



## Social Innovation: New approaches to transforming public services

Nearly all innovation policy is tailored to the needs of traditional for-profit science and technology-based innovation. However, meeting the economic and social challenges of the coming decades will increasingly require fundamental improvements in public services. Social innovation is critical to this process.

Currently, the field of social innovation is poorly understood. New research by NESTA and the Young Foundation draws on practical examples from the UK and abroad to show how localities can use innovative approaches to transform public services. In each case study, innovation was a response to underperformance, whether the economic dislocation of a declining industry or the external pressure of a failing service.

Social innovation is driven by having the right strategies and organisations to marry real social needs with new, workable ideas to address them. But there are too few intermediary bodies to match the supply of new ideas to the demand for them. Funding is patchy, and there are insufficient incentives for public service managers to seek new and improved solutions.

Social innovations in one field can be spread to other areas of public services provision. Funding is important, but not the main driver, and social innovation can occur anywhere – even in areas without a long tradition of ‘thinking differently’. Most importantly, by making changes to leadership, incentives and funding, national governments could rapidly transform the UK’s ability to innovate socially.

### Social innovation

Social innovation is about developing new ideas to tackle social problems or meet social needs.<sup>1</sup> It may be a new product, service, initiative, organisational model or approach to the delivery of public services.

Some social innovations are modest and incremental; others are systemic and fundamental, such as the major shifts required to move to a low carbon society. Other examples include new services (like NHS Direct) and new social enterprises (like The Big Issue – a magazine sold by homeless people).<sup>2</sup>

### Social innovation relates to the UK’s biggest problems, in its biggest sectors

Several of the UK’s barriers to sustainable growth, such as climate change or the challenges of an ageing population, will only be overcome through innovation.

In 21st century economies, the biggest sectors are more often services than traditional manufacturing. Indeed, in most advanced economies, the biggest sector is health. In the UK, NHS spending will have to rise from 9.4 per cent to 10.6 per cent of GDP just to keep pace with expected demand in the 2020s – equivalent to £56 billion extra at 2002 prices.<sup>3</sup>

### Innovation in public services can reduce costs and improve performance

Social innovations can take several forms. These include public sector innovation within public services, to improve performance or save money, and innovation in the non-profit or for-profit private sectors that improves public services or provides new ones. Social innovations from the third sector (voluntary and community groups, and social enterprises), may be ‘spun-in’ to mainstream public services provision.

1. Albury, D. and Mulgan, G. (2003) ‘Innovation in the Public Sector.’ Working Paper Version 1.9, Strategy Unit, UK Cabinet Office. London: TSO.
2. Mulgan, G. (2007) ‘Ready or Not? Taking Innovation in the Public Sector Seriously.’ NESTA Provocation 03. London: NESTA.
3. Wanless, D. (2002) ‘Securing our Future Health: Taking a long-term view.’ London: HM Treasury.

4. Mulgan, G. (2007) 'Ready or Not? Taking Innovation in the Public Sector Seriously.' NESTA Provocation 03. London: NESTA.

5. Maddock, S. et al. (2007) 'Creating the conditions for public innovation.' London: National School of Government, NESTA and the Young Foundation.

6. Strong alliances with bigger organisations can provide complementary assets, e.g. Body Shop and The Big Issue. This is the idea of 'bees' and 'trees', cited in Mulgan, G. (2006) 'Social Innovation: what it is, why it matters, how it can be accelerated.' London: Basingstoke Press.

7. Bacon, N., Faizullah, N., Mulgan, G. and Woodcraft, S. (2008) 'Transformers: how local areas innovate to address changing social needs.' London: NESTA.

8. Ibid.

9. Frascati Manual (2002) 'Proposed Standard Practice for Surveys on Research and Experimental Development.' Paris: OECD; and Organisation for Economic Co-operation and Development/Eurostat (2005) 'Oslo Manual, Third Edition.' Paris: OECD; Luxembourg: Eurostat.

10. NESTA (2007) 'Hidden Innovation: how innovation happens in six 'low' innovation sectors.' London: NESTA.

11. Borins, S. (2001) 'The Challenge of Innovating in Government.' Virginia: PricewaterhouseCoopers Endowment for the Business of Government.

12. Ibid.

13. Mulgan, G. (2007) 'Ready or Not? Taking Innovation in the Public Sector Seriously.' NESTA Provocation 03. London: NESTA.

14. Established in March 2007, the HIA has investment of £1.2m from NESTA and £1.5m from the Young Foundation to provide hands-on support and alternative forms of social finance, including quasi-equity and convertible loans. For further information see [http://www.nesta.org.uk/programmes/challenges/partnerships/health\\_accelerator.aspx](http://www.nesta.org.uk/programmes/challenges/partnerships/health_accelerator.aspx)

15. For further information on UnLtd see <http://www.unltd.org.uk/>

16. The Innovation Exchange is funded by the Cabinet Office and run by the Innovation Unit. The Unit is working with acevo and Headshift on the three year pilot project. See Cabinet Office press release (24 July 2007) 'Innovation Exchange to be delivered by consortium.' Available at: [http://www.innovationunit.co.uk/images/stories/files/pdf/innovation\\_exchange\\_pressrelease.pdf](http://www.innovationunit.co.uk/images/stories/files/pdf/innovation_exchange_pressrelease.pdf)

17. For further information on the Research Centre for the Third Sector, see [http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/opportunities/current\\_funding\\_opportunities/Third\\_Sector\\_Centre.aspx?ComponentId=25072&SourcePageId=25233](http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/opportunities/current_funding_opportunities/Third_Sector_Centre.aspx?ComponentId=25072&SourcePageId=25233)

## The UK has an immature social innovation system

### Insufficient understanding of the drivers of innovation

Social innovation has lacked systematic or strategic support and evaluation, unlike advanced technology, or other areas of innovation. There is limited evidence on the drivers of social innovation, although some have been identified (for example, charismatic leadership and an organisational culture that encourages creativity and experimentation).<sup>4</sup> However, to date, the field has largely remained on the 'fashionable margins' of serious research.

### A lack of intermediary bodies to facilitate the growth and dissemination of innovation

There are currently too few intermediary bodies connecting the pull and push of the social innovation system. Correctly established, they can facilitate flows of knowledge, resources and best practice,<sup>5</sup> and support organisational growth – for example in mobilising important allies.<sup>6</sup>

Broker agencies like the Young Foundation, UnLtd or NESTA can cultivate and nurture social innovation. Their flexibility creates space for creativity, experimentation and innovation, but they cannot substitute for the involvement of organisations with more power and resources (often governments) when the time comes for full-scale policy development and implementation.

### Fragile markets for the results of social innovation

Social innovation, particularly in public services provision, does not offer profit-led investors the potential returns associated with other innovative areas like advanced technology.

Until recently, this has meant a lack of capital to fund growth in social organisations, underdeveloped capital markets to provide finance for social entrepreneurs, and fragile markets for the results of social innovation. Even the most successful innovations are not guaranteed reliable funders and purchasers.<sup>7</sup>

### Local social innovation is hidden in traditional metrics and policy

Much social innovation starts locally (grassroots, practitioner, local authority leadership, local champions). As a result, it can be hidden from policymakers and researchers.<sup>8</sup>

Traditional innovation metrics, rooted in the Frascati and Oslo manuals,<sup>9</sup> were developed to measure scientific and technological innovation in hi-tech firms. The many intangible gains from social innovation make such metrics

largely unsuitable measurement tools. Because these metrics are so important in setting and evaluating traditional innovation policy, social innovation is often excluded from mainstream policy development.<sup>10</sup>

### Government is often perceived as stifling innovation

Although hard evidence is limited, governments are generally perceived to be risk-averse, and inherently more at ease with bureaucracy, rules and regulations than an open culture of experimentation, creativity and innovation.<sup>11</sup>

Central policies can further inhibit innovation. Specific targets may provide pressure to innovate but they may also squeeze out creativity; and risk may be discouraged in a culture where few people are promoted for successful risk taking, but failures are quickly punished.<sup>12</sup>

Public sector practices, such as audit controls, budget criteria and recruitment policies, are not designed to foster social innovation.<sup>13</sup> For example, public sector commissioners have little incentive to adopt more innovative procurement models.

### Recent steps have improved the social innovation system

Some organisations actively encourage social innovation. For example, the NESTA-Young Foundation Health Innovation Accelerator (HIA) tests a new approach to supporting innovative ventures in the management and funding of long-term chronic health conditions.<sup>14</sup> UnLtd is a charitable organisation set up to promote and research social entrepreneurship, through awards and investment and a Fellowship scheme.<sup>15</sup>

The Innovation Exchange aims to support the third sector's capacity for innovation through online resources that connect innovators and investors, alongside providing more traditional guidance and support.<sup>16</sup> The Office of the Third Sector is currently setting up a research centre for the third sector.<sup>17</sup>

'Skunk works' – small units within or at arm's length from bigger agencies – are being more widely used. Denmark's MindLab<sup>18</sup> and the Communities of Practice that support local government collaboration in the UK are good examples.<sup>19</sup>

## Scaling up social innovations requires action by government, entrepreneurs and investors<sup>20</sup>

### Four conditions for scaling up social innovation

Four conditions are essential for non-governmental bodies to develop sustainable and socially innovative products, services and models on a large scale:

- Demand for innovation generated by real social needs – the ‘pull’.
- A supply of workable (and communicable) ideas – the ‘push’.
- Connecting the two with the right organisational form.
- Ongoing organisational ability to learn and adapt to the evolving external environment.

### Spreading social innovations depends on choosing the right organisational form

A choice about organisational form lies at the heart of any strategy to extend and diffuse an innovation.<sup>21</sup> There are several models:<sup>22</sup>

- Uncontrolled diffusion through the media, word of mouth and existing networks.
- Direct diffusion by a ‘parent’ organisation through formal and informal networks, multiplication through federations, licensing or franchising.
- A social innovation may be ‘taken over’ by an existing organisation, as happened with NHS Direct or the Open University.
- Finally, the ‘owning’ organisation may grow to expand provision.

## The local nature of innovation in the public sector<sup>23</sup>

Much social innovation starts locally – using local insights and initiatives to address localised problems. In the process, it brings together people from community organisations, local authorities and public agencies, and their ideas.

### Five phases in the Local Social Innovation lifecycle

Phase 0: The ‘latent’ stage, normally a period of underperformance before innovation occurs.

Phase 1: A strategy and process for innovation is developed in the ‘design and discovery’ phase, often prompted by a crisis.

Phase 2: A period of ‘mobilisation’, generating new structures and teams to pilot innovative ideas and start implementing innovations.

Phase 3: Innovation then enters the ‘mainstream’, when it becomes routine as ideas and working practices are consolidated.

Phase 4: Finally, ‘embedding’ – the value of the innovation grows; systemic innovation may occur if the locality can replicate innovation in other services.

An innovation will not automatically progress to the next stage – at each point of transition the process may fail or reverse.<sup>24</sup>

### Six drivers and enablers make some localities more socially innovative

When a public service is failing or in crisis, *recognition of underperformance* is a primary driver of innovation. External agencies like the Audit Commission or Ofsted can force this on a locality. Pressure may also come from the public, media or business.

This then legitimises *action by internal and external stakeholders*. Pressure to change is not a sufficient condition alone for innovation. *Strong leadership* is required to initiate change and encourage a *responsive organisational culture* that supports risk taking and creativity from senior management and frontline staff.

*Networks* collaborate to facilitate innovation. The capacity to *mobilise resources* reinforces change. Reflective learning and public feedback help maintain momentum. Visibly creating results for the public builds legitimacy.

In each phase, these factors interact differently and require different emphases from would-be leaders of social innovation.

### Fostering a social innovation ecosystem

A mature social innovation system requires greater attention to the relationships between the systemic level (region/city/authority), sectoral innovation (service/agency/sector), frontline innovation (community-based organisations) and public innovation (individuals, service users/neighbourhoods).

Social Network Analysis (SNA) may help map the networks of influence and trust between these actors, and may help inform and design effective strategies for collaboration.<sup>25</sup>

### Money matters but is not critical for social innovation

Many believe that social and public sector innovation depends on significant ‘free money’. Money does matter but in quite complex ways. New money can even reduce

18. For further information on MindLab, see <http://www.mind-lab.dk/inenglish/>

19. For further information on Communities of Practice, see <http://www.communities.idea.gov.uk/welcome.do>

20. Mulgan, G., Ali, R., Halkett, R. and Sanders, B. (2007) ‘In and out of sync: The challenge of growing social innovations.’ London: NESTA.

21. Moss Kanter, R. (2005) ‘Even Bigger Change: a framework for getting started at changing the world.’ Cambridge, MA: Harvard Business School Press.

22. Mulgan, G., Ali, R., Halkett, R. and Sanders, B. (2007) ‘In and out of sync: The challenge of growing social innovations.’ London: NESTA.

23. Bacon, N., Faizullah, N., Mulgan, G. and Woodcraft, S. (2008) ‘Transformers: how local areas innovate to address changing social needs.’ London: NESTA.

24. A cycle with similar characteristics has been observed in regional innovation journeys. See Benneworth, P. (2007) ‘Leading Innovation: Building effective regional coalitions for innovation.’ London: NESTA.

25. For further information on SNA, see Case study 10, in Bacon, N., Faizullah, N., Mulgan, G. and Woodcraft, S. (2008) ‘Transformers: how local areas innovate to address changing social needs.’ London: NESTA.

the pressure to innovate, by propping up failing services and structures, a common critique of regeneration funding. Only when new money combines with a reforming leadership does it make a real difference.

### **A long history of social innovation is not always necessary either**

A venerable tradition of experimentation is not critical to social innovation. Previous innovation studies have emphasised the importance of local institutions having freedom to experiment; however, constraints and restrictions such as external inspections are often important triggers and drivers for innovation.

### **Social innovation from the 'frontline' is happening but needs support**

Our research uncovered little evidence that citizens and service users influence current innovation – a symptom of their relatively weak voice in the UK. So, the UK may be ignoring a rich source of potential innovation.

The NESTA programme 'Innovations in Mental Health', launched in March 2007, received over 500 practical proposals from frontline workers, service users and carers. Ten projects have received funding through the scheme, along with a tailored package of mentoring and support aimed at providing the best possible chance for scale, replication and transfer.<sup>26</sup>

## **Towards a socially innovative UK**

Social innovation is increasingly an area of focus for policy, with considerable goodwill, money and energy to support it. At the same time, many promising social innovations still fail to reach their full potential.

### **Support ideas, not enterprises**

Many social entrepreneurs, and those who support public sector innovation, focus too narrowly on growing their own organisations rather than on developing the core idea that creates social value. In reality, there are a variety of ways in which social innovators can spread their ideas, and a spectrum of models for organisational growth. In social innovation, an over-protective 'owning organisation' could have a debilitating effect. To maximise the impact of these ideas, we need to think less about how to support organisations and entrepreneurs and more about how to support their ideas.<sup>27</sup>

### **Incentivise innovation in local government**

Targets, audits and inspections can act as catalysts for change. However, for local authorities, failure on these performance indicators can mean fewer resources being allocated from national governments. Indeed,

some of the best performing local authorities fear that they will be penalised for innovation. It is vital that the new Comprehensive Area Assessments cover innovation – and the demand for innovation from elsewhere – rather than focusing exclusively on current performance.

### **Build leadership for innovation**

Umbrella bodies – such as IDeA and the LGA – can coach, support and challenge leaders and organisations to adopt more open experimental cultures, where creativity and risk taking are encouraged, or are at least not career-limiting. There is too little well-grounded training and support on how to manage innovation. More could also be done to develop lessons about what has worked.

### **Provide new kinds of funding for social innovation**

Finance is not all-important in innovation. But, new models need money at some point, and this must either come from existing budgets or be brought in from elsewhere. To support innovation in the public sector, greater use should be made of:

- Easily obtainable small grants for frontline and user groups to develop new concepts.
- Funding for experimental zones which allow ideas to be tested and national rules to be suspended, such as Employment Zones.
- Funding to test out a variety of approaches in tandem with fast learning: for example a series of projects working with young offenders with a common target, or the kinds of carbon reduction that the cities in the Clinton Global Initiative are experimenting with.
- Social venture funds – like the NESTA-Young Foundation Health Innovation Accelerator.

### **Create 'venture capital' for innovation in public services**

Innovation involves risk. Taking risks with public money presents ethical and political problems that have been institutionalised over time in over-zealous audit procedures. Pre-identified and ring-fenced 'venture capital' funds within public budgets would overcome this.

These funds would permit greater risks to be taken. But because they would be relatively small, contained and advertised in advance, their purpose (as part of a balanced portfolio of expenditure) would be apparent to national audit offices<sup>28</sup> and the Public Accounts Committee. The value of these experiments should be judged by the lessons that resulted – from success or failure. Public officials should be judged on their ability to encourage regular innovations through judicious expenditure of this risk capital.

26. For further information on Innovations in Mental Health, see [http://www.nesta.org.uk/programmes/challenges/partnerships/mental\\_health.aspx](http://www.nesta.org.uk/programmes/challenges/partnerships/mental_health.aspx)

27. Halkett, R. (2007) 'Institutions matter in innovation.' *The Guardian Public*, p.41, November 2007.

28. In England, the National Audit Office; in Scotland, Audit Scotland; in Wales, Wales Audit Office; in Northern Ireland, the Northern Ireland Audit Office; and the Audit Commission.