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THE PUBLIC POLICY CONTEXT FOR RISK GOVERNANCE AND SOCIAL INNOVATION

Sarah-Sophie Flemig and Stephen Osborne

Introduction

Innovation is an imperative of public policy. In a time of resource-constrained governments, the innovation of public services has become a sine qua non of keeping up with society’s needs. Yet little attention has been given to its flipside: taking risks. More generally, risk, and how to manage it, has become a central theme of the social sciences: see, for instance, Taylor-Gooby and Zinn’s (2006) edited collection of social science writing on risk. Firmly grounded in the actuarial sciences and engineering, social science scholars have acknowledged the importance of how risk is perceived, constructed and managed. This ranges from classical financial risk management to the fields of public health, disaster studies, sociology, social policy, political science and the health and safety studies (Taylor-Gooby and Zinn 2006). In this chapter, we will narrow our focus to the relationship between risk and social innovation in a public policy context.

Innovation and risk taking are inextricably linked. Public policy is no exception in this regard. As Hartley (2013) aptly states, “[i]nnovation, by definition, is uncertain in both process and outcome”. Tidd and Bessant (2009) estimate that about 45 per cent of innovation projects in the private sector fail while over 50 per cent exceed their initial budget and/or timeline. Numbers in the public sector are likely to be similar but empirical evidence is rare. Yet, it remains a common notion that the public sector is inherently risk averse1 (Patterson et al. 2009; Jayasuriya 2004), while governments demand increasingly more risky innovation (e.g. DIUS 2008). In the light of current economic rigors and media scrutiny of any form of public policy (Patterson et al. 2009), an aversion to risk does not seem surprising.

Despite this, even those who claim to acknowledge the connection between risk and social innovation have little to say about how to balance risk and innovation. London-based think tank National Endowment for Science, Technology and the Arts (NESTA, for instance, dedicates a single line to the question of risk in public service innovation, acknowledging that it is – indeed – “important” (NESTA 2013).

This chapter on the nexus of risk and social innovation in public policy critically reviews the literature on the current state of knowledge. In the subsequent sections, we introduce two key propositions based on a differentiated treatment of risk: we distinguish between the effects of...
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risk and uncertainty and highlight the role of reputational risk for public policy innovation. Based on these propositions, we suggest a holistic model of risk management and social innovation in public policy contexts.

**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. For sociologists, risk is studied as a social construct (e.g. Green 1997; Green 1999; Zinn 2008a; Zinn 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 this purpose, 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).

Such innovation in public policy 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; expansionary innovation describes new needs that are being addressed by existing policies, skills or capacities. Finally, total innovation stands for a new need being addressed by new skills or capacities (Brown and Osborne 2013: 199).

On the risk management side, Brown and Osborne differentiate between three different approaches: technocratic risk management, decisionistic risk management, and risk governance. While the technocratic risk approach uses traditional risk management tools (e.g. top-down financial/actuarial risk management, health and safety measures, etc.) and focuses on the minimization of all risk, decisionistic risk management adopts a more differentiated view of risk. It incorporates dialogue and seeks to balance expected benefits with the consequences of potential materialised risk. Finally, transparent risk governance encompasses a dialogue across stakeholder groups to identify a socially optimally (and mandated) level of risk for any given social innovation.

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 allows for total innovation.

Furthermore, Brown and Osborne suggest that risk can be conceptualized on three different levels (the “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 (2008) points out the shortcomings of technocratic risk management, which are based in the bounded rationality of all human
decision-making and the fact that acceptable risk is more often socially constructed than it is objectively defined.

Decisionistic risk management extends technocratic risk management by including the possibility of discourse about the evaluation of identifiable risks into the process. While risk is now vetted in both positive and negative terms, the decision-making 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 to analyze risk (Brown and Osborne 2013: 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” (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 with 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” (2013: 198). This also fits into the theme of “network-oriented governance relationships” explored by Ramesh and Howlett in Chapter 28 in this handbook.

Current scholarship on risk and social innovation

In this section, we briefly provide an overview of the literature on risk and social innovation. There are five main works relevant to the public policy context, corroborating Brown and Osborne’s (2013) findings. These are Lodge (2009), Bhatta (2003), Hood (2002), Vincent (1996), and Harman (1994). Whereas Harman discusses the negative impact of risk management on public sector accountability, Vincent argues that the public eye is closely focused on public sector activities, leading to increased risk management as a means of avoiding blame from other officials and the wider public. Along similar lines, Hood introduces the imagery of risk management as a “blame game”. In his account, risk management is about avoiding blame and/or attributing it to other parties. Lodge, finally, suggests that different “variations in instruments” are necessary to offer effective risk management in the public sector (2009: 399). He also identifies the obsession with regulation to insulate public policies from risk and advocates a more complex system of risk appraisal that moves beyond Hood’s observed “blame game”.

Bhatta (2003) also acknowledges the gap in empirical knowledge regarding the relationship between risk and innovation in public policy. In particular, he notes that there is a qualitative difference between the public and private sector as far as risk is concerned: the existence of “wicked problems” and the fact that decisions, even when made under conditions of uncertainty, need to live up to the standards of democratic scrutiny rather than being unilateral “executive decisions” (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 organizations 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 organization’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”
behavior and “incremental pluralistic policy formation that enables the policies to move forward but only marginally at a time” (Bhatta 2003: 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 (p. 9).

So what distinguishes risk and social innovation in the context of public policy from other social sciences? The aforementioned literature suggests two main factors: reputation and accountability. As Hood illustrates, public accountability among different policy-makers increases the importance of reputation, trying to minimize blame and maximize praise. In addition to more traditional forms of risk, such as financial/actuarial risks and health and safety risks, there is thus a strong reputational risk element in public policy-making that we will focus on in the following section.

**Reputational risk, public accountability and social innovation**

Because of the importance of reputational risk and public accountability, innovation in the public policy context requires a framework of risk management that goes beyond the traditional models. In this section, we explore the underlying assumptions that shape such a framework. Does the public policy context differ from, for example, innovation in the private sector? If so, how? Most importantly, how can we address reputational risk?

First, there is an assumption that risk aversion dominates the public sector (Borins 2014). However, there is more to the story. Bozeman and Kingsley (1998), for instance, challenge this assumption. 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 organization: (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 that exists, the more risk averse an organization’s culture is. Thus, factors such as size and management style seem to be more indicative of an organization’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 an organization’s size and maturity, in particular, may account for differences in innovation behavior.

Second, the literature links reputational risk and the need for accountability in public policy innovation to transparency. Hartley (2013) points out that the public sector can learn from the private sector as regards decision-making processes. For instance, she suggests that public sector organizations adapt traditional management tools such as constructive challenge meetings or competitor analysis (p. 53). However, Hartley notes that accountability differs markedly from the private to the public sector. The democratic values on which public policies are based demand a high degree of transparency at all stages of innovation, meaning that public policy is made in “the full glare of media publicity” (p. 54).

This ties in with Hood’s model of the blame game, which dominates the public policy literature on risk and its possible nexus to innovation. As described beforehand, the blame game affects risk management at all stages of the policy process. Because public scrutiny and the potential cost of being associated with a failure are high, there is an incentive for those with decision-making powers (on an individual and organizational level) to shift risks to other stakeholders within their policy network.

Hood and Rothstein (2000) further elaborate that reputational risk is associated with risks to third parties and to the service providers themselves (p. 1). Therefore, they criticize the one-
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size-fits-all approach that has been adopted across the public sector. As in the private sector, Hood and Rothstein argue that public policy-makers need to adapt their risk management strategies to specific types of risk at different points of the policy process, such as, for example, agenda setting, policy creation and policy implementation, 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, similar to Brown and Osborne’s transparent risk governance.

Feller’s (1981) concept of “public-sector innovation as ‘conspicuous production’” aligns with both Hartley’s and Hood’s findings. He argues that the qualitative context of public policy requires policy-makers to use innovation as a proxy measure of actual performance. Innovation thus becomes “conspicuous production”, with blame or praise attributed to failing or successful innovators. Given the negative cost associated with failure, individual public policy-makers therefore often require an additional incentive to innovate such as reward schemes or innovation prizes (Borins 2014).

Two propositions

Based on the insights from the previous sections, we now introduce two propositions that will help us formulate a specific public policy framework for risk and social innovation. This model will be discussed in the final section.

Proposition 1: Risk management approaches should differentiation between risk and uncertainty and their potential effects on innovation.

There is a difference between the effects of risk in the classical sense, i.e. potential risks that are known a priori, and uncertainty, i.e. unquantifiable risk that can only be recognized a posteriori. As mentioned in the previous section, these two types of risk are likely to have different, and probably even conflicting, influences on social innovation. Therefore, we propose that they require different risk management approaches when it comes to spurring innovation in public policy. 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: for example, 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 that they invite. Statutory bodies initially bear responsibility for all service risks, which they then selectively transfer to service providers if necessary. Quantifiable risks are often addressed through extensive regulation and other attempts to control and minimize risk. In service contracts, this is likely to lead to a decreased potential for innovation, as it may be in breach of contract despite bringing a net benefit for all parties involved.

Uncertainty, on the other hand, can spur innovation by way of sudden shocks. Since uncertainty is unquantifiable and cannot be known ex ante, the innovation it can potentially spur is likely to be of a spontaneous nature and not planned. At the same time, as findings from the private sector suggest, environments and organizations 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
organization provide strategies for PSOs to manage uncertainty. Uncertainty can thus only be managed through an organizational 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 organizations will need to proactively manage chaos (similarly defined as uncertainty) and channel its driver for constant innovation in order to succeed.

Proposition 2: Risk management needs to consciously differentiate between “hard” and “soft” approaches to risk management in order to spur social innovation in public policy.

The main risk management tool in public policy described in the aforementioned literature is regulation at a high level (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 behavior 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 the communication strategies and the adaptation of organizational culture also recommended by other authors (Andreeva et al. 2014; Hood 2002; Hood and Rothstein 2000; Bozeman and Kingsley 1998). Here, risk management decisions are delegated to the lowest possible level, sometimes even line managers of frontline staff, with regular communication on an individual and team basis. An example is social care, where assessments regarding the suitability of service users for home care are conducted by frontline social workers. Guidelines are set at 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 16.1 summarizes this proposition.

<table>
<thead>
<tr>
<th>Type of Risk Management</th>
<th>Technocratic Risk Management</th>
<th>Decisionistic Risk Management</th>
<th>Risk Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard</td>
<td>Actuarial Risk Minimization</td>
<td>Regulation/Rules</td>
<td>–</td>
</tr>
<tr>
<td>Soft</td>
<td>–</td>
<td>Delegation of Risk Management across Organizations</td>
<td>Communication and Deliberation</td>
</tr>
</tbody>
</table>

Table 16.1 Hard and soft risk management approaches
Conclusion: a public policy framework for risk and social innovation

Policy-makers never face only one type of risk in isolation. Rather, they must address risk and uncertainty constantly and simultaneously. 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 service, such as the cooperation between a care home with a primary school through a befriending initiative.

The holistic framework we propose in Table 16.2 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.

Hard risk management tools are best suited to manage known risks and provide the possibility for evolutionary innovation. Given their managerial focus, these risk management tools are more suited for top-down innovation as their structural framework is too rigid for grassroots innovation. This is not necessarily negative: the regulation of the medical and healthcare professions, for instance, requires governmentally set guidelines for quality standards (e.g. Flemig 2015). Innovation in these fields consequently follows the same top-down mechanisms. When applied to uncertainty, however, hard risk management tools are likely to stifle social innovation. Since uncertainty cannot be specified a priori, hard risk management approaches are, as Mack (1971) argued, likely to deter policy-makers from adopting innovative alternatives in favor of traditional options, such as top-down regulations.

For known risks, this may mean that risk management at lower levels of the organization, i.e. the frontline staff and their immediate managers, may be more appropriate, as long as a minimal framework of standards is set. Both innovation and risk management are bottom-up in this case: with the power to address risk more fully at this grassroots stage, frontline staff can react more directly to new service user needs. Thus, soft risk management approaches are likely to result in expansionary innovation in the case of known risks. However, as Andreeva et al. (2014) caution, this diffusion of responsibility may also backfire and lead to a “blame game” as defined by Hood (2002) when it comes to public accountability for the implementation of a policy.

Finally, soft risk management approaches are suggested to manage uncertainty, leading to an organizational culture that “thrives on chaos” (Peters 1989) and invites total innovation. This is dependent on a successful system of communication and joint decision-making across the implementing organization (Palermo 2014).

Thus, efficient risk governance in public policy that encourages social innovation is multifaceted and highly complex. It requires regulatory foresight and a shift in both policy and organizational culture: risk should no longer be seen from a strict actuarial, technocratic point of view that seeks to minimize it at all cost. Rather, risk should be actively considered as variable in social innovation. This requires further structural considerations: In Chapter 28,

<table>
<thead>
<tr>
<th>Type of Risk / Risk Management Approach</th>
<th>Risk</th>
<th>Uncertainty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard risk management (top-down risk management)</td>
<td>Evolutionary Innovation</td>
<td>Stagnation (minimization approach)</td>
</tr>
<tr>
<td>Soft risk management (bottom-up management, incentives)</td>
<td>Expansionary Innovation</td>
<td>Total Innovation (“Thriving on Chaos”)</td>
</tr>
</tbody>
</table>
Ramesh and Howlett, for instance, suggest that different types of non-hierarchical governance structures have specific capacity requirements, while Bovaird and Quirk (Chapter 23) discuss resilience as tolerance for failure and a move away from risk avoidance. Individual incentives should be adjusted accordingly to foster a climate of innovation among policy-makers and implementing staff. Frequent and extensive inter- and intra-organizational communication and a diversification of responsibility emerge as the best tools in addressing public policy risks, in particular when it comes to reputational risks.

Notes

1 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 (National Audit Office 2000: 5).
2 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 beneficial overall.
3 For a thorough treatment of risk and uncertainty, see Mack (1971).

References

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