



Capital Ideas

How to Generate Innovation in the Public Sector

Jitinder Kohli and Geoff Mulgan July 2010

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doing what works

This publication is a product of CAP's Doing What Works project, which promotes government reform to efficiently allocate scarce resources and achieve greater results for the American people. Doing What Works specifically has three key objectives: (1) eliminating or redesigning misguided spending programs and tax expenditures focused on priority areas such as health care, energy, and education; (2) improving government's ability to execute by streamlining management and strengthening operations in the areas of human resources, information technology, and procurement; and (3) building a foundation for smarter decision making by enhancing transparency, performance measurement, and evaluation. Doing What Works publications and products can be viewed at http://www.americanprogress.org/projects/doing_what_works. This project is undertaken in partnership with the Rockefeller Foundation's Campaign for American Workers.

Executive summary

We see innovation in action every day in our lives. Whether it's listening to music on a cell phone, or taking the latest medication to help tackle an ailment, our lives are better and easier as a result of the work to create new products and services.

When we think of innovation, most of us think of the private sector. And that's hardly surprising since private-sector innovation accounts for more than 85 percent of economic growth in the United States.¹

But innovation is needed just as much in the public sector. Some of the impetus for innovation comes from new challenges such as childhood obesity, or climate change. Others come from public demands—public services can easily become stuck with outdated and ineffective approaches. And still more urgency emerges from fiscal pressures: as money gets tighter, public agencies will have to find more efficient ways to conduct the census or administer social security, improve workplace safety, or tackle crime. Public-sector productivity matters just as much for future prosperity in these days of fiscal tightness as private-sector productivity.

Finding the right way to tackle these issues is rarely straightforward. But it nearly always requires a cycle of coming up with new ideas, testing whether they actually work, and scaling up those ideas that are most effective.

We know from other fields—such as science and medicine—that innovation doesn't just happen by accident. There are well developed systems to foster innovation in the commercial sector. Yet too often in the public sector, even though there is a great deal of talk of the need to be innovative, there is little specific action. It's still rare for innovation to be at all institutionalized in government budgets, roles, and processes. And it's even rarer to find officials and politicians who are aware of the full range of tools that they could be using to accelerate the development and spread of better ideas.

This report looks at the actions that leaders in the public sector can take to ensure that there is a constant flow of promising ideas into the federal government. Across government, we recommend that Congress and the Obama administration work together to:

1. **Identify priority fields for innovation:** The government must first identify the fields of public action where innovation is most needed. These may be ones where problems are intensifying—such as climate change or aging. They may be fields where the evidence points to underperformance—such as schooling. Or they may be fields where new technologies and knowledge are opening up new opportunities. Some innovation happens through serendipity. But scarce time and resources need to be focused where the returns are likely to be greatest.
2. **Open up the space for ideas:** The second priority should be to widen the range of options, creating more space for creative and entrepreneurial solutions. This report identifies many tools that the federal government can use both inside agencies and to mobilize social entrepreneurs, the public, and others to help generate promising ideas.
3. **Finance innovation:** We propose a broad target that at least 1 percent of agency budgets should be used to develop, test, and scale up new and better ways of doing things in the public sector. There are a wide range of ways that the government can use financing to spur innovation, from very small grants for ideas from frontline staff to stage-gate investment models.
4. **Fix incentives:** Existing incentive frameworks dampen public servants' desire to come up with newer, potentially better ways of doing things. We need greater recognition that new methods may be both more effective and more efficient than existing programs and initiatives.
5. **Change the culture:** Innovation has to be supported from the top, and senior leadership in the executive and the legislative branches should signal that they recognize that some ideas will fail, and that's acceptable—as Franklin D. Roosevelt first proposed in the 1930s. The need to recruit large numbers of federal employees over the next few years provides an opportunity to change federal employees' skill set. Future federal employees need to be clear that they should be constantly looking for better ways to accomplish government goals.

6. **Grow what works:** There should be a much stronger focus in government on trying to scale up ideas that work—even if that means closing down popular programs or initiatives that have been less effective in the past. Our accompanying report, “Scaling New Heights: How to Spot Small Successes in the Public Sector and Make Them Big,” recommends building a social innovation mentorship program and creating Institutes for Effective Innovations to help the scaling process.

Action is also needed in each government agency. Effective agencies need to become better at generating great ideas—both from within and from beyond their boundaries. We set out a series of techniques to generate promising ideas under five themes:

- Unleashing the creative talents of agency staff
- Setting up dedicated teams responsible for promoting innovation
- Diverting a small proportion of agency budgets to harnessing innovation
- Collaborating with outsiders to help solve problems
- Looking at issues from different perspectives to notice things you wouldn't otherwise

This report includes more than 20 different ways that public agencies are promoting the generation of great ideas. Few public-sector organizations will wish to implement all of them. Instead, leaders should establish what they think will work best in their organization under each theme—and focus energy on implementing those. It is, in effect, a menu of practical ways in which organizations can help to generate a flow of great ideas. By choosing elements from each of these five themes, public-sector organizations will be able to ensure that there is a strong flow of great ideas on how to improve the way they go about their business.

Generating ideas is only one part of the innovation cycle. Our companion report focuses on how to scale up those ideas that have been proven to be effective.

“It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something.”

– Franklin D. Roosevelt, governor of New York, *Looking Forward* (1933).

The six-stage cycle of social innovation

Innovation in the private sector follows a process from invention to wide adoption of new goods or services. Social innovation follows a similar cycle and there are six stages from inception to impact.²

These stages are not always sequential—some innovations can jump a stage or two—and there can be feedback loops between them:

1. Prompts, inspirations, and diagnoses. Solutions derive from problems. The impetuses for social innovation are therefore often social problems: funding crises, systemic failures, tragedies. These prompts can be founts of creative inspiration, but must be accurately diagnosed in order to identify the root causes of particular problems. New technologies or knowledge can also sometimes act as prompts.

2. Proposals and ideas. Once a problem or a new possibility is understood, social innovators set about generating ideas for solutions.

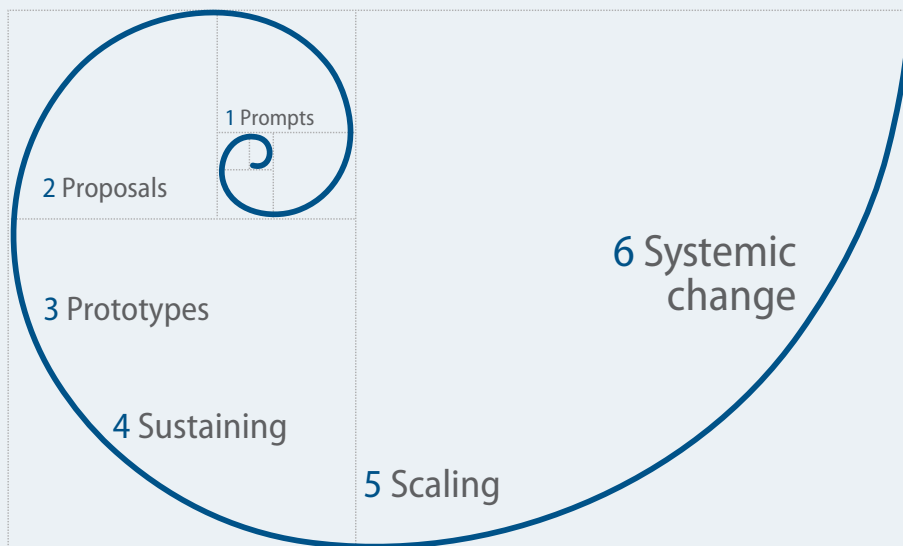
3. Prototyping and pilots. This is the testing stage. Whether through controlled trials or just running an idea up the flag-

pole and seeing if anyone salutes, the refining and prototyping process is critical for social innovation. Ideas are battle-tested, supportive coalitions emerge, internecine conflicts get smoothed out, and success benchmarks become formalized.

4. Sustaining. Here, the training wheels come off and the road to long-term viability is paved. That means finding revenue streams, writing supportive legislation, and assembling the human and technical resources to put the air beneath the wings of innovation. The idea often has to become simpler at this stage.

5. Scaling and diffusion. The idea takes off here, reaping social economies of scale through expansion, replication, and diffusion. There is no profit motive to drive social innovation across the globe like in the private sector. Social solutions often require government intervention and public-private partnerships to grow.

6. Systemic change. This is the end-game of social innovation. An idea, or many ideas in concert, become so entrenched that they give birth to new modes of thinking, new architectures, and ultimately entirely new frameworks.



Private-sector innovation vs. public-sector innovation

Innovation in the commercial world

Economists estimate that innovation drives approximately 85 percent of growth in private-sector productivity. Firms in the commercial world innovate because they know it helps their bottom line. Innovation can reduce costs, create new or better products, and help increase market share. These are important drivers of profitability, and will often be reflected in the firm's share price and employee remuneration.

People sometimes think that all innovation is technological and so there is little for government to learn. But that's not true. The reality is that innovation is in all fields and only sometimes driven by technology. In retailing, for example, Starbucks and other modern coffee shops, as well as Walmart and other big box retailers, have transformed the retail experience in urban and suburban centers. Old-fashioned products such as organic food or scented candles have been refashioned through creative marketing. After decades of reliable electricity in every home, the Yankee Candle Company operates 500 stores in 40 states selling mostly fragrant wax!

Firms understand that promoting innovation is an important business strategy. Many companies have research and product development departments responsible for coming up with new ideas or new products. These departments are often well resourced since their work is seen as the means to ensure continued profitability for the company. Commercial organizations often hire innovation consultants to encourage creativity. Some firms go much further.

Google, for example, encourages many of its employees to devote 20 percent of their time to work on projects of their choosing. Many of the firm's most innovative ideas come from this freedom. Examples include AdSense, the advertising platform that syndicates Google ads on the Internet, and Google Suggest, the now-commonplace function that suggests search queries when users type in just a few characters.³

Government believes that innovation in the private sector is a good thing, and so it deploys policy levers to try to promote innovation in the commercial world—from large scale investment in research and development, to tax credits, grant programs such as the \$2 billion Small Business Innovation Research fund, and sponsorship for cross-sector collaborations.

Why is innovation harder in the public sector?

Public organizations can be innovative. Indeed, they have created some of the world's most important innovations—such as the Internet, mass vaccination programs, and markets for pollution emissions.

But these are the exceptions. Public-sector organizations are more often resistant to generating great ideas. Key reasons include:

“The greatest
mistake you can
make in life is to be
continually fearing
you will make one.”

– Elbert Hubbard,
The Note Book, 1927

- **The private sector offers strong financial rewards for innovation, but the public sector often discourages new thinking among its employees.** New ideas almost always involve some risk—and if something fails in government, political leaders and staff know they are likely to be asked why funds were wasted. The real incentive in government is to keep doing things in the proven and safe way—even if that means better, more efficient methods are not identified.
- **The way money is allocated to public-sector organizations can dampen the desire to innovate.** The budgeting and appropriations process focuses on programs that are shrinking or growing, with little attention paid to the stock of programs that form the baseline. Programs with limited efficacy that fly below the radar are often left alone. It can be easier as a program manager to maintain the status quo than devise better ways of running a program.
- **Political leaders are encouraged to push for ideas that are popular with voters, sometimes at the expense of more effective proposals.** And voters often reward decisions to increase investment in teachers or police officers, even when there may be ways to make current investment more efficient without added expense. There are much weaker incentives for solutions that are not immediately popular, but may be more effective. Raising awareness of public health problems is unlikely to be immediately popular, for example, but could yield better results than more popular measures such as increasing investment in facilities or clinicians.⁴

- **Public-sector culture often rewards people for turning the gears of bureaucracy rather than improving the overall machinery.** There is often a strong culture of “this is the ways things are done around here,” especially in functions that service citizens or internal customers. There is little incentive without market competition for public organizations to place themselves in their customers’ shoes. There is only one passport provider, after all. And strong labor rights can reinforce cultural barriers to innovation because unions often must ratify even small changes to working practices. The improved job security enjoyed by union-protected workers can help raise morale, but it may also reduce their incentive to innovate.
- **Government promotions rarely reward innovative staff.** The most valued skills are handling political crises well, crafting documents that win headlines, or steering relations with key stakeholders. These are important, but they are not skills that focus on improving outcomes for society or citizens. It’s hardly surprising, then, that junior workers seek to emulate the former skill set and become less focused on innovation.

Innovation is essential for tackling complex social problems

Social problems are becoming ever more complex. Is the right way to tackle childhood obesity to develop policy responses around food, parenting, schooling, or health? And is crime in cities best addressed through the education system, policing, drug enforcement, or employment opportunities for youth? How about climate change—is it an issue about different transport patterns, or home design, or new industrial processes?

The answer is all of the above and more. There is no single public policy response that could ever be successful for these issues. And we don’t yet know the best ways to address these complex problems.

If we are to succeed, we need new and better ways to tackle these issues. That requires a much stronger system of innovation—from a constant flow of great ideas through evaluating the effectiveness of different approaches and then scaling those that are most effective.

- **Outside government, much innovation happens through collaboration.** Academics build on each others' work to advance new ideas. So-called "open source" innovation is increasingly common in business, especially in the technological field. Businesses have always looked to competitors for ideas of better products or services. Yet in government, there is the tendency to be secretive and develop new products in-house. There are exceptions: New Zealand uses a wiki—or collaboratively edited website—to rewrite police legislation, and the city of Seoul has tapped thousands of citizens' ideas in implementing public policy. But there is generally a deep-rooted cultural aversion to admitting that government may not have all the answers.

Despite these barriers to innovation, there can be a sense in the public sector that there will always be a flow of new, innovative ideas by default. There are lots of creative people working in the public sector, after all. Many political and other leaders talk about how important innovation is at the present time, and they are right (see box on page 7). They think that signals from the top will generate a more innovative culture. There is sometimes also a belief that tighter budgets will be the spur needed for new and better ways of doing things to emerge. Leadership and budget constraints can help, but they are not enough to promote greater levels of innovation.

Stimulating innovation within the public sector requires governmentwide action, as well as specific interventions within agencies. The federal government, as recommended in the executive summary, should direct agencies to target 1 percent of their budgets to deploy, test, and scale up better ways of doing things. Government leaders should encourage innovative risk taking and tailor their recruitment of future employees with innovation in mind. Other governmentwide suggestions are discussed in the executive summary.

Public-sector organizations, like those in the private sector, also need specific interventions to promote innovation. The following section details some of the best interventions from around the world—proof that governments can overcome these challenges and generate a flow of promising ideas in the public sector.

How to generate great ideas

Governments around the world have discovered myriad ways to generate great ideas despite the barriers to innovation in the public sector. This section describes some of the best examples, organized under five broad themes: tapping in-house talent, dedicating innovation teams, budgeting for innovation, seeking outside wisdom, and shifting perspectives. Consider it a practical menu of proven approaches to stimulate innovation in any organization.

Unleash the creative talents of agency staff

Staff in government agencies has enormous potential to be creative, even if the prevailing culture doesn't encourage it. Frontline workers in particular can have powerful insights on ways to improve the way things are done—but all too often agency leaders do not seek these insights, or if they do, little action follows.

Finding ways to really listen to your staff, and encouraging them to generate ideas to improve the ways things are done, is an essential component of an innovation strategy. Here are some examples of organizations that have found ways to harness the talents of their staff.

The Transportation Security Administration's IdeaFactory

The Transportation Security Administration developed IdeaFactory in 2007. It's an online community where employees are asked to suggest ways to enhance their workplace. TSA has more than 60,000 staff members in many locations, and the website is a place where all TSA staff can see what others are suggesting and comment on what they think of the ideas. More than 11,000 ideas have been posted on the site so far, and a number of them have been implemented as innovations to the way things are done at TSA. The agency has, for example, introduced self-select lanes at airports that enable travelers to select one of three lanes based on their needs and knowledge of the screening process.⁵



The Transportation Security Administration's IdeaFactory website

Asking staff for suggestions for how to improve the ways that organizations function can be a very powerful tool for generating good ideas. It also helps ensure scrutiny for those policies and practices that are in place merely because somebody once, long ago thought they were a good idea. These methods ensure that organizations are accountable internally for the bureaucracy that they place on their co-workers. The key challenge with these models is that they require sufficient time to process the ideas received and either respond positively or explain why the idea cannot be implemented. If staff members who submit ideas feel that the ideas are not being considered in sufficient depth, they may become demotivated from submitting further ideas.

The U.S. Army's field manual wiki

Updating Army field manuals can be a mammoth task—there are more than 500 manuals, many of which can be hundreds of pages long. But the U.S. Army has adopted a new approach: It started in fall 2009 putting its manuals on a wiki format so that any soldier could edit them. The Army has started with a pilot program of seven manuals being wiki-fied, including cold weather operations.⁶ Any soldier can make an edit, but changes are subject to review by a central team.

Organizations with a strong internal policy culture would be able to apply this method to their own context. Empowering staff affected by rules to suggest specific changes makes it much easier to ensure that those rules are ones that actually work. Having a check from a central team on changes may not be necessary in the long term, but it is a good short-term measure to ensure that the release of power from the center is not abused.

South Australian A-Teams

The South Australian government is building on Google's model of asking staff to think creatively in addition to their day jobs. It is bringing together young public servants and others drawn from universities and community groups to develop

innovative ideas to tackle difficult issues such as homelessness, early childhood development, and improving confidence in the criminal justice system. A group of around 10 to 20 young people work together in each case as an “A-team” for a short period—perhaps six to eight weeks. They are encouraged to develop suggestions for improvement by canvassing ideas from the wider community, and they benefit from a senior sponsor within government. They present their recommendations to senior officials in government and their report is published. Some of the ideas are not easy to implement, but others have been taken forward and now form part of the government’s policy in fields including the creation of children’s centers and new programs for homeless people.⁷

Even though Google’s model of 20 percent time is easier to make work for a large profitable firm than for public-sector organizations, aspects of the model are easy to replicate in government. It is relatively straightforward to ask teams of staff to spend some time thinking about issues that go beyond their day-to-day responsibilities and seek their views. Input from someone who is less familiar with an issue will often lead to new and valuable perspectives—and ideas that those who are closer to the problem miss. But this approach can only work where those who have lead policy responsibility for an issue are interested in others’ views and keen to consider ideas for improvement.

Iowa’s drive to improve government efficiency

Gov. Chet Culver in Iowa launched a drive to improve the efficiency of the state government in 2009. The administration worked with external consultants Public Works to seek views from staff on ways to improve efficiency. Ninety ideas emerged to save money over a four-month period—ranging from requiring new hires to have their wages deposited into their bank accounts (saving around \$400,000 over five years) to improving energy efficiency in state buildings (estimated to save around \$7 million over five years).⁸ Using an external organization to help facilitate the conversations allowed the staff of Iowa’s departments and agencies to develop a large number of innovative ideas for cost savings, and the overall savings are estimated at around \$250 million over five years.

Iowa Governor Chet Culver delivers his Condition of the State speech in Des Moines on January 12, 2010.



The Iowa example shows that staff can be very creative even when it comes to controversial issues such as generating cost savings. Sometimes external organizations can play a role in unleashing the creativity of staff.

Set up dedicated teams responsible for promoting innovation

Private-sector firms often have a unit or team dedicated to research and development, strategy, or product development. The names of the teams and their precise functions will vary across firms, but they each have one thing in common. They are given the space to think creatively about ways to enhance the firm's long-term prospects. Public-sector organizations should take a similar approach by setting up dedicated teams with responsibility for ensuring that the organization is able to generate and evaluate potentially innovative ideas.

Dedicated innovation strategists in the United Kingdom

The British government set up the Prime Minister's Strategy Unit in 1998 to look at strategic policy issues facing the country and devise innovative solutions. The unit has undertaken dozens of reports ranging from encryption standards to fishing. There is a dedicated resource allocated in each case to look creatively at the issues—for a period of four to 12 months. The teams are specifically charged with accessing leading thinking from other countries and the academic community when coming up with their ideas.

Teams looking at an issue are typically made up of a combination of those who are experts in the subject—who might be on detail from the lead agency or a non-profit with expertise in the policy area—and those who bring a fresh perspective. About half usually come from outside government—from NGOs, business, and universities, and from front-line service delivery.

The unit remains inexpert in particular policy areas, but is somewhat expert at the process of thinking creatively about policy issues. The key to the unit's success is that those who work in the unit are insulated from the responding to daily events—and so they have the necessary time and resources to really think creatively. Other countries have now copied this model—including France, Australia, and Japan—seeing it as a way to keep the whole of government focused on long-term problems and solutions while also keeping it open to new ideas.

The U.S. Department of Education’s Office of Innovation and Improvement

The U.S. Department of Education has also set up a dedicated unit responsible for innovation. The Office of Innovation and Improvement describes itself as a “nimble, entrepreneurial arm” of the department.⁹ It administers a significant funding program designed to promote innovation in education, and also brings teacher leaders from public schools to the department to help develop policy on improving the quality of public education. It also publishes “innovation in education” guides that showcase effective forms of innovation across public schools.

Dedicated teams responsible for policy and program innovation are often small, but have specific responsibility to drive forward innovative practices. That means that they are often in touch with the techniques that other organizations are deploying, and the best way to harness the talents of others within and beyond the agency. They are also insulated from the day-to-day work that people with lead responsibility for a policy area often have, and so they will always have time to ensure that innovation is put into practice. But if they are given responsibility for driving innovation at the exclusion of the rest of the organization, then that is unlikely to be an effective approach. They work best when they work with the rest of the agency to help ensure that innovative approaches are developed.

MindLab offices, Copenhagen, Denmark

Denmark’s forward-thinking innovation unit

MindLab in Denmark is a particularly forward thinking innovation unit.¹⁰ It is run jointly by three government departments: the Ministry of Economic and Business Affairs, the Ministry of Taxation, and the Ministry of Employment. It has around 15 employees, some of whom are drawn from outside the public sector, and acts as a catalyst for innovative thinking across its parent government departments. It has worked on a diverse range of issues—from understanding and reducing red tape businesses face, to reducing workplace injuries. The underlying philosophy of the team is that they work to bring user-focused innovation into the three parent ministries by observing the impact that the ministries’ policies and programs have on businesses, consumers, or employees. Mindlab also hosts a number of Ph.D. projects run in collaboration with leading universities focusing on citizen and business involvement in public-sector innovation.



MindLab is also a physical space designed specially to be promote innovative thinking—with neutral colors, easy-to-move furniture, plenty of whiteboards, and a special workshop zone. MindLab’s values include challenging traditional thinking and bureaucracy, challenging each other’s thinking, and experimenting with the objective in mind. MindLab’s facilities and services are also available to each of the parent government departments.

The investment costs of having a dedicated innovation space are relatively small and would be justified if it helps to change organizational culture. The issues that government is tackling are becoming increasingly complex, and there is real merit in agencies working together to develop innovative solutions to tackle these issues—and so jointly owned innovation capacity may be better than that owned by a single agency.

Social entrepreneurs in residence in Britain

Another option is to bring in outsiders to help seed innovation from within. Two municipalities in the United Kingdom are experimenting with the concept of “social entrepreneurs in residence.” The initiative is designed to address two issues simultaneously: the need for public services to better mobilize innovation sources inside and outside their organizations, and the frustration experienced by social entrepreneurs who couldn’t win public sector support for their ideas, even when they were successfully proving results.



Eleanor Cappell, a social entrepreneur in residence: “We have health challenges as never before. This is an opportunity to empower people and motivate them.”

The first SEIR was appointed in the health service in Birmingham in 2009. Their job is to find, support, and then finance the most promising new ideas that would help the health service meet its goals. They report directly to the people in charge of commissioning services, but also manage a medium-sized budget to finance new and growing ventures at different scales. Some of these are run by NGOs and social enterprises; others are developed by nurses, doctors, and other staff, and in some cases spun out as new social ventures.

Bringing outsiders with experience innovating in public policy contexts into government can help to seed innovative practices within agencies. They can help catalyze innovation by working closely with those who understand how the agency works.

Innovation scouts

Innovation scouts in the private sector are responsible for discovering innovations that can be adapted, adopted, or replicated within their organization. Small and medium firms in northern Italy, such as the Emilia Romagna clothing producers in Carpi, form consortia to fund scouts of this kind. The scouts travel to international trade fairs and conferences to identify the latest technologies, and then report back through the region's Centres for Real Services.

Many Japanese companies use a similar approach when thinking of ideas for new products, as do U.S. firms such as Proctor and Gamble. But the approach can also be transferred to the public sector. The Young Foundation in the United Kingdom has employed an experienced investigative journalist to play a similar role in health care, scanning for promising new projects and looking in detail at which elements could be adapted or replicated. This information is then provided to practitioners in the field—and also helps innovation teams spot major gaps.

Unlike the private sector, where technology is protected by intellectual property, agencies in the public sector can work much more openly together toward solutions. Looking at what others are doing and “stealing with pride” from others should be part of that effort—scouting for ideas at state level, from other agencies that face similar challenges, or from those in other countries can all help to generate great ideas.

Divert a small proportion of your budget to harnessing innovation

About 2.7 percent of U.S. GDP is spent on research and development activities across the country—one of the highest proportions across the developed world.¹¹ About half of this comes from public sources, but it largely funds high-tech research at universities or in the defense field. Only a tiny proportion of these funds are being used to ensure that there is sufficient innovation across government agencies in issues such as education, housing, or small-business policies and programs. Diverting a small amount of federal agencies' budgets to innovative practices creates amazing potential to really invest in generating innovative ideas and scaling up those that are proven to be most effective.

HUD uses 1 percent to enact needed transformations

The Department of Housing and Urban Development first sought approval from Congress in its fiscal year 2010 budget to set aside up to 1 percent of its budget for a transformation program. The department admitted in its budget justification that it is deeply in need of transformation—and asked for funds to help modernize the department. One of the objectives of the funding was to develop “better programs that serve more people with fewer resources.”¹² Congress said yes, although it did set some conditions. Much of the money is to modernize the department through measures such as new IT systems, but some of the funding will pay for developing and evaluating innovative approaches to problems.

The Education Department’s i3 fund

The Department of Education has a specific fund dedicated to “Investing in Innovation,” also known as the i3 fund.¹³ Congress initially supported the program with \$650 million in funding from the American Recovery and Reinvestment Act, but the department is seeking \$500 million in continuation funding for fiscal year 2011. The fund is specifically looking to accelerate the development of an education sector with a higher level of achievement at K-12 level, promote magnet and charter schools, and more effective teachers and school leaders. There are three types of grants: development grants aimed at finding a large number of promising ideas an early stage; validation grants focused on testing whether ideas have been successful; and scale-up grants that fund the scaling up of initiatives that have been proven to succeed at the small scale.

Development grants will, on average, be around \$3 million—enough to see whether an idea that looks promising is likely to succeed. The existence of these funds means that many who have good ideas on how to improve education can now come forward with them and seek funding to see if their ideas can work. Many of these ideas will not work in practice, but others will, and those have the potential to pay back many times the initial investment. It is important that the department does fund some ideas that have relatively low chances of success but would bring enormous gains if they were successful. That would be much better than an approach that sought only to fund ideas that are very likely to succeed but have modest impact.



Investing in Innovation (i3) Fund

American Recovery and Reinvestment Act:
\$650 million

Grantees:
School districts and nonprofit organizations working with districts or a consortium of schools

Type of Grant:
Competitive

For more information visit
www.ed.gov

The department has worked hard to help those that submit proposals put the best ideas forward, for example, by holding workshops and webinars with potential applicants. There were more than 1,600 applicants for funding in the first round. The initial investment in the i3 fund was less than 1 percent of the Recovery Act funds allocated to education, and the subsequent \$500 million is an even smaller proportion of the education budget in FY2011.

OMB's Partnership Fund for Program Integrity Innovation

The White House Office of Management and Budget has set up a \$37.5 million Partnership Fund for Program Integrity Innovation, which provides funds to invest in innovative, collaborative work between states and the federal government aimed at addressing errors and improper payments in federal means-tested programs. The fund works to improve service—and maintaining or improving access is an important cornerstone. The overall level of improper payments was estimated at \$98 billion in 2009, so the fund has enormous potential to save public money.

The fund invites ideas through a website and face-to-face meetings on what would work best at reducing improper payments. Initial ideas include capturing information on benefit recipients once and reusing it. It has set up an expert group to identify concepts that have the most promise, and members are drawn from across the administration, states, and other key stakeholders such as advocates, as well as fraud investigators. These ideas are then developed further and the program allocates specific funding to pilot projects. The program only aims to fund projects that, in aggregate, save as much money as they cost—and so the actual cost to the government should be zero.

What is the Fund for Program Integrity Innovation?

An initiative, funded by Congress, to identify and test innovative methods of improving integrity, reducing administrative cost, and improving service to beneficiaries of government benefit programs



The World Bank's annual development competition

The World Bank runs an annual competition called Development Marketplace that seeks innovative ideas from NGOs and others that have practical ideas they believe could have significantly improve development. There were 1,755 appli-



2009 World Bank Development Marketplace

cations in 2009, and the World Bank chose 100 as finalists and invited them to present their ideas at an event in Washington, D.C. A jury comprised of development professionals and other experts identified the projects that are most innovative and show evidence of being able to transfer their experience easily. Winners of the competition receive a grant of up to \$200,000.¹⁴

Regional innovation funds in the United Kingdom

The health department in the United Kingdom has set up a \$350 million network of “regional innovation funds” charged with financing service innovations, particularly ones addressing long-term conditions. It aims to complement the roughly \$1.5 billion spent annually on medical and technology research and development.

The idea came when government leaders recognized the need for radical change in how health services are organized over the next two decades—with a much bigger role for primary care, a focus on enabling patients to manage their own conditions such as diabetes and heart disease, greater use of technology to provide information and feedback, and more emphasis on public health and prevention. The RIFs aren’t aiming to replace existing research and development support, but they will increasingly complement it by supporting service innovations.

The funds use a range of funding tools, including stage-gate investments, social impact bonds, equity, and loans—and complement a series of other new investment funds including a \$150 million Social Enterprise Investment Fund for health. They have also developed a new set of tools for measuring the likely results and financial viability of innovations.

Each of these funding initiatives requires small sums of money to be invested in helping create solutions for the future. Even if a tiny proportion of the ideas that emerge are successful in transforming the way that government addresses a particular area, the investment will likely recoup the initial funding many times over. But they all also require courage among those responsible for putting together

budgets—both in the executive and legislative branches—to invest money in ideas that are not yet proven to work in the hope that the research and development investment pays off.

Governments sometimes find it particularly difficult to invest in things that have the potential to make a significant impact but don't yet have the evidence that they will. The risk is that if things don't go as well as they might, government is blamed for investments that have failed. Government employees sometimes lack the skills necessary to make those kinds of investments—the skills are more often found in venture capital houses or grant-making foundations that are used to making investments in the hope that they will collectively bring a significant return, even if some individual investments are unlikely to succeed.

The Young Foundation's Launchpad

The London-based Young Foundation administers programs called Launchpad that offer small-scale investment funding for promising ideas that could transform education or health policy. They look for ideas from budding social innovators who think that they have come up with something that could radically improve the way things are done. Ideas with a marginal expected effect are unlikely to receive funding, but those that could have a large national impact may, even if they are little more than an idea.

Shortlisted innovators are invited to present their proposals in person, and the session is videotaped and posted on the Internet. The initial investments are small—from as little as \$5,000 to \$50,000, and investments follow a stage-gate approach: small seed funding is available for ideas that are wholly untested, and the funding contribution increases as they take off and become more successful. Funding for the more commercial ideas is provided in the form of loans, equity, and quasi-equity. But often it's the advice that counts for more than money: shaping ideas into viable new enterprises with sound business models.

Examples of Launchpad projects include a network of new schools that will begin to open this year, an apprenticeship program linking unemployed teenagers to builders and plumbers that the new United Kingdom government has committed to scaling up to 100,000 places, a web platform for teachers and learners (schoolofeverything.com), a radically different model for supporting people with



Health Launchpad's senior associate, Jacques Mizan, introduces case studies

long-term conditions (Neuroresponse), and a company testing out different types of incentive payment for healthy behavior and measuring the savings achieved for hospitals.

The advantages of schemes run at arms length from government is that they can help to ensure that funding decisions are kept away from political influence. There is also a real benefit in ensuring that those who allocate funds are experts in their fields and have expertise in grants or investments. A third benefit is that the arms-length approach gives government some distance from projects that might seem politically controversial at first—there is some scope for politicians to plausibly distance themselves if things don't go as well as they might since decisions are made by an independent organization.

Collaborate with outsiders to help solve problems

Government does not have a monopoly on wisdom, and it often can benefit from collaborating with the private and nonprofit sectors to develop innovative solutions. There are two main ways of doing this—either by working with successful commercial organizations that can help government be more innovative, or by harnessing the energy of those in civil society who want to help address social issues but are rarely asked for their thoughts.

The Navy DeepDives into innovative thinking

DeepDive is a facilitation technique initially developed by the design consultancy Ideo and now operated by Deloitte. It enables teams to rapidly brainstorm new thinking. The U.S. Navy, for example, recently brought together 180 commanders from around the world to find ways to reduce the carbon footprint of bases by 25 percent over the next decade. The facilitators led a two-hour session to get the creative juices flowing—it started with groups of eight developing their own solutions for 30 minutes. This was then followed by “the frenzy”—a 15-minute period where people go round the room, learn about others ideas, ask questions, and steal

the things they like. Teams then reconvened and developed their final ideas. They had a minute to present to the rest of the room and were then asked to vote on their favorites. All the participants walked away after the two-hour timeframe with 23 different strategies to address the issue and a sense of how to apply and test innovative thinking.

Bringing in outside facilitators to unleash the creative talents of public-sector staff can be an effective way to identify the ideas that often sit untapped in public-sector organizations. The process need not be that expensive, and in some cases, organizations might be able to develop their own internal capacity to help facilitate creative brainstorming sessions.

Crowdsourcing ideas with Innocentive

Innocentive is a commercial organization that works with companies to identify scientific problems that need a solution and posts them online. It then invites scientists to work up solutions, and there is an award available if they are effective at addressing the problem. There are more than 200,000 people working to solve problems that are posted on the website. The identity of both those who seek solutions and those who provide them is kept anonymous, and the process is handled by Innocentive. This approach is now being applied in the social context through a partnership between Innocentive, the Rockefeller Foundation, and GlobalGiving under which the Innocentive solvers are being asked to address five water related challenges in developing countries.

D.C.'s Apps for Democracy and other competitions

The D.C. government created a website in 2008 that posted more than 200 sets of government data online in real time from 311 service requests to public space permit applications. D.C. asked computer programmers under the Apps for Democracy initiative to come forward with applications that would present this data in a user-friendly manner—and promised a prize fund of \$50,000 for the best idea.¹⁵ The competition lasted a month and led to developers putting together 47 applications—all of which are available to the public for free.

One of the two gold winners was iLive.at, an application that allows users to type in an address and find out where the nearest shopping center, post office, and conve-

nience store are, among other things. They can also find out about recently reported offenses in the area and access colorful pie charts giving demographic information on their neighborhood. The D.C. government estimates that its modest investment of \$50,000 produced around \$2.3 million of value in terms of IT development. The contest has continued and many more applications have been developed as a result. A similar competition was run in Australia (called MashupAustralia) and led to 82 entries—among the winners was an application to honor service men and women allowing users to find their photographs, service records, and maps.¹⁶

This idea has now been transferred to more specific contexts. The U.S. Department for Agriculture, for example, is now working with the International Game Developers Association to organize a competition for software developers, game designers, and young people to work together to develop computer games and other applications that would help promote healthy lifestyles among children.¹⁷

Department of Education's Open Innovation Portal

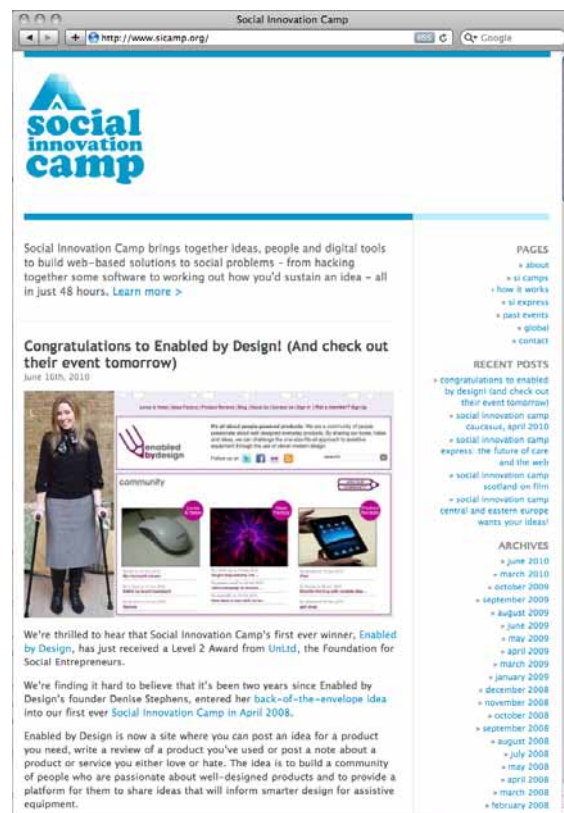
The U.S. Education Department has developed a special website, the Open Innovation Portal, that encourages collaboration among education professionals to help tackle difficult educational problems.¹⁸ Challenges are posted on the website, and members are asked to come up with their ideas on how to tackle the issues. Users can also post ideas unrelated to the challenges that they believe will lead to improvements in education. Website users can rate the ideas and are invited to post comments so that their suggestions on how to improve the idea can be incorporated. People who submit ideas often revise them to reflect comments received. The website can play a role in generating excellent ideas as well as help to disseminate them across the education profession. There is currently no funding available through the website, but ideas can seek funding through the i3 fund discussed above. And some of the challenges are likely to have prizes for the best ideas in the future.

Getting together at Social Innovation Camp

A recent model for widening the menu of creative ideas is the Social Innovation Camp. These are run over a weekend and bring together 100 to 200 people, roughly split between web designers and software programmers on the one hand, and volunteers from the public sector, business, and civil society. The organizers gather challenges in the run up to the event and then divide the group into

teams. Their task is to design a working website that solves the problem by Sunday evening—with prizes going to the best examples. Social Innovation Camps can be generic or they can be targeted at specific issues such as tackling obesity through developing computer games. And they have so far had a high success rate in generating sustainable models—for example, a site to link disabled people and product designers, or to orchestrate feedback to the police—and creating new organizations around them.

It can be very powerful to link those outside government who want to make a difference to society and have real expertise in particular areas with those in government who are seeking to tackle big social problems. These approaches are turning around the old model where government would clearly define how to solve the problem and then go through the procurement process to find contractors to deliver it. There are modest transfers of money in some of these cases, but in most cases people don't work on these projects for the money—they do so because they have altruistic motives or value the public recognition. The result is that the ideas are much more innovative than government could ever create, the solutions are often developed by outside experts collaborating with each other, and the costs to government are much less than under the old approach.



Social Innovation Camp website: <http://sicamp.org/>

Look at issues from different perspectives to notice things you wouldn't otherwise

Innovation can be about looking at issues from different perspectives. It can be very valuable in government, for example, to better understand the consumer experience and engage customers in improving how things are done.

Using participatory rural appraisal to understand community problems

Participatory rural appraisal is a technique developed in the 1980s that works by really trying to understand the perspective of those who live in poor communities in developing countries. Techniques include asking groups of residents to walk

around their neighborhood and create maps of their local community—which reveal the things they see as important—or asking residents to rank different issues that could be addressed, or different ways of addressing issues. The techniques have developed beyond “rural” communities and are used to bring real customer insight into development policy.¹⁹

Simply walking and noticing things can be a surprisingly powerful tool for seeing possibilities in a new way—the Shodh Yatra, organized by the Honeybee network in India, is a particularly good example of a program that goes out into the community to generate new ideas. The program aims to find, improve, and disseminate the best methods being used for farming and nutrition.

The United Kingdom looks at bereavement from the consumer perspective

A similar approach in the United Kingdom is looking at customer journeys. The government published a report in 2005 that looked at the experience of interacting with government when a loved one passed away. It found that in a typical case, the relative was required to contact local and national government agencies 44 times—for example to stop payments of the deceased’s retirement pension and to cancel their passport.²⁰ The family encountered a number of instances of disjointed service including a day when they received two letters that gave them conflicting information about how the process was meant to work. The government had no idea that it was so difficult until it looked at the experience of bereavement from the customer perspective.

Individual agencies had developed stovepiped processes that seemed to make sense from their perspective but failed to do so from the citizen perspective. The realization that government was imposing such a process at a time that a citizen needed support because they had lost a relative led to the government piloting a new approach so that citizens only had to “tell us once” when there was a birth or death in their family. The process has since been used to look at other interactions with government from the perspective of the citizen, such as being called for jury service.²¹

Looking at issues from the perspective of citizens rather than government can be a refreshing and unusual experience for those in agencies. Formal techniques such as participatory rural appraisal can be borrowed from the world of development and applied in other contexts. And looking at the customer experience can often lead to public servants learning that the impact of their collective actions is quite different than they had intended. Often developing solutions to the issues that

these techniques raise can be relatively easy—the real work is in understanding issues by looking at them from different perspectives. While formal techniques will be relevant in many cases, there are also others where the mere act of trying to understand the perspective of those affected by government can help to better inform policymaking—so ensuring that all those who work on policies toward business spend a day a month with businesses understanding how their policies affect business can be almost costless but bring in new perspectives.

The Netherlands's Kafka Brigades

“Kafka brigades” in the Netherlands work to develop solutions to instances where red tape is causing citizens or businesses aggravation with government. The approach was developed by a think tank called Kennisland working with a private firm, and public agencies have adopted it when they are keen to find ways to improve a bureaucratic process. The approach works over a three-month process and starts by building some examples of the bureaucratic experience from the citizen or business perspective—for example, they might produce a short film that summarizes the user experience. Experts from the public sector are then brought together with citizens and/or businesses to form a Kafka brigade, reviewing the user experience and suggesting improvements, which leads to the development of an action plan. The approach has looked at issues from restaurant licensing procedures, to regulatory barriers, to volunteers working with disabled people—in each case using an understanding of the user perspective to develop improvements to the way that government conducts its business.²²

Patient Opinion website:
<http://www.patientopinion.org.uk/>

Patient Opinion brings transparency to the British health care system

Patient Opinion in the United Kingdom adopts a similar approach using a web platform. Patient Opinion is an independent, nonprofit website that allows patients to share their experiences of

The screenshot shows the Patient Opinion website. At the top, there is a navigation bar with the logo "Patient Opinion" and the tagline "this is our NHS... let's make it better". Below the navigation bar, there is a search bar and a "Login" button. The main content area is titled "Your story can change the NHS" and contains three links: "Tell people what happened", "See what others are saying", and "Find out how patients are changing the NHS". Below this, there are two tabs: "Latest opinions" and "Latest responses". The "Latest opinions" tab is active, showing a list of recent patient stories. The first story is titled "St Pauls Ophthalmology excellent care" and was posted 4 hours ago by "ap dunn on The Royal Liverpool University Hospital (Ophthalmology)". The second story is titled "C.P.A. meeting?" and was posted 16 hours ago by "razzel on Lancashire Care NHS Foundation Trust (Adult mental health)". The third story is titled "comments on Nutrition and Dietetics Rotherham" and was posted yesterday by "MumofOne on NHS Rotherham (Nutritional services (feeds and supplements))". The fourth story is titled "Huge thank you to the colonoscopy team" and was posted yesterday by "Liz G on Royal Gwent Hospital (General Medicine)". The fifth story is titled "Mixed experiences at Chinchilla GP Practice" and was posted yesterday by "spiral on Chinchilla Centre for Health". The sixth story is titled "Parking at Stepping Hill Hospital" and was posted yesterday. On the right side of the page, there is a "Your story" section with a "Share your story" button and a "Services near you" section with a search bar and a "Search" button.

health care—from visiting a local doctor to inpatient care at a hospital.²³ Patients are encouraged to explain their experiences (good or bad) in some detail so that others can access that information. The site carries no advertising but is funded by subscriptions from health care providers who value access to the detailed comments that patients leave on the site. Those comments give them a much-improved understanding of how their service feels from a customer perspective—and helps them to develop improvements to the service. Subscribers can also post replies to comments and ensure that comments go to the most relevant managers in their organizations. After reading one post on the care that a dementia patient received, for example, the hospital responded by promising to circulate the story to all ward managers and review the training their staff received.

Public agencies can adopt approaches similar to those developed with Kafka brigades or Patient Opinion so that customer feedback is used to provide detailed insights into the customer experience, and public-sector organizations work with customers to address the issues they raise. Large organizations can develop their own in-house capacity or work with outside consultancies or nonprofits in this space. Smaller organizations might want to work together to develop capacity or work with others outside.

Public services use many other methods to understand things from a different perspective. Some make creative use of peer review to engage people from other backgrounds to look at a service and how it could be changed, for example airport specialists looking at hospitals or disability specialists looking at transportation. Or they engage children to report on public policy and services and to recommend changes.²⁴

Another of the simplest tools to accelerate innovation is the use of regular scans of proven and promising practices from around the world. Many pressing problems are being solved effectively somewhere, and understanding how it works and why it works can spur on innovation here even if it's not possible to copy something directly. Indeed, one of the tests of any senior figure in the public sector should be a reasonable familiarity with the world-class examples in their field.

Finding ways to look at issues from different perspectives is a very powerful and relatively inexpensive tool to think creatively about social issues—and one that all leaders in public service should adopt.

Conclusion

Government agencies and departments need to get much better at innovation if they are to address the public policy issues facing society. That is even more true given the fiscal situation in which the United States currently finds itself.

But the process of looking for new and better ways to do things does not come naturally to public-sector organizations, even though they often contain many innovative individuals.

Author and innovation expert John Kao has written that the most important characteristic of an innovative firm is that it has an explicit system of innovation that pervades the whole organization, which is visible, known, generates a stream of new ideas, and is seen as vital for creating new value.²⁵

We believe that the same is true in the public sector—yet very few departments and agencies can honestly claim to have anything resembling an explicit system to support innovation.

Actions are needed across government to move in this direction. We need to change the culture of government so that it is more open to and willing to invest in innovation. Changes are also needed in each individual agency. We have set out more than 20 different ways that government agencies around the world are working to generate great ideas under five themes. We want this report to be a practical manual for public-sector leaders and call on them to decide for themselves what actions they propose to deploy under each of the following themes:

- Unleashing the creative talents of your staff
- Setting up dedicated teams responsible for promoting innovation
- Diverting a small proportion of your budget to harnessing innovation
- Collaborating with outsiders to help solve problems
- Looking at issues from different perspectives to notice things you wouldn't otherwise

There is a real opportunity to transform the way that the public sector does things—so that looking for new and better ways to do things becomes part of the normal way of working. Embedding innovation into public-sector working practices will allow us to ensure that public agencies are modern, efficient, and effective in addressing the ever more complex public policy challenges facing the nation.

Recommended reading

We recommend these books and websites if you want to learn more about the techniques and issues discussed in this report:

William D. Eggers and Shalabh Kumar Singh, *The Public Innovator's Playbook: Nurturing Bold ideas in Government*. Deloitte, 2009, available at <http://www.deloitte.com/innovatorsplaybook>.

Robin Murray, Julie Caulier-Grice and Geoff Mulgan, *The Open Book of Social Innovation*. The Young Foundation, 2010, available at <http://www.youngfoundation.org/publications/reports/the-open-book-social-innovation-march-2010>.

The White House, Open Government Initiative, “Innovations Gallery,” available at <http://www.whitehouse.gov/open/innovations>.

Harvard University, Kennedy School of Government, Government Innovators Network, available at: <http://www.innovations.harvard.edu>.

HM Government, “Information and Support for Public Sector Innovation, available at: <http://publicsectorinnovation.bis.gov.uk/>.

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- 15 See <http://www.appsfordemocracy.org/>.
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About the Young Foundation

The Young Foundation is a center for innovation and entrepreneurship based in London. Over the past five decades it helped give birth to dozens of new social enterprises, public organizations, and private companies, which have together changed the lives of hundreds of millions of people. It currently combines research, social venturing, and work with national and local governments around the world, as well as hosting the global social innovation network SIX.

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