habitat protection non-profit</li> <li>2. Scottish higher education council sustainability division</li> </ul>	<ul style="list-style-type: none"> <li>1. Nation-wide and diverse projects with close collaboration across sectors.</li> <li>2. Pledge to governmental sustainability targets with high pressure on new development of facilities.</li> </ul>