



Innovation for the Public Good: The Barriers to Innovation

Four Key Obstacles to Innovative Solutions of Pressing Social Problems

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Economists estimate that 85 percent of U.S. productivity growth results from innovation. And yet the government and public sector have a hard time deploying innovative and effective solutions to pressing social problems such as obesity, homelessness, drug dependency, crime, and the education or health of our most vulnerable people.

Why does one of the world's most innovative countries struggle when it comes to innovation in the so-called "social sector"? We think there are four key reasons.

Incentives in government can discourage rather than promote innovation

In the private sector, there are enormous potential returns from innovation. Entrepreneurs can make a fortune and workers in firms can win significant bonuses from innovative ideas.

To be sure, public-sector workers often have the human ingenuity and desire to find better ways of doing things. But they also contend with incentives that discourage innovation. For example, innovation entails risk, and when something fails in government, political leaders and staff face sharp criticism from the media and the legislature. Often the real incentive in government is to keep doing things the safe way, even if that means that better, more efficient methods are never identified.

Traditional government budgeting can discourage innovation

For innovation to work well, money needs to flow to promising new ideas. We need to spend small sums on untested ideas with transformative potential, and larger sums for those that prove successful at the small scale.

Government funding rarely works that way. Traditionally, government funding flows through rigid programs that have detailed criteria on what they will support. And once

money is flowing to a particular place, it's hard to shift it elsewhere. So new ideas that might be better, faster, or cheaper struggle to attract money. And even those that get money often don't have the flexibility to try something innovative that might be more effective.

Government-funded services often lack systems to identify good innovations

In the private sector, consumers are forever demanding better products and services. They switch between competing providers depending on quality or cost. As a result, the best innovations rise to the top, and the least effective ones fall away.

There is no equivalent natural sorting method for many government services. For one, the public sector is often the monopoly supplier of a service. And where there is more than one provider, such as homeless shelters, the “consumers” of the service don't operate like traditional market consumers. The best shelters are hard to distinguish from the rest, and successful innovations often don't scale.

Public officials often confuse action for words

Public-sector agencies and their leaders say they want to be more innovative, but words are not enough to drive change. Declaration must be followed by action to effectively promote a culture of innovation across a federal agency and through its partners at the state and local levels.

To be sure, there are justly celebrated centers of innovation within the government. The Defense Advanced Research Projects Agency has been an innovation hothouse since the 1950s. It invests in breakthrough technologies that have the potential to transform defense and is credited with helping to create the Internet and GPS technology. But such exceptions are rare, particularly in the social sphere.

The key to innovative success is cultivating a culture to promote innovation. That's what successful innovative companies do. They invest in research and development, incentivize new product development, and quickly take good products to the mass market.

Venture capital plays a similar role in promoting innovation at smaller organizations, by scouting out and investing in promising ideas, mentoring entrepreneurs as they take their ideas to market, and helping ensure successful products or services go to scale.

And government already plays a key role in underpinning this innovation system, with R&D tax breaks and significant investments in basic science. So what should government leaders in agencies focused on social issues do to stimulate an innovative environment?

Next week's column will look at five key solutions to the barriers we've discussed today.

Next week's installment from “Innovation for the Public Good” will explore solutions to innovation barriers in the public sector.