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## Public sector policy: Policies supporting innovation in social & public sector

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### Abstract

It is observed that policy events comprise the creation of framework circumstances, establishing organizational frameworks and developing capabilities, identifying, specifying and signaling needs, and incentivizing innovative solutions. The survey findings verify that the barriers encountered by firms communicate to the deficiencies addressed by policies but do not address them adequately. This arises from lack of reporting, lack of ownership by purchasers, crash to address the whole series of gaining and to address risk dislike. The scope of policy actions needs to be extensive in time, span of reach and depth. Public procurement is more and more seen as an important probable instrument of innovation policy. However, policy design has been underpinned mostly by subjective evidence and without a clear academic or experiential basis for considerate how supplying to the public sector actually influences a firm's innovation capabilities and presentation and in what ways attractive behaviour and outcomes can be promoted. This paper seeks to address the basis of innovation procurement policy progressively more, policymakers are paying attention on capitalist innovation as a key to unlocking higher levels of economic growth. With the economy still performance at a sub-par level and the joblessness, however, what is the role of government in nurturing innovative products, services, and business ideas? Is government, through its banking and regulatory roles, the guiding hand that leads entrepreneurs toward socially and economically beneficial innovation? Or does government best support the growth of innovation by providing a non-intrusive institutional environment within which entrepreneurs create new things? In what ways can the government foster innovation, and in what ways is government a hindrance?

**Keywords:** Public procurement, Innovation, Policy taxonomy, Supplier survey

### 1. Introduction

With numerous intractable problems facing the world today, calls for innovative solutions have become increasingly commonplace. Frequently, these calls are accompanied by suggestions that government policies need to be responsive, flexible, and adaptive to keep pace with the rapidity of changes taking place across the social, ecological, and economic spheres. This thinking has long been encouraged around technical innovation. Is social innovation different? With a range of policy instruments available as options, which are best suited to facilitate social innovation and address complex problems? Our answer is that there are four phases to any social innovation process, and different policies are needed for each phase.

Innovation is crucial for the competitiveness and economic growth. Nowadays, an important dimension of the market economy is the role of innovation, rather than price, as a driving force in competition and rivalry between firms in the marketplace. In this scenario large firms play a crucial role in the innovation process, but small and medium firms are also important in applying new knowledge in the marketplace. Of course, the debate about the best market structure and firm size to promote innovation is not a dichotomic question between monopolistic or competitive markets or between larger and smaller firms. In addition, the relation between market competition and innovation is not linear and simple. Intense competition promotes innovation but excessive rivalry discourages change and innovation.

At present there is a wide range of literature on firms' decisions to innovate, which includes important recent observed estimations using firm level data. However, these observed works usually focuses on manufacturing industries from a particular country (see a survey in Smith, 2005) or different countries (Mohnen, Mairesse, Dagenais, 2006; Peters, 2005).

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Innovation is rapidly in advance importance as a topic in both public policy program and in the development of business strategies. A similar progression can be seen in other countries. There is an important correlation between a country's level of assumption in innovation and the degree of knowledge and incorporation of its companies in international markets. With the opening of new markets and the capability to increase participation in presented markets, innovation is cautious a strategic tool in a firm's competitiveness. As countries struggle to increase their international competitiveness, governments from quite a lot of countries create incentive policies to reinforce the innovative capacity of national companies. Business is implicit to be the locus of innovation. A good combination of government policies and business strategies is central to the creation of an environment propitious to generate Innovation—as evidenced in several countries and regions.

### 1.1 What is social innovation?

Social innovation refers to new ideas that work in meeting social goals. Social innovation is an developing, practice led and under-theorized field. Practitioners and examples of social innovation can be found around the world, It has developed with ill-defined boundaries, meanings and definitions.

*“Social innovations are new solutions (products, services, models, markets, processes etc.) that simultaneously meet a social need (more effectively than existing solutions) and lead to new or improved capabilities and relationships and better use of assets and resources. In other words, social innovations are both good for society and enhance society's capacity to act.”*

### 2. Elements of social innovation

Social innovation is better seen as a broad movement than as a single methodology or even a tightly define Field.

- First, social innovation is a development of innovation theory and management, but applied to social and public policy goals.
- Second, social innovation is intrinsically collaborative. A key role of public managers is to productively partner with social innovators (who may also be public managers) including by 'co-framing' the problem and then 'co-solving' it.
- Third, social innovation seeks to strap up and strengthen society's ability to act to encourage general well-being by creating new partnerships between citizens and the state.

### Public policies

The search for innovation is a unstable activity that involves high costs and risks, but it can bring about great returns and remuneration for the company, industry and country. For this reason, this type of movement is among those that are usually accepted for getting government incentives through public policies. However, for these policies to create real things, they need to coherent different forms of government deed and the rigid framework. Otherwise, besides killing resources, there is the risk for some government initiatives to be neutralized by other policies that have the differing effect. As we will see ahead, several countries have policies for innovation, but few have achieved significant results.

This systemic perspective is similar to Kline and Rosenberg's (1986) chain-linked model where the innovative process requires constant interaction among the players. Under this approach, public policies should aim to create environments that are favorable for interaction between players, with a vision for long-term investments that manage both the high costs and risks involved in the innovation process. The most important public policies can be separated into five separate categories. (a) Industrial and sectoral policies that aim at promoting “productive activity, directed at development stages that are longer than pre-existing ones” (Ferraz, Paula and Kupfer, 2000, p. 545). (b) Foreign trade policies, with import policies used to protect nascent industries, and export policies that help increase the competitiveness of national industry against international competitors. (c) Promotional and financing policies that enable long term investments and the development of new technologies with research and development (R&D) expenses. R&D investments have a high-degree of uncertainty and are normally left out of the private financing system's scope. Thus, there is room for governments to work through non-reimbursable financing at low interest rates (without subsidies). (d) Policies for competition and regulation that aim at creating and maintaining a competitive economic environment in critical areas for innovation, including intellectual property policies. (e) Policies to support micro-, small- and mid-sized enterprises (SMEs) that have been able to play a significant role in innovative economies. And last but not least, (f) education policies to train skilled labor and in the fields of science, technology and innovation that promote and stimulate the generation of knowledge in society by supporting academic and scientific research. Besides all these policies more directly tied to stimulating innovation, it is also important for macroeconomic, fiscal and monetary policies to harmonize with this objective—instead of factors that limit the application and development of innovative policies. These public policies to stimulate innovation are increasingly common and necessary for countries to create a favorable environment for long-term investment, R&D, the quest for innovation and the development of new products. For some years now, countries like the United States, Japan and European Union nations have expanded the range of their science and technology policies to include innovation. However, there is no single model. In every country, the combination of these policies occurs in a specific manner. Public policies to support innovation generally focus on economic growth and international competitiveness, that is, on innovation linked to the development of business sectors. However, a number of countries are broadening their range of innovation policies to solve social issues like inequality, urbanism and poverty, as well as environmental issues like reducing pollution and improving energy use and generation

### 3 Objectives of public sector innovation policies & initiatives

There are three generic objectives of policy interventions to support public sector innovation.

#### a- Internal focus - enhancing efficiency in the public sector

Policies and initiatives that aim to “achieve more (or at least the same) for less” by enhancing the efficiency of the public sector, often through restructuring or reducing organizational

units, and often as part of larger-scale reform programmes or strategies;

#### **b- External focus on improving services for citizens and businesses**

Policies and initiatives that aim to improve the quality of the public sector service delivery;

#### **c- External focus on “inducing” innovation in other sectors**

Policies and initiatives that aim to promote innovation in business or in the third sector, either by creating incentives or by enforcing innovation through regulation, for instance in public procurement. While we found only few examples of coherent and comprehensive policy frameworks in support of public sector innovation, there are many initiatives which address specific aspects. The specific focus and approach of public sector innovation initiatives, and indeed their prevalence, differ considerably across countries.

#### **3.1 “Public sector”**

For the reason of this policy concise, we use the arrangement proposed by the System of National Accounts (SNA). It suggests that the public sector can be defined as all activities (let those be either market or non-market) that are controlled and dominantly financed by public authorities on different institutional level of the administration. This includes both (i) the general government sector and (ii) the public corporation sector. General government sector refers to all governmental units, social security funds and non-profit, non-market public or private institutions. Public corporation sector comprises all of the institutional units that produce for the market (Hammouya, 1999).

#### **3.2 “Government sector”**

Among the in large quantities endowed literature dealing with government sector, one of the most essential definitions is given by the OECD’s Frascati Manual (OECD, 2002) which it is also applied in the EPSIS Report (2012). According to this manual, the government sector encompasses “all departments, offices and other bodies which furnish, but normally do not sell to the community, those common services, other than higher education, which cannot otherwise be conveniently and economically provided, as well as those that administer the state and the economic and social policy of the community. (Public enterprises are included in the business enterprise sector.)” (OECD, 2002:62).

#### **4. “Public sector innovation”**

According to the OECD’s Oslo Manual, “an innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational. Method in business practices, workplace organisation or external relations” (p. 46). Although the Oslo Manual does not provide a specific definition for public sector innovation, it may be derived that in the context of the public sector, the minimum requirement for an innovation is that it must be new or significantly improved for the public sector at different institutional levels. The challenge with this definition is that its categories may entail interpretation-related problems due to the specific features of public sector (including policy formulation and service delivery). Therefore, this policy brief applies recent

considerations over public sector innovation echoed for example by Innobarometer 2010. Innobarometer 2010 (2010:13) considers public sector innovation as “any novel, or significantly improved (without indicating precisely what a ‘significant improvement’ might be) service, communication or organisational method”. In elaborating this definition and complementing the mentioned types with process innovation, this policy brief also joins to the line of thinking of the EPSIS Report (2012) indicated earlier (see Annex III for details).

#### **4.1 “Policies” vs. “initiatives”**

A policy is defined here as “a deliberate act of government that in some way alters or influences the society or economy outside the government”. Policies include, but are not limited to, taxation, regulation, expenditures, legal requirements and prohibitions, as well as the stipulation of consulting, coaching and training. The term policy does not essentially equal to the term initiative. We use the term policy to refer to inclusive frameworks and programmes, while we use initiative for a specific measure which can (but need not) be part of a larger policy framework or programme.

#### **4.2 Rising interest in public sector innovation**

Looking into the development of economic development theory, it seems the famous up to date theorists focus again on the role of the state and its institutional setting by going back to the genesis. As a effect, public sector in general has a dangerous role in economic development as it was Echoed by many (Evans *et al.* 1985; Adelman, 1999). In addition the public sector represents about 45% of the EU’s GDP (European Commission, 2011a). Against this background, obviously the need for better and more efficient public services demand is ever more emphasized. There are some challenges, however, coming from a diversity of conditions:- In general, the role of the state and the vision of public services becomes customer oriented.

- i. Although there has always been inventive probable in the public sector, New Public Management (NPM) has changed the terms of how innovation is pursued and where ideas are developed. While in the pre-NPM model there were a few top down innovations greatly driven by central government, nowadays a more disperse model is customary where local actors have the freedom to experiment solutions for themselves. In many European countries (definitively for most of the Eastern EU Member States, even though the transition started only two decades ago), the public services have still not had undergone the necessary transformation and these service countries has not managed to get rid of old an uncompetitive structures.
- ii. Public eServices play an increasing role in public provision. E-Government, Local e-Government, e-Health, e-Education and G2B e-Business services are developing fast, and are considered as key policy priorities of the EU as well.
- iii. The introduction of eServices forces governments to process reengineer the existing models, workflows, actions, in order to be able to function competently the back office system for the eServices. This – apart from of front-office service delivery – raises the role of innovative solutions in the instrument of public services as disordered institutional measures cannot be supported by IT solutions

- iv. The growing focus of Pan-European e Services associated to public actors is an supplementary layer of pressure towards finding innovative solutions both on the European level and on the national level as well. The key factor is the requirement to identify and comprehend the best options to connect to the Pan-European services. Beyond the above mentioned, public sector also encounters grand challenges that can – to a large extent – weaken either the quality of public services offered or the sustainability of the state itself by ensuing visible dissatisfaction with the democracy. This democratic deficit largely reflects the aggravation confidence and trust levels of citizens towards the state and its institutions.

As a logical effect, innovation policy should not only be addressed to the private sector but also to the public sector itself. This is a precondition to set up an competent institutional organization and to provide quality public services. Innovation in public service condition is essential in order to meet the growing demand of citizens, who are used to the growing services quality in the business sector. As the private sector gets better at innovating and humanizing quality, this essentially increases the prospect for public services and puts further strains on state funding. Another point worth mentioning is the emotional fact, what was once an outstanding service merely becomes the new norm and baseline against which all other services are deliberate – i.e. all services must now start from this higher level as people's prospect are revised upward. In short, innovation in the public sector means the creation and completion of new ideas that can be manifested as new processes, products, services and methods of delivery with the aim of achieving appreciably improved competence, success or quality of outcomes (Mulgan – Albury, 2003). Since the term “innovation” can be portrayed as a very intangible process in case of public service provision, it must be made clear that there is no single and standard move toward at hand. On the contrary a variety of approaches and perspectives whose amalgamation supports in exploring the real picture with a greater industry and clarity (Borins, 2001). Furthermore, policymakers should also take into account the fact that policy objectives are moving targets, and stimulating innovation within the public sector needs a holistic and dynamic approach over time. Innovation in the public sector is widely analyzed in the economic literature, highlighting that challenges establish an intensifying pressure on public service provision. The demographic challenge closely linked with the so-called ageing society and other societal problems such as climate change raise delicate issues for public service provisions. In the interest of pursuing collective impact higher financial burden has to be imposed (e.g. ageing population entails a society demanding at least new types of public services and also more extended treatments for elderly, but its ultimate consequence are unsustainable pension and social systems – as World Economic Forum (2012). Consolidating public finances, i.e. maneuvering towards the sustainable path of public finance is unavoidable due to the fact that there is no state with unsustainable public finance that would be able to promote collective impact in addressing grand challenges. Policymakers should therefore consider the following:

- (i) The predictably postulated impact of such consolidations on economic performance is not decided. What is more,

many argue that these fiscal adjustments will affect primarily negatively the real GDP growth performance in most cases.

- (ii) There is no any best and ready-to-use consolidation technique at hand that can be applied in each case. Public sector innovation may offer a sensible chance to combat economic laxity. It may also provide a way for the public sector to be more capable in rehabilitating and maintaining the assurance level of citizens and end-users towards governments and state institutions at a time when painful and audible changes are needed.
- (iii) Citizens are not ready to agree to a lower standard of service in spite of the crisis. A number of political parties that have introduced severity events or who propose important changes to state reimbursement (e.g. retirement age) faced major loss of voters. Thus even though the financial background has fundamentally changed, public potential are at best slow to change, or at worse, averse to change. Even if the public sector adopts some market-like strategies it is often averse to fully understand the necessary steps. It appears that governments are however far from keen to close hospitals, schools etc. when they emerge to be failing. Challenges (e.g. the impact of cutbacks) have reached the coast of public sector related economic literature and led to lengthy discussions over the role of academics that should “identify, analyze and theorize both the gains and the losses” (Pollitt, 2011). The challenges are establishing a claim for public sector innovation which could occur even in a shorter time frame by providing significant cost reducing opportunities without any decline in service quality as well as accessibility, but with improvement that constitute a trust-builder and maintainer channel. This calls for innovations resulting bigger positive changes complementing the incremental and slowly evolving ones.

### 5. Innovation in an ever-changing world

In both the developed and developing world, many governments face a number of urgent challenges—one of which is that the rising demand for services is running head long into the actuality of limited resources. In many nations, demographic shifts are creating increased demand for public services like health care, pensions, and urban infrastructure. At the same time, natural resources are becoming scarcer; public budgets are shrinking; and citizens, now familiar to new technologies and steady connectivity, have higher opportunity as to the speed and quality of public services. The rising answer—from different places across the globe—is brave, fast management innovation. Public-sector innovation can decrease costs, lift output, and get better the public's view of government. McKinsey research shows that some of the most cutting-edge innovations have come from the developing world: governments that believe they have no choice but to take bold risks. Others have come from developed nations, which feel more pressure than ever to do more and better with less. Their disruptive moves are transforming the 21st-century. It is a given that countries need to innovate to maintain and improve living standards in an increasingly competitive global economy. Improving productivity and competitiveness through innovation and skills development, to help create new business opportunities, growth and skilled jobs for the future, are essential in achieving these objectives.

Productivity mainly drives national wealth in the long run. Innovation is a instrument to make easy growth in productivity, market variety, exports and employment. Important benefits accrue to business and, in collective, the economy and society, where a society of innovation is pursued. Innovation also delivers greater elasticity at a business and an economy-wide level, greater ability to handle shocks and changing business and economic conditions. Innovation is often supposed as world-first get through technology underpinned by research and development but it is much broader and more enveloping than this. How business responds to the innovation challenge therefore is a major determinant of its capacity to lift productivity and to add to a nation's wealth. The question that remains critical to improving competitiveness and productivity through innovation is whether there is a role for government in developing public policy to support fundamental change and improved economic and social well-being, and if so what is the best way for government to provide this?

## 6. Social Innovation for Public Service Excellence

*Governments around the world are grappling with societal challenges that are acting as a brake on sustainable economic growth, leading to inequality and instability in society, and impinging upon the general well-being of their population.*

Social innovation is a answer to these challenges that offers substantial promise for public managers. It offers new solutions, methodologies and new theoretical frameworks. Success can be seen through case studies from around the world, including middle- and low-income countries in South-East Asia. While it remains an emergent field, still building a healthy theoretical underpinning and establishing an evidence-base, the promise of social innovation is too forceful to ignore. Social innovation refers to new ideas that work in meeting social goals. A social innovation move toward puts capacity to harness innovation at the core of public service. As a field, social innovation is new, practiced and under-theorized. It should be considered more of a movement than a particular methodology, as might be the case for design thinking. Indeed, a feature of social innovation is that it combines multiple disciplines, types of actors and sectors. Social innovation is also more than just invention; it describes a process from initial prompt through to scale and systemic change. For the public manager, there are three important features of social innovation.

First, social innovation brings an new approach to public service. Testing entails an proof based approach, acknowledgement of the limits of current information, many small bets about what might work, and acceptance that some attempts will fail but provide learning that builds towards future success.

Second, social innovation requires distributed systems where innovation and initiative are discrete to the margin and connected by networks. Public managers must support and partner with social innovators: people who initiate and lead social innovation initiatives, and who can be found anywhere within the system, but tend to be semi-outsiders and boundary spanners.

Third, citizens and service users can bring insights and assets to help public managers achieve their policy objectives. Social innovations are developed 'with' and 'by' users and

not delivered 'to' and 'for' them. Co-design and co-production are common elements of social innovation. As a result, social innovation can build community ability in calculation to delivering direct project impacts. Anyone can be a social leader, and people acting as social leaders are found everywhere: in every sector, at every level of the hierarchy as well as outside it, of every age and background. The double challenges for public managers are firstly, to take on the role of a social innovators themselves and secondly, to support social innovators by development them, channeling their energies towards the more pressing problems, and connecting them within a bigger system. Public agencies can nurture their capacity to absorb social innovations and innovate themselves by building a diversity of relationships with other actors of all kinds and by finding ways for staff to understand others' perspectives. One powerful perspective is that of service users.

Another move in the direction of is judgment ways to give confidence and bring together people interested in social innovation through events and networks. Proposals and ideas for social innovation can be developed with the group of people through participatory decision-making and code sign. Experience with a range of innovation funds, prizes and camps has found that more directed approaches which support innovators with more than money tend to pay off. A shift to outcome-based procurement rather than pay for activity is also 'innovation friendly', but relatively hard to implement. Social innovations generally require substantial development in the field. When contracting and monitoring projects, emphasis should be on ensuring rapid learning and edition rather than on observance with the early plan. Social innovation initiatives can benefit from co-location in hubs or parks and from the kind of concentrated support provided by incubators. Social innovation offers two additional ways to sustain new projects beyond mainstream public management practices. The first way is through the creation of marketplaces and prologue of competition, nurturing social enterprise and the associated social investment market. The second is through task-shifting public service functions to volunteers or micro entrepreneurs in the community, which often achieve better and cheaper results. Scaling is a major challenge for social innovation. Promising approaches include facilitating straight learning networks, open source methodology, and duplication and social franchising support. To fully tap the potential of social innovation, public managers must move beyond support of individual social innovation projects. They must integrate social innovation into the creation of a national system, building the infrastructure to support social innovation from prompt through to scale. While social innovation shows great potential for public managers, it is not without its challenges. It will find the most fertile ground where there is trust between sectors, public manage initiative, and government seeks to promote the general well-being of its population. Public managers need to being a position to take a smart informed approach to risk, as the outcomes are often uncertain and the methods not yet rigorously tested. Public managers need to shift - and be genuinely empowered by their political masters to shift - to a more facilitative role and trusting relationship that requires some 'giving up' of power to the community. They must also be patient for results and work hard to reconfigure public institutions to financially benefit from social innovation. Framing and strategizing precedes solution design, and requires different processes

than prototyping or design thinking. There is a risk of jumping too soon into doing things (prototyping, design jams, games) without proper reflection. Much of what follows is conceptualized in this reflection and should be part of social innovation.

### 7. The specific features of public sector innovation

Innovation has been long attributed to the private sector. As Hayek (1978) argued innovation is a market process, hence innovation refers to the entrepreneurial activity. As Kirzner (1973) stated innovation is the continuous discovery (and utilisation) of arbitrage opportunities. Utilization of an arbitrage opportunity means improvement in the efficiency which is the ultimate goal of each entrepreneur. Nonetheless, innovation has been infiltrated into the public sector. It enhances the public sector efficiency, improves the service quality and accessibility and provides salutary impetus on private sector. This effect manifests in significant productivity improvement that is essential in the interest of sustainable growth as Solow (1957), Easterlay and Levin (2001) emphasized.<sup>21</sup> In light of this, innovation should be seen not just as a market process, but also as a core activity of the public sector and a meaningful supporter of public sector reforms, as well. There are several similarities between private and public sector innovation (Halvorsen *et al.* 2005; Hartley, 2005). For instance, there are greater transferability in the fields of business process improvements and many aspects of information and communication technologies that would be useful for public sector in a similar way.

One of the most fundamental differences between public and private innovations is linked to the issue of evolution (rise and fall) of innovation. In the private sector, prevailing and dominant innovations are results of a strong selection process provided by market competition (Matthews, 2009). While some innovation proves to be successful, some inevitably fails. On the contrary, there is no such strong “invisible hand” in the public sector that would select out the failed innovations and the concept of contestable market (Baumol, 1982) does not apply, either. It is inevitable to review and reassess the outcomes of a given public sector innovation for which performance measurement, based on continuous feedbacks and systematic monitoring, can serve as a basis. Transforming the lesson learnt into practice is the *sine qua non* of such activities; otherwise metrics are just time and energy consuming actions (Van Thiel – Leeuw, 2002). Yet public organizations tend to pursue failure avoidance because it might be particularly costly (let those be human, political or budgetary costs). The cost of their failure is great. Therefore public organizations tend to stick to known options of low performance, rather than risky solutions of potentially high efficiency. Public organizations are very 20 It is not surprising that Akerlof and Shiller (2009) emphasized in their riveting book the central role of trust in trying to explain how the real economy works.

The public sector is accountable (Potts, 2009) and so it does not like to be seen to fail. As a result, the visibility of failure is the reason for avoiding innovations. Since failure is costly and monitoring also needs significant financial resources, public organizations prefer stability over innovative changes. The market competition is a major driving force for private sector organizations (for-profit enterprises): (i) decision-makers have to be crystal-clear about the current status through the analysis of accurate and real-time data on

relevant internal and external factors; (ii) this requires all necessary data to be rapidly collected, organized, stored, processed and analysed; (iii) on the basis of analyses, decisions and action plans are made in order to optimize capacities and processes; (iv) the efficient implementation has to be later accompanied by measurement of results, collecting and assessing feedbacks; (v) these activities have to be an integral part of day to day operation in order to contribute to the innovativeness of private organization. Since “competitive incentive is a very weak force in the context of public sector innovation” (Potts – Kastle, 2010:123), the public sector does not emphasize these activities as much as they are taken into account in case of the private sector. Public sector has so far much less innovation experience compared to the private sector however its innovativeness is not denied (Osborne – Brown, 2005; Mulgan, 2007). An additional feature of public sector innovation is linked to the issue of how to measure the outcome of innovation. In case of the private sector, prominent international organizations with support of national statistical offices have established standard methodologies in measuring for example productivity on which innovation has a non-negligible impetus. Private sector innovation can be captured in terms of turnover, profit, market share, return on investment etc. On the contrary, public sector aims at achieving higher societal goals like welfare and increased level of wellbeing (Koch – Hauknes, 2005) that cannot be easily captured by metrics. When measuring the results of public sector innovation it is crucial to take into account a wide range of outcomes and impacts for instance reflected by the improved responsiveness to clients/citizens. In case of private sector methodologies are based upon comparability; however, this is not the case in public sector because a unified institutional background with elaborated and widely used methodology is still missing and the measurement of the output of public sector innovation is often sporadically addressed (Boyle 2006). Still, measuring public sector innovation has been increasingly receiving attention (Searle – Waite, 1980; Jääskeläinen–Uusi-Rauva, 2011) and some progress has already been made. The public sector is a heterogeneous and complex system with a high variety of influencing factors and an extensive variety of innovation attributes that make policy learning more difficult. Heterogeneity can be observed for several reasons. First, there are different levels of governance and public administration with differing size of organizations. Second, the public sector cannot be homogeneous, because the public sector, the private sector and the tertiary sector heavily overlap and interact in different ways. Third, the rotating feature of political governance does not necessarily offer long-standing leaderships to support sustainable innovations. The phenomena of creeping normalcy (when year-by-year A comprehensive study on the relationship between managers’ characteristics and the adoption of innovations revealed that “personal characteristics play a more crucial role in the adoption of innovation than demographic characteristics.” (Damanpour – Schneider, 2008:515). Furthermore, as Christopher Hood in his monograph stated that politicians and public sector managers often claim credit from their employees deteriorations along a new initiative or policy are proved to be hardly imperceptible by public servants), coupled with the problem of lack of long-standing leaderships also make it difficult to identify bad policies. If we take a glimpse into the major objectives pursued by

private and public sector we can see major differences. While the private sector is the arena for profit-maximizing market actors, public sector is the sphere where policymaking and implementation are to achieve welfare objectives and to reasonably contribute to the socio-economic development. In terms of objectives, private sector organizations have to live with shorter planning horizons, while public sector has the opportunity to set plans not only within the electoral cycle, but also in a longer time frame. Although the abovementioned differences between public and private sector are not exhaustive, it becomes clear that transferability regarding the adoption of successful private sector practices does not seem to be feasible in all cases.

## 8. Conclusion

As the field of entrepreneurship is emerging, there are a lot of challenges on theoretical development. Innovation and public policy are issues that have to be considered concurrently with the development of new theory of entrepreneurship in order to explain the unexplained real world phenomenon. Otherwise, new theory is neither more complete nor more useful than the existing one. While public procurement is increasingly seen as an important potential instrument of innovation policy, evidence of its effectiveness is largely anecdotal. This paper first provided a taxonomy of procurement policies and instruments. It then reviewed a range of policy instruments according to the failures they address and compared these with the actual perceptions of suppliers to the public sector. To conclude the paper we offer a series of propositions and observations that may explain the persistence of the deficiencies:

The presence of policies does not mean that they are consistently available. Examples are scattered in different countries, and many remain, if not at the proposal stage, experiments or pilots with limited coverage, roll out or budgets;

Policies are not always well rooted in governance terms. They are often owned by ministries or agencies responsible for innovation policy while successful implementation depends on budget holders in health, transport etc. and often may be at sub-national level. These actors do not necessarily have the same commitment or kind of innovation, which creates a much bigger challenge to secure the diffusion of the policy. Policy instruments mainly address the act of procurement itself and do not engage with the whole cycle from identification of need to adoption and diffusion of the innovation, even though many barriers exist at those stage and generally involve a wider set of actors and stakeholders; Although some measures exist to mitigate risk, none address it as a broader cultural problem within the public sector or seek to change wider governance such as audit frameworks to achieve a shift in the risk/reward ratios. To harness the huge power of procurement budgets in the direction of innovation thus requires a systemic approach to policy and its implementation. Three key dimensions need to be addressed, cutting across the policy taxonomy. These extend the scope of policy to be longer, wider and deeper:

- Extension of the timeframe so that the whole cycle of need and its satisfaction is addressed, also ensuring that a future vision is built-in;
- Extension of the breadth of reach of policy to include all stakeholders and to overcome deficiencies in the understanding of innovation among purchasing ministries and agencies on the one hand and the

understanding of procurement and its relation to innovation in those normally dealing with supply-side innovation policies on the other hand;

- Deepening the measures to address the underlying cultural practices of the public sector, particularly in relation to risk management.

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<http://www.ausindustry.gov.au/programs/innovation-rd/RD-TaxIncentive/Pages/default.aspx>
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