



Governance of Social Innovation

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Introduction

- Governance: restoring order
 - Market, hybrid or hierarchy (3 modes)
- Innovation is widespread change (risky)
 - Process of several social transactions
 - Gather, Vision, Pilot, Mainstream, Renew
 - Necessary adaptation for survival
- Transaction costs are like social friction
- TCE: right governance gives least friction

Governance & Innovation

- Governance restores order when change disturbs rewards of social transactions
 - 3 modes: market, hybrid, hierarchy
- Innovation: vital social process of adaptation through *widespread* change
 - Involves 5 risky, complex, social transactions
 - Gather, Vision, Pilot, Mainstream, Renew
 - Better governance for more innovation

Why not Innovate

- Innovation disrupts our networks and threatens our feelings of security
- Innovation is difficult and often fails
- Innovation almost always has unanticipated consequences
 - Be prepared to care for the injured

Transaction Costs

- “An economic definition of transaction costs is the costs of measuring what is being exchanged and enforcing agreement.” (North, 1997)
 - Includes adapting to changes affecting each party.
- “...in the larger context of societal evolution [transaction costs] are all the costs involved in human interaction over time.” (North, 1997)
- The costs of governance are transaction costs
- Quotes from Dollery & Leong, 1998

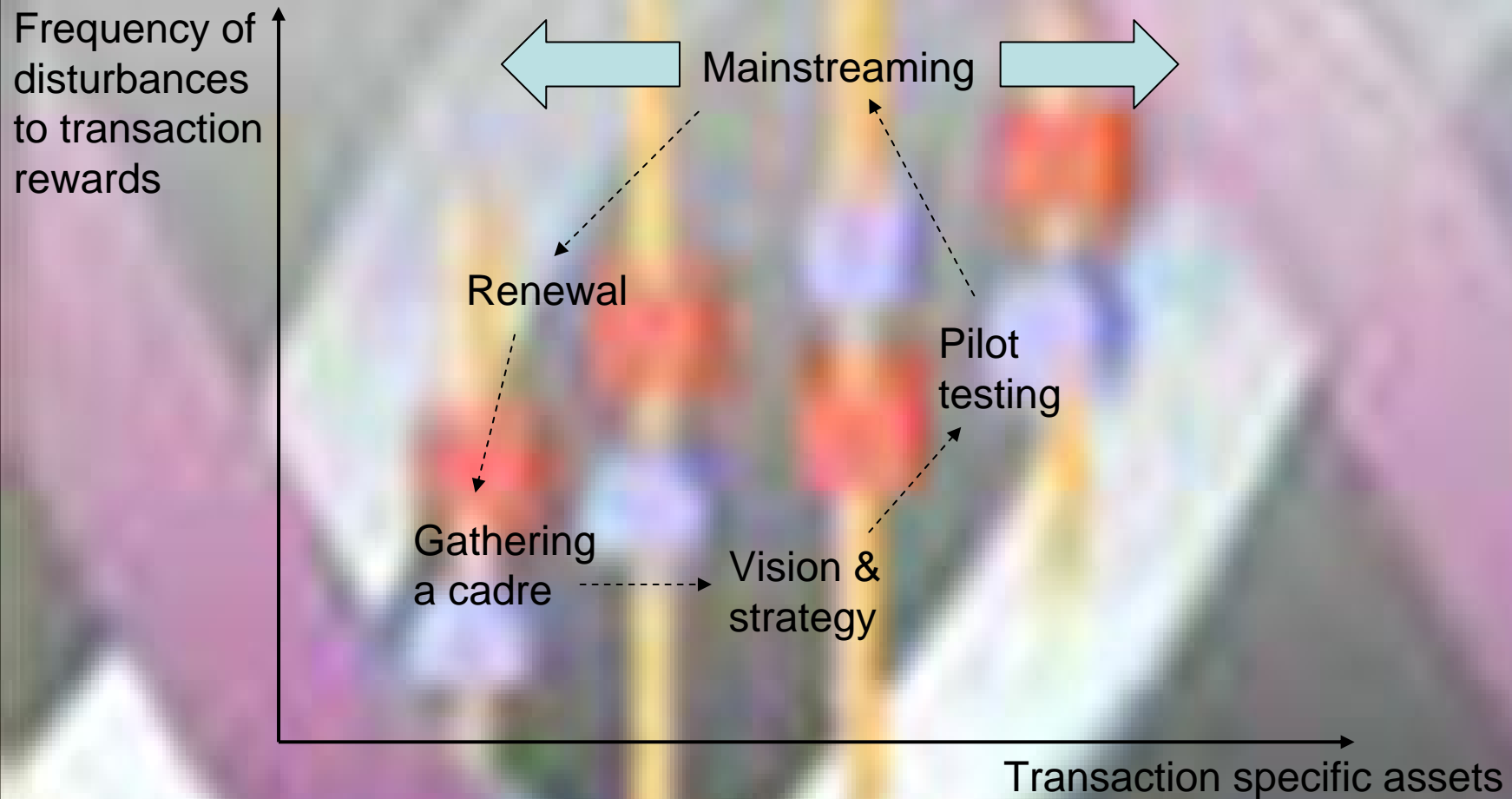
Transaction costs matter

- Transaction costs act like friction
- Restoring order may account for most
- Transaction services were 60% of Australian GDP in 1991 vs 32% in 1911
- Innovation seems *a priori* to be vulnerable to transaction costs

Properties of Transactions

- Specific assets: Specialised assets which lose value if transaction does not continue
 - N.B. Includes social networks
- Uncertainty: Frequency of unanticipated disturbances which alter rewards to the parties
 - the parties need to restore their mutual interests
- Frequency of transaction: Standardisation, set up costs & long production runs

Properties of Innovation Transactions



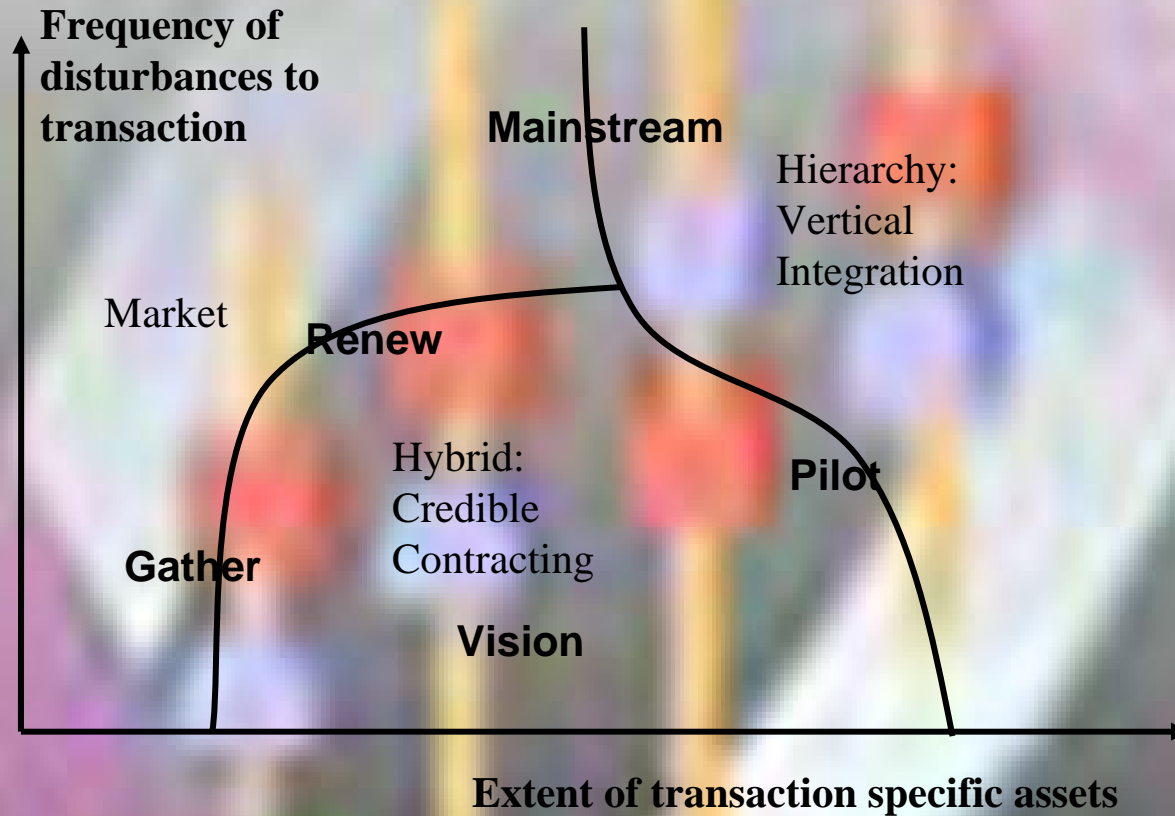
Behavioural Assumption

- Bounded rationality:
 - People who intend to behave in the mutual interest may act out of self interest when the pattern of rewards changes
- Uncertainty and bounded rationality makes all complex contracts incomplete
 - They require a form of governance which adapts to change, manages the risk of opportunism and minimises transaction costs

Modes of Governance: Restoring order to transactions

- **Markets: Adapt autonomously to disturbances**
 - strong incentive, no administrative control, some legal rules
 - rapid, low cost but may strand assets
- **Hybrids: contracts with credible commitments**
 - Adapt by negotiated coordination and market
 - weaker incentive, some administrative control, contract law
 - slow, high cost and may avoid stranding assets
- **Hierarchies, Firms, Bureaus: in-house**
 - Adapt by administrative coordination
 - weak incentives, strong administrative control, few legal rules
 - rapid, high bureaucratic cost but avoids stranding
- **Subject to cultural, institutional conditions**

Economical Governance



Organisation Form, Frequency of Disturbances and Asset Specificity
(After Williamson, 1996)

Innovation & Governance Journeys

Innovation journey

- Building a community of change makers
- Arriving at an agreed vision and strategy
- Piloting novel activities
- Mainstreaming
- Renewal
- (Making innovative places. www.nesta.org.uk)

Governance journey

- Hybrid
- Hybrid
- Hierarchy
- Market
- Hybrid

Issues for the future of innovation

- TCE potential as a diagnostic for change management and innovation processes
 - SA Business Vision 2010 example
 - Good gather, vision, pilot
 - Could do better mainstream and renewal
 - Measures of specific assets and uncertainty
- Social capital hinders innovation (Florida)
 - Care for the injured
- Innovate faster and better

Perspectives

- If everything is under control you are just not driving fast enough!
(Stirling Moss)



- Your system is perfectly designed to consistently produce the results you get!
(W Edwards Deming)



Thank You