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The innovative capacity of voluntary organizations: a key element of co-production? (*Paper to EGPA conference, Madrid*)

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The Innovative Capacity of Voluntary Organisations and the Provision of Public Services: a Longitudinal Approach

Abstract

The prior history of voluntary and community organisations (VCOs) as pioneers of public services during the late nineteenth and early twentieth century has led to reification of the innovativeness of these organisations. Is this reification justified – are VCOs inherently innovative, or is innovation contingent on other factors? This paper reports on a replication study of research originally undertaken by the lead author in 1998, which found that innovative capacity was in fact not an inherent capacity but rather was contingent upon the public policy framework that privileged innovation above other activity of VCOs. This replication study allows both an exploration of how the innovative capacity of VCOs has changed over the past decade, and an analysis to which the contingent model has been maintained.

The Innovative Capacity of Voluntary Organisations and the Provision of Public Services: a Longitudinal Approach

Theoretical and empirical background.

The innovative capacity of voluntary and community organizations (VCOs) as public service providers has long been a key assertion of the public policy debate in the UK, stretching back for almost one hundred years. This ascribed capacity has its basis in historical fact, as VCOs were the prime innovators of social welfare, and other, public services in the nineteenth century (Webb & Webb 1911). Subsequently this perception became embedded as the official view of this capacity (for example Beveridge 1948, Ministry of Health 1959, Home Office 1990, Labour Party 1990). Yet, despite such reification of this innovative capacity, little research has taken place to evaluate this claim. The only study of any substance is the American study of Kramer (1981) – now limited both by its American context and considerable age. Reviewing the literature in 1998, Osborne (1998a) concluded that such studies as there were, were limited by three factors: (i) their reliance on normative argument rather than empirical data, (ii) their lack of attention to the mainstream innovation studies literature (for

example, Rogers & Shoemaker 1971, Rothwell 1975, Abernathy et al 1983, Van de Ven et al 1989, and Herbig 1991) and the potential that this literature has for offering theoretical and empirical insights into the public service context, and (iii) the possibility of situating this capacity within a contingent framework that recognised the impact of the public policy environment upon innovativeness.

In the broader public services arena, there have also been a limited number of studies of innovation in public services (see Osborne & Brown (2005) for a more extensive literature review). Most notably in this literature, Borins (2001) has explored the public policy – public services delivery interface and its impact on innovation in public services. Despite its importance, this work is hampered in its applicability to the UK by its national specificity within the US public policy system. In a European context, Koch and his colleagues in the EU *Publin* programme (for example, Koch & Hauknes 2005, Malikova & Staronova 2005, Koch et al 2006) have explored the public policy context of innovation within public service organizations in the European Union. However, whilst this is useful work at the industry level, the issue of the innovative capacity of VCOs is wholly absent from their work.

Finally, much of this work has not been grounded in the ‘innovation studies’ literature, above, that might give a more robust theoretical, as opposed to normative or empirical, basis to the debate (Osborne & Brown 2005).

Consequently the previous work of the lead author of this paper (Osborne 1998a), in the 1990s, was the first research study in the UK that:

- Mapped this innovative capacity of VCOs and developed a contingent model of it, within the field of social welfare in the UK, and
- Drew upon the organization theory and innovation studies literature to inform our understanding of the innovative capacity of VCOs.

Crucially it developed a typology of innovation (Osborne 1998c) in the social sector that differentiated between:

- *the traditional activity of VCOs* in providing specialist services (situated within the ‘traditional organizations’ in this paper),
- *the developmental activity of VCOs* involved in the incremental change of their services (situated within the ‘developmental organizations’ in this paper),
- *the innovative activity of VCOs* that changed the paradigm of their services and/or their skills base (situated within the ‘innovative organizations’ in this paper) – and also separated this activity into three distinct modes of innovation, as discussed further below.

It is important to note that this differentiation does not suggest any normative difference between these modes of work – they can all have a positive or

negative impact upon an organization or its services (for example, Rosner 1967, Kimberly 1981 and Mole & Elliot 1987), nor does it suggest any longer term impact – over time, a series of smaller service innovations may produce a much more profound effect upon a service than a single innovation (for example, Van de Ven 1989). However, as the innovation studies literature makes clear, innovation does pose distinctive organizational and managerial challenges, compared to the other two modes.

Osborne argued further that the innovative capacity of VCOs was not a function of the organizational characteristics of VCOs, such as their structure or culture (as much of the policy literature invariably suggested), but rather it arose out of the interaction of these organizations with their institutional and policy environments. *That is, it was the action and policy context created by central and local government that encouraged innovative activity by VCOs rather than, it being an inherent consequence of their organizational structure or culture.* Subsequent work by other researchers has confirmed and developed this model in other fields beyond social care – such as the work of Walker et al. (2001) in the field of housing.

Purpose of this paper. The original study by Osborne (1998a) provided a significant empirical study of the organizational and environmental factors that mediated the innovative capacity of VCOs in the provision of social care services. The present paper reports on a partial replication of this original study. This

provided longitudinal data to test if/how this innovative capacity has changed over the past decade and in relation to what contingencies – does this capacity remain constant or is it affected by changing economic, social and political circumstances and/or by changes in the public policy environment (and if so, how)? Such longitudinal studies are an essential part of the social science process and allow both original hypotheses to be re-tested and a test of the impact of changing contingencies upon emergent models – though they have been frequently lacking in the field of public management.

Methodology

This paper utilizes the survey and case study data from this study, which was carried out across three localities in England – an urban, suburban and rural locality. The purpose here was to map the extent of the innovative, developmental and traditional VCOs, to examine any key differences between them and to explore the potential contingencies that might explain the innovative capacity of VCOs.

The initial intention had been for an exact replication of the 1994 study. However, at a late juncture, the key stakeholder for one of the original research sites (the suburban locus) withdrew involvement because of their own financial crises and subsequently a replacement locality was identified. Whilst this does diminish the exact replication of the original research, nonetheless it does provide a robust longitudinal test of the sustainability of the innovative capacity of VCOs. Three

sites were thus surveyed – an urban (Midwell), suburban (Silton) and rural (Southshire) locus¹.

The survey was based upon ‘cluster sampling’, which excluded pre-stratification of the sample population and used rather a census of all identifiable VCOs in each locality (de Vaus 1986). Such an approach might not provide a precise sampling frame for the VCO sector in each locality. However, given the poor quality of most local databases about the sector (see Osborne & Hems 1995 for a discussion of this issue), such an approach provided a convincing sampling frame for this study.

In both the original survey and the present one, respondents were invited to say whether they had been involved in developing a new service over the past three years, and to describe it. Where respondents identified a new service, this was analysed using a classification developed by the author as part of the earlier study (Osborne 1998b). This classified this new work of VCOs along two dimensions – its *mode of production* (was it a modification of an existing service of the organization or the growth of a new one) and its *market* (was it serving an existing client group/need of the organization or a new one). This produced a classification of four types of new services - three innovative forms (that differentiate further the work of the innovative VCOs identified above) and one of

¹ The names ‘Midwell’, ‘Silton’ and ‘Southshire’ are pseudonyms to ensure the anonymity of the organizations and agencies involved in this study.

incremental development (that refers to the work of the developmental VCOs above)². These are

- *Total innovation* (involving working with a new client group and providing new services),
- *Expansionary innovation* (involving working with a new client group, but using the existing services/methods of work of the organization),
- *Evolutionary innovation* (involving working with the same client group, but providing new services), and
- *Incremental development* (involving working with the same client group and providing the same services, but incrementally improving them)³.

In addition to these four modes of organizational change, *traditional* service delivery was identified, where VCOs continued to provide their existing services to their existing client group, without any change or development (the traditional VCOs, above).

Inevitably such a classificatory process involves the exercise of judgment by the lead researcher. In these studies both the reliability and validity of these

² The key differentiator between the innovative and developmental work identified here was the element of *discontinuity* with the prior work of the organization, as discussed above.

³ Again, no normative distinction is being made here between the value of incremental development and innovative activity. In the long term a series of apparently minor incremental developments might actually lead to a more fundamental change in the nature of organizational activity. However, the distinction is important in terms of the managerial and front-line activity of VCOs – innovation and incremental change involve different tasks, because of the element of discontinuity and organizational destruction that innovation involves compared to incremental development (Abernathy & Clark 1988).

judgements were tested. Their reliability was tested by a test-retest process whereby a random sample of 10% of the questionnaires was reclassified by this researcher after a three month interval with 93% agreement in both studies. Their validity was approached in two ways. First methodological triangulation was used (Denzin 1970) to cross-validate the findings of the study through the use of both the Chi-Square Test and Discriminant Analysis. Second the judgement of the lead researcher in allocating each questionnaire response to one of the five classificatory domains above was validated by asking one other member of the research team to similarly classify a random 10% sample of the questionnaires. This produced an 80% level of agreement in the 1994 study and a 90% level in 2006, suggesting a robust level of validity in the judgements exercised.

Subsequent to this, three cross sectional case studies of the innovative capacity of VCOs were carried out – one in each of the research sites. These involved ten mini-case studies of VCOs in each locality, covering the range of innovative, developmental and traditional VCOs. They utilized semi-structured interviews with a range of organizational staff together with interviews with key national and local stakeholders. They explored whether the innovative capacity of VCOs was structured by one of four contingencies – the structural characteristics of VCOs, their internal culture, their external environment and their relationship and their institutional and public policy context. The findings presented here combine data from both these approaches.

Survey findings⁴

Table I lays out the profile of the innovative activity in both the 1994 and 2006 surveys. The original study found that innovation was a significant but by no means all-embracing activity for VCOs – 37.9% of organizations were engaged in innovative activity. Almost 13.9% of VCOs were also engaged in developmental activity (again, as defined above), whilst just over 48.2% continued their traditional work, without modification.

The contrast in 2006 is stark. In this survey, the innovative activity of VCOs has shrunk from 37.9% to 19.1% whilst their developmental work has increased from 13.9% to 35.7%. The traditional activity has stayed almost constant at 45.2% in 2006 compared to 48.2% in 1994. Therefore, far from being a constant element of the organizational activity of VCOs, innovation appears as a variable – and potentially a contingent one. This contrast is shown diagrammatically in Figure I. An important conclusion of the 1994 study was that governmental policy, at a central and local level, was a key contingency in the priming of the innovative capacity of VCOs, rather than any inherent organizational characteristics. A question raised by this replication study was therefore – *have the policy imperatives of governmental policy changed to lessen the innovative imperative upon VCOs?* This is returned to later in this paper.

⁴ In this present paper a summary of these survey findings is presented. The full statistical analyses are available in the web-based ESRC Public Services Programme Discussion Paper from this project (DP0701): S Osborne, C Chew & K McLaughlin (2007) **The Innovative Capacity of Voluntary Organizations: Survey Evidence from a Replication Study** (http://www.publicservices.ac.uk/Publications/Discussion_Papers/DP0701_VCO_Innovation.pdf)

Further light is thrown upon this pattern of innovative, developmental and traditional activity, as defined above, when the organizational characteristics of the three types of VCOs were compared through the use of Chi-Square tests. In 1994, little was found to differentiate the innovative and developmental VCOs. The developmental VCOs did tend to be older (i.e. founded at least six years previously) than their innovative counterparts and the innovative organizations were less likely to be purely volunteer based – though neither of these relationships was statistically significant. Developmental organizations were significantly more likely to have larger staff groups than innovative organizations and the innovative VCOs accounted for almost 95% of the smaller organizations with less than five paid staff. Little continuity exists between 1994 and 2006 in this pattern. In 2006, and in contrast with 1994, innovative VCOs were significantly more likely to be younger organizations than their developmental counterparts and significantly larger.

In terms of the distinction between ***the innovative and traditional VCOs***, in 1994 the innovative VCOs were significantly more likely

- to be younger organizations (i.e. founded in the last five years),
- to have some paid staff (i.e. at least an half time member of paid staff), rather than being volunteer based alone,

- to be other- rather than self-oriented (i.e. to be concerned with the needs of members of the wider community rather than of their own members only), and
- to have substantial governmental funding (from either service contracts or grants) rather than voluntary income or fees.

With the exception of the funding pattern of the innovative and traditional organizations, this pattern remained in 2006.

With regard to funding patterns, in 1994, the innovative organizations had accounted for 73.8% of those VCOs citing governmental funding as their most significant source of income (whilst the traditional organizations accounted for 64.2% of those citing voluntary income and fees as their major income source). By 2006 this had shifted appreciably. Traditional VCOs still accounted for the baulk of those organizations with voluntary income and fees as their major funding source (76.6%). However, they now also accounted for 59.3% of those VCOS with substantial governmental funding. In contrast to 1994, the innovative VCOs were split equally between the two funding sources – though with a non-significant orientation towards governmental funding.

It should be emphasized that these analyses do not provide any *predictors* of the innovative activity of VCOs. They simply *describe* different groups of organizations rather than imbue any *causality* into this relationship. The

appropriate formulation is thus the descriptive 'innovative VCOs tend to have at least one member of paid staff' rather than the causal 'because a VCO has at least one member of paid staff it is likely to be an innovator.' To explore the potential predictors of innovative activity, and potential causality, it is necessary to move to a more sophisticated level of statistical analysis - through Discriminant Analysis (Eisenbis & Avery 1972, Klecka 1980).

The Discriminant Analysis. In this stage of the analysis, the relationship between the dependent variable (innovation status) and seven independent variables (age, location, client group, the presence (and number) of volunteers, the presence (and size) of a paid staff group, organizational orientation and major funding source) was explored. Using SPSS, the analysis proceeded in a stepwise manner, removing a variable as its contribution to the analysis was identified.

In the 1994 study, two discriminating functions were uncovered in this analysis. The first function included the variables - government funding, VCOs aged under six years old, and the absence of paid staff (this latter variable as a negative one). The second function included the variables - charging fees for services, employment of six or more paid staff and the absence of paid staff. The first variable was found to be by far the strongest one, accounting for 83.48% of the variance in the analysis and with an eigenvalue⁵ of 0.5407. This function

⁵ This is a measure of the discriminating power of the variable and with 0.4 considered to be 'excellent' (Hedderson & Fisher 1993, p. 148)

differentiated between the innovative and traditional organizations. Taking the canonical coefficients into account this function was found to correlate positively with the innovative organizations and negatively with the traditional ones. The second function was much weaker, accounting only for the 16.52% of the variance in the analysis and with a comparatively low eigenvalue of 0.1070. It correlated positively with the developmental organizations but with a very weak predicative power – indeed random choice was more successful than this function in predicting the developmental organizations (Osborne 1998a, pp. 98-105).

For 1994, this analysis confirmed that it was possible to differentiate between the innovative and traditional VCOs on the basis of certain organizational characteristics (their receipt of government funding, being aged under six years old and the presence of paid staff). Whilst a second function was allied to the developmental organizations, its discriminating ability was extremely weak.

This analysis was repeated with the same variables in the 2006 study. Two discriminating functions were uncovered in this analysis with three significant variables identified – VCOs being aged under six years, the absence of paid staff and five, and under paid staff employed. In function one, all three are significant coefficients, though in function two only the variable of five or more paid staff is significant (as measured by the standardized canonical coefficients of the Discriminant Function). Function one is also revealed to be the most powerful,

accounting for 79% of the variance in the analysis. However, the eigenvalues for both functions are low, suggesting that they are not as robust as the functions identified in 1994. This is emphasized by the high values of Wilks Lambda in the analysis in 2006 compared to 1994. This has a maximum value of 1.0 and varies in inverse proportion to the discriminating power of the functions, again suggesting that this power is much weaker in 2006 than in 1994. Finally, Figure II displays diagrammatically the relationship between these two functions and the VCO population in 2006. Again, function one is discriminating most strongly between the innovative and traditional VCOs whilst function two discriminates the developmental organizations from both the other groups.

Discussion of the survey data. This analysis of the data from the 1994 and 2006 studies of the innovative capacity of VCOs has revealed two core elements. On the one hand, the capacity appears to have shrunk significantly over this period – from 37.9% to 19.1% of the VCOs surveyed (Table I). On the other hand, whilst the work of the traditional, non-innovative, organizations has remained roughly static (48.2% and 45.2% respectively), there has been a dramatic and inverse growth in the amount of developmental work carried out by VCOs – from 13.9% to 35.7%. As identified above, this is work carried out by VCOs involving some incremental service improvement but not characterised by the discontinuity that is a core characteristic of innovative change.

One could explain this shift between the innovative and developmental work of VCOs in three ways. First, that it is a product of unreliability and a lack of validity in the data analysis process employed – and particularly of the judgment exercised by the research team in denoting the activity of a VCO as innovative, developmental or traditional. However the earlier reliability and validity checks carried out precisely on this judgement (in both 1994 and 2006) would seem to discount this as an explanation.

Second it may be that the amount of innovative work of VCOs has indeed simply shrunk and the developmental work has increased. Finally, the explanation may lie with those VCOs engaged in developmental work. The 1994 study found that many such VCOs actually portrayed this work as innovative – because this had to be an essential attribute of their work if they were to receive funding under the dominant government schemes at that time. Therefore, it is possible that underlying this shift of emphasis between the innovative and developmental work of VCOs is in fact a change to the institutional framework, established by government, for VCO public service provision – that is, innovation is no longer a core policy driver and expectation of VCOs and so there is no longer any need for VCOs to portray their work as innovative, irrespective of its true merit. In this context it is interesting to note that in the 2006 survey, governmental funding has disappeared from the Discriminant function, which has remained fairly constant otherwise. This raises the question as to whether it was precisely this governmental funding that was driving the innovative capacity of VCOs (both in

terms of encouraging genuine innovation and in terms of encouraging VCOs to portray their developmental work as innovative) in 1994 but which has now begun to drive developmental work instead. This was explored further in the cross sectional case studies.

The policy framework for innovation in public services and VCOs

The policy framework in 1994. It is unquestionably true that innovation was seen as a core element of the provision of social care services by VCOs in the early 1990s. At the broadest policy level, the introduction of non-statutory, and especially VCO, service providers was argued to stimulate the development of services that ‘met individual needs in a more flexible and innovative way’ (Department of Health 1989, para 3.4.3) and the influential Griffiths Report had also argued for the use of VCOs to provide social care services in order ‘to widen consumer choice, stimulate innovation and encourage efficiency’ (Griffiths 1988, para 1.3.4). One influential commentator at the time argued that this shift was itself a paradigmatic shift from the community development roots of social care (as epitomized by Abrams et al 1989) and towards one of ‘market development and market management’ (Wistow et al 1994, p. 22; see also Le Grand 1991).

This policy focus on innovation as a normative good was also mirrored in the key professional organizations in social care at the time. The Kings Fund Institute (1987) had previously argued for the centrality of innovation in the impending community care reforms to be stimulated by the Griffiths Report. In a

similar vein, Smale & Tuson (1990) at the National Institute of Social Work argued for innovation to be 'innovation' to be elevated to the status of a method of social work intervention. Innovation, they argued, should become 'almost synonymous with social work' (p. 158).

A key policy driver at that time was undoubtedly the influential 'New Right' think tank, the Adam Smith Institute epitomised by the work of its Director, Madsen Pirie (1988) and which embraced the model of competitive advantage (Porter 1985). This placed innovation at the heart of the effective workings of the market. Its tents are well summarised by Nelson (1993):

'For-profit business firms in rivalrous competition with each other are the featured actors [in innovation]. Firms innovate in order to gain competitive advantage over their rivals... A firm that successfully innovates can profit handsomely.' (p. 364)

It has been argued convincingly elsewhere that it was this model of competitive advantage that influenced the public policy models of the Conservative government of the early 1990s, predicated upon assumptions that the introduction of market disciplines to public services would lead to both greater economy and efficiency in service delivery (see Wistow *et al.* 1996 for a full discussion of this issue).

As innovation became more ingrained in the public policy agenda of the early 1990s, so did the ascribed role of VCOs in bringing this capacity to the provision of public services. This was embodied both by the then efficiency scrutiny of VCOs by the government (Home Office 1990), that lauded their ability to be 'in the forefront of developing new [public] service approaches' and the pronouncements of both the Labour and Conservative Parties in the run up to the 1992 general election (Labour Party 1990, NCVO 1991). Finally, the VCO sector was itself not slow in heralding its innovative capacity, in its efforts to establish itself as a mainstream public service provider alongside, or instead of, local government (for example Burridge 1990).

This macro-level public policy context influenced profoundly the structure of government funding of VCOs in the early 1990s. Thus the then Department of Health placed innovation firmly at the heart of its funding rules for VCOs. An example of this was funding of these groups under Section 64 of the *Health Services and Public Health Act 1968*. The first page of the application form for these grants in the early 1990s emphasized that for a project to be considered for a grant it 'must be innovatory'. A point emphasized further in the Guidance Notes accompanying these forms. Similar conditions were also found in the *Inner City Partnership Scheme* of the Department of the Environment. Finally the Department of Health, again, adopted the 'outcome funding' model of the Rensselaerville Institute (Williams & Webb 1992) as a means through which to

stimulate innovation in relation to the *Drugs and Specific Alcohol Grants 1994-1995* – and engaged the self-styled ‘Innovation Group’ to administer this scheme.

The 1994 study found this national public policy emphasis upon innovation as key funding parameter of VCOs active at the local level also. All three local authorities in the case study sites had strategic plans on their relationship with the VCO sector and all emphasized the importance of their innovative capacity. The Bellebury document asserted that they had a ‘capacity to innovate, experiment and test new ideas’ and explicitly related funding such organizations to their ability to innovate in public services delivery, whilst the Midwell document identified innovation as one of four key funding priorities in relation to the VCO sector. (Osborne 1998a, p. 150).

Importantly, as well as being a policy imperative, innovation was also seen as a useful tool through which to allocate scarce resources. One central government policy officer in 1994 explained that they did not use a strict definition of innovation but rather used a loose one that ‘allowed [us] to support and help [VCOs] to do things that we would like them to do’ – a position echoed at the time by the Research Director of one of the large charitable Foundations that funded VCO activity. This approach to innovative as an allocative mechanism invariably drew an angry response from VCO workers, as epitomised by this VCO field worker quoted in the 1994 study:

‘Things have to be innovative for the [funding body], whether they are needed or not. It’s just dressing things up as innovative to get money. What we want is an appropriate response to an appropriate problem... but we have to dress it up as innovative for them. The process is tortuous.’
(quoted in Osborne 1998a, p. 151)

Finally, as at the national level, VCOs were not slow to ascribe to themselves this innovative capacity, if they thought that it could assist in gaining governmental funding. For example, a leading VCO intermediary body in Southshire in 1994 prefaced its contribution to the Community Plan of the local authority by emphasizing the ‘adaptive and innovative’ character of VCOs in that area.

The early 1990s thus presented a set of inter-locking factors that all privileged the ascribed innovative capacity of VCOs as a core expectation when they sought governmental funding:

- a government influenced by the market approach to the provision of public services and the centrality of competition and of innovation to this,
- subsequently, government public policy that required innovation as a pre-condition of governmental funding of VCOs,
- practice at a local level that both reflected these national priorities and that used innovation as a useful tool by which to allocate scarce public resources, and

- both local and national VCOs actively encouraging the perception of themselves as innovative in order to attract governmental funding and to assert their hegemony over local government as the 'provider of first choice' for public services.

The net result of these factors, it is argued, was *both* to encourage VCOs to engage in innovative activity rather than to provide and/or develop their traditional 'specialist' services *and* to portray their services as innovative, irrespective of their true nature, in order to gain governmental funding within the prevailing rules of the game at the time.

The policy framework in 2006. Analysis of the core policy documents from the contemporary period and the stakeholder interviews from the three cross-sectional case study sites has revealed three significant changes in the place of innovation in public policy and the role that VCOs can play in it. These are:

- a reformulation of innovation not as discontinuity but as 'continual improvement',
- a re-evaluation of the role of the VCO sector in innovation in public services, and
- a changing orientation towards innovation at the local level, in terms of the operation of funding regimes for public services.

{i} *The reformulation of 'innovation'*. At the outset it is vital to emphasize that innovation has not disappeared from the public policy environment. This is far from the truth. Innovation has been at the core of the 'modernizing government' agenda of the current Labour government, since the publication of the *Modernizing Government White Paper* in 1999 (Cabinet Office 1999). At the time, the Public Audit Forum emphasized that this White Paper 'encourages public bodies to adopt innovative and flexible approaches to [public] service delivery' (Public Audit Forum 1999). Subsequently national government initiatives such as the *Invest to Save Budget* have been predicated upon the need 'to promote successful innovation and to deliver better public services.' (House of Commons Committee of Public Accounts 2003, p.2) whilst the National Endowment for Science, Technology and the Arts (NESTA) has emphasized the links between innovation in public services, public procurement policy and the efficient and effective provision of public services (NESTA 2007).

What has occurred however has been a reformulation of the nature of innovation. As noted, in 1994 that understanding of innovation was rooted in Porter's model of competitive advantage and it emphasized the view of innovation as 'creative destruction' by which existing service paradigms were transformed by discontinuous organizational change. This approach is at the heart of the innovation studies literature and is encapsulated in the definition and classification of innovation used in this study and presented above.

Significantly, the view of innovation employed within the current policy framework is profoundly different – and indeed somewhat at odds with the academic advisors to the government who have continued to emphasize the transformational nature of innovation (for example, Hartley 2006). Situating its discourse within the organization behaviour discourse, rather than the market economics discourse, the *Modernising Government* White Paper (Cabinet Office 1999) portrays innovation as part of the creating of a culture of organizational learning by public service organizations – and the creation of ‘learning organizations’ (Argyris & Schon 1978, Senge 1990). It situates innovation as the process of the ‘continuous improvement in central government policy making and service delivery’ (para. 4.9, our emphasis). Such an approach is central of a range of policy documents since the publication of the 1999 White Paper (such as National Audit Office 2005, Prime Minister’s Strategy Unit 2006, Museum Libraries Archives Partnership 2007), as well as to the Best Value performance regime for local authorities (for example ODPM 2003). The reformulation is best captured though in the text of a speech by the British Prime Minister, Tony Blair, in 2004. This criticised the ‘failed neo-conservative experiment’ that relied upon markets and competition to drive forward public services and offered an alternative vision:

‘Public services have a crucial role to play in our society... [I]t is only by truly transferring power to the public through choice, through personalising services, through enhanced accountability, that we can create the drivers for continuous improvement in all our services... [O]ur strategy for continuous improvement [in public services] through giving power to people involves greater choice, greater voice and more personalised services.’ (Tony Blair 2004, our emphases)

{ii} *Re-evaluating the role of VCOs in innovation in public services.* Alongside this re-conceptualisation of the nature of innovation in public services there has also been a re-evaluation of the role that VCOs can play in it. The early part of this paper noted the reification of the innovative capacity of VCOs in public policy from the turn of the twentieth century up to the mid 1990s. Current government policy, whilst not dismissing this, is rather more circumspect. The influential *Cross Cutting Review* of the role of the sector in delivering public services (H M Treasury 2002) noted that, whilst ‘at best’ VCOs could be ‘flexible and innovative’ the extent of this was ‘difficult to test and ... the empirical evidence was inconsistent.’

In subsequent policy documents, both the VCO and public sectors are posed as equally innovative, though with problems of sustainability (Office of the Third Sector 2006, para. 93). Crucially the innovative capacity of VCOs is

argued not as something intrinsic to the sector but rather as a capacity that can only be activated in partnership with government:

‘The third sector’s potential to improve public services and help deliver better value for money can only be fully realised if there is joint working with local authorities... to help the sector build its capacity to play a more effective role.’ (H M Treasury/Cabinet Office 2006)

From being the pre-eminent source of innovation in public services, the VCO sector has thus become a conditional one – and then only under the hegemony of the government.

{iii} The changing orientation towards funding VCOs at the local level. An important starting point for understanding the institutional framework for the innovative work of VCOs at the local level is the observed gap between the policy level and actually existing management practice in the delivery of public services. Mulgan & Aubrey (2003), reviewing contemporary practice in the UK have already observed this gap and concluded that in reality innovative is invariably ‘an optional extra or an added burden’ for public sector organizations, rather than a core activity.

This observation is verified when the commissioning guidance for these organizations in relation to VCOs is examined. A key document here is the

guidance issued by the Office of the Third Sector (2006). As noted above, this fifty seven page document does contain two pages exhorting the importance of innovation by VCOs. Its recommendations, however, are precisely the sort of 'add ons' noted by Mulgan & Aubrey – an 'Innovation Exchange' and an 'Innovation Team' within the Office of the Third Sector, for example, rather than mainstream service requirements. When one reviews its detailed guidance on commissioning and procurement, covering thirteen pages, there is no mention of how to optimise the innovative activity of VCOs by these processes.

If the reality of government practice in relation to the innovative capacity of VCOs does not seem to match up to the public policy framework, this becomes even more problematic at the local level. Here, the spending targets and assessments of local government dominate – and no where is innovative activity recognised in these. This was made quite explicit by both the local authority and the VCO staff in the cross sectional case studies:

'Everything is funding-led of course. It is impossible to make a strategic decision to take a certain direction, like to be innovative and then look for money. You have to follow the money. It's all targets. And innovation is not one of them.' (CVS organiser in Southshire)

'The role [of VCOs] has changed. I'd have given you a different answer in the nineties. Now the ability of the statutory bodies in the Partnership to

fund innovation is reduced dramatically. This is because of changes in government policy and funding streams. We no longer fund the sector to innovate. And we are very unhappy mainstreaming innovations as well. We just don't have the capacity to do this. So we say "why both funding a pilot scheme if we can't afford to mainstream it?" the capacity has gone.' (Local authority representative in Southshire Local Strategic Partnership)

'Local Area Agreements? A good idea gone wrong. They are too top down and lacked reality at the sharp end. It's all set by above to targets from above. Innovation doesn't figure, I don't think.' (District Authority Service manager in Southshire)

'We do need the voluntary sector to innovate. Local government doesn't have the capacity. We are driven by statutory duties. But now so is the voluntary sector through our commissioning. We need to re-create freedom to fail. We've lost it. Risk management and minimisation dominates our commissioning – and this destroys the freedom to fail and the capacity to innovate.' (Local Authority member of Siliton Local Strategic Partnership)

'When I first came into the [voluntary] sector it was all innovation. You couldn't get money for anything else. Now the irony is its all changed. Local government doesn't want innovation anymore. You can develop a

service, yes. Especially if it helps you to meet a target. But innovation? Not a chance – too risky and it doesn't feature on the targets radar. Maybe it will come around again – who knows?' (Manager of VCO in Siliton)

'The strength of voluntary organizations is that they do things differently. They innovate. But our contract specifications don't encourage or reward this. It's lost. It is funding driven. We can only buy services now that fit our specifications and targets – and innovation is not one of these.' (Midwell Social Services Department Service Manager)

'Innovation is not a burning issue any more. The key issue for [local government] is the transfer of public services – getting them off their books and onto ours. Its transfer not transformation the government wants!' (Manager of local VCO in Midwell)

Conclusions

Using data from two research studies in 1994 and 2006, this paper has demonstrated a reduction in the innovative activity of VCOs in England and a concomitant increase in the developmental activity of these organizations over this time period. Far from being a 'constant' in terms of the role of VCOs in delivering public services it has been revealed as a variable. The paper has further examined the potential contingencies that might explain this change. Little has been found in the way of organizational change to explain it but a significant

change in the institutional context has been found. In 1994 this context privileged innovative activity above other types of activity. This led VCOs both to focus more of their activity on innovative work and to portray their other work as innovative, irrespective of its true nature, in order to gain governmental funding.

In 2006, this context has shifted to favour the development and provision of specialist services that enable local authorities to meet their own performance targets from central government. Underlying this shift in context and activity have been three elements: a re-conceptualization of innovation in public services as 'continuous improvement' rather than transformation; a change in perception of the innovative capacity of VCOs to emphasize the importance of the leadership of, and partnership with, government in producing innovations in public services; and a re-orientation of government performance targets for local public services that emphasize specialisation rather than innovation.

Ironically then, it may well be that the public policy context for innovation has produced a strange inversion. In 1994, it encouraged developmental VCOs to portray their work as innovative, as this was the main public policy driver behind government funding of the sector. In 2006, it may well be encouraging innovative VCOs to portray their work as developmental. This is not so much because innovative has disappeared from the policy agenda. Far from it. Rather it has been redefined as 'continuous improvement' – and which we would argue here is in fact organizational development rather than innovative transformation.

In conclusion, at the theoretical level, this paper emphasizes the need to understand the innovative capacity of VCOs as a variable organizational capacity, with its key contingencies in the institutional environment rather than an inherent element of these organizations 'per se'. This is a significant shift in our understanding of the contribution of VCOs to public services provision.

At a service level, this has implications for policy makers and VCO managers alike – in the UK and elsewhere. First, public policy makers and managers need to understand and take seriously the impact that their policy decisions have upon the structure and activity of VCOs. These organizations are not in a 'steady state', with inherent capabilities to bring to public services provision. Public policy makes as much difference to the activities of these organizations as it does to public sector ones.

Second, for VCOs managers, it is important to emphasize that *appropriate innovation* is an important activity for VCOs to undertake. *Funding driven innovation*, though, risks skewing the vital role that they can play in the provision of public services – and undermines the, at least, equally important contributions that they can make both by providing specialist services and by the incremental improvement of such services. VCO managers thus have to achieve a difficult balance. On the one hand, they need to be sensitive to the aspirations and requirements of public policy and assess what, if any, contribution they can make to this (and its impact upon them if they are so dependent upon such funding for

survival). On the other hand they need to be clear about their distinctive contribution to public services, if they have one, and whether this involves innovative, developmental or specialist services.

Finally, this paper serves as a warning to VCO managers and staff not to attach too great a significance to the sectoral rhetoric of innovative capacity. In the past it was too easy a rhetoric to adopt in order to establish hegemony over public sector organizations. Yet such rhetoric both is prone to obsolescence and is liable to undermine other equally important capacities that VCOs may possess – such as specialist expertise. The research upon which this paper is based serves as a warning against such easy sophistry.

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Annex I – Survey analysis tables

Table I – the innovative activity of VCOs

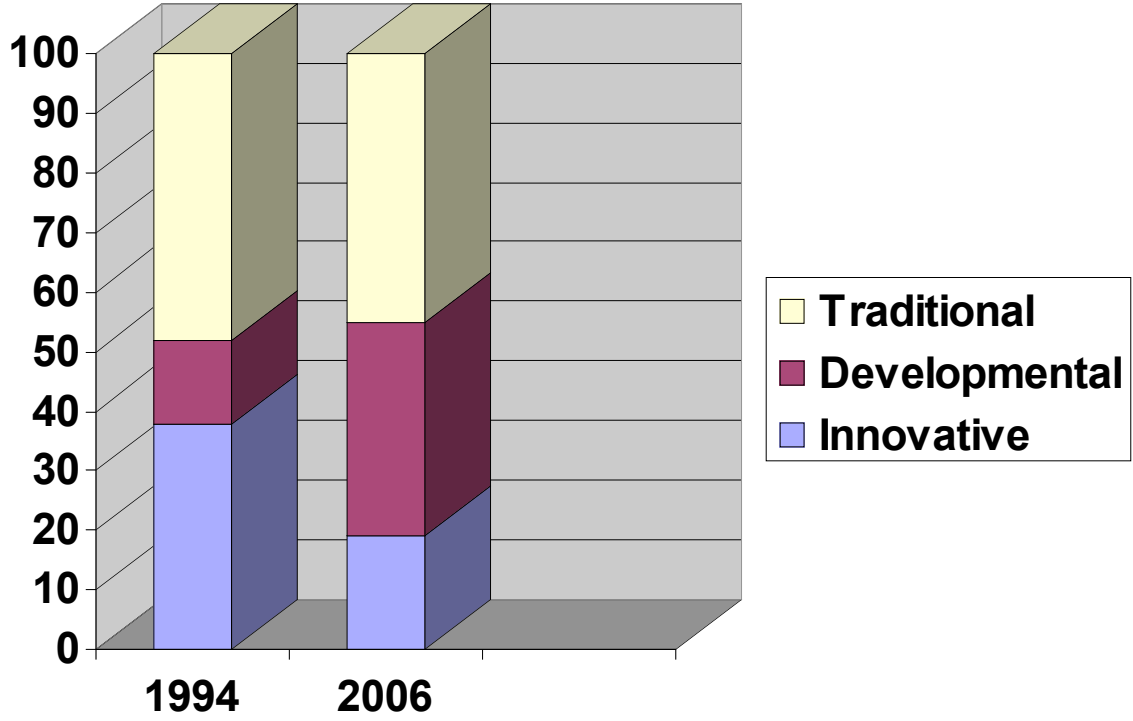
Type of activity	Locality				
	<i>Bellebury</i>	<i>Silton</i>	<i>Midwell</i>	<i>Southshire</i>	<i>Overall</i>
<i>Innovative 1994</i>	43.1	N/A	35.0	36.5	37.9
<i>Innovative 2006</i>	N/A	18.8	24.2	18.8	19.1
<i>Developmental 1994</i>	13.8	N/A	19.0	9.5	13.9
<i>Developmental 2006</i>	N/A	33.3	30.3	44.1	35.7
<i>Traditional 1994</i>	43.1	N/A	46.0	54.0	48.2
<i>Traditional 2006</i>	N/A	47.9	45.5	41.2	45.2
TOTAL	100	100	100	100	100

A note on response rates

1994. 376 Organizations surveyed with 196 organizations responding – a response rate of 52.1% (potentially rising to 67.6% allowing for organizational morbidity)

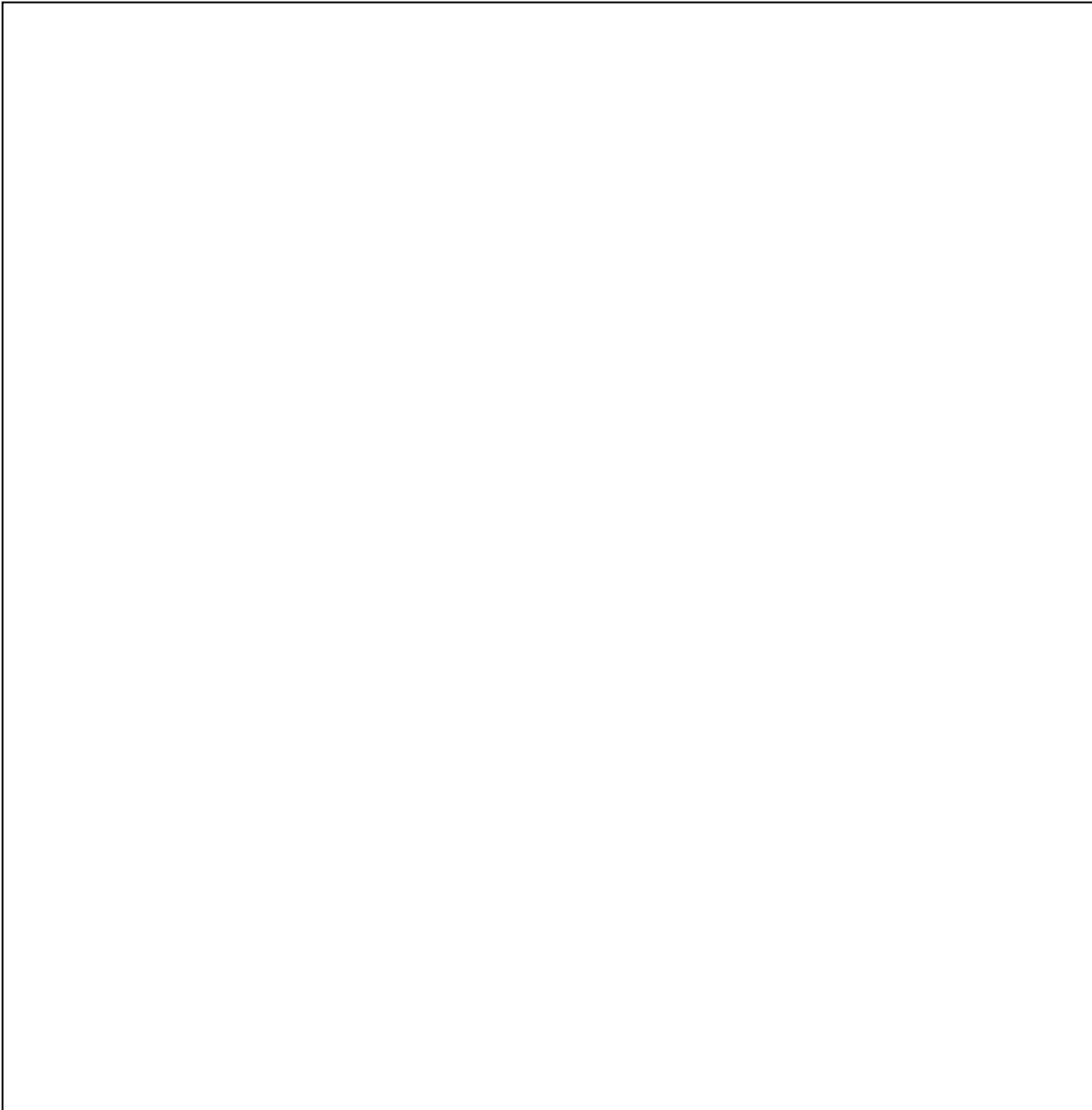
2006. 356 organizations surveyed with 115 responding – a response rate of 32.0% (potentially rising to 42.0% allowing for organizational morbidity)

Figure I – The activity of VCOs in 1994 and 2006 (by %)⁶



⁶ See Table I for the exact percentages.

Figure II Territorial map of functions and variables



Innovation status key

- 1 – Innovative VCOs
- 2 – Developmental VCOs
- 3 – Traditional VCOs