Chapter 3
Public Organizations and Business Model Innovation:
The Role of Public Service Design

Mateusz Lewandowski
Jagiellonian University in Kraków, Poland

ABSTRACT

Improvement of public services and raising the citizens' quality of life is one of the biggest concerns of public sector. Changing the way public organizations operate could support such an improvement. In this regard, business model framework is an emerging field of research that could shed some new light. Yet, in case of public organizations, business model innovation remains heavily underexplored. The purpose of this chapter is threefold, to indicate and discuss the opportunities of adapting the business model innovation theory to public organizations, to conceptualize its theoretical framework, and to explore the role of public service design in the process of innovating public sector business models.

INTRODUCTION

Governments, authorities and all other public sector organizations pursue the ideas how to improve public services and raise the citizens quality of life. In this regard the researchers and practitioner of public management recognized innovation as significant driver to improve performance of delivering public services (Hollanders et al., 2013; Hughes, Moore, & Kataria, 2011; Innobarometer 2010 Analytical Report Innovation in Public Administration, 2011). Although, there are various types of innovation in the public sector (de Lancer Julnes, 2016; Lewandowski, 2015), one of the most recent research area is innovation pertaining to the business model (Zott, Amit, & Massa, 2011a). Yet, it remains underexplored not only in the business sector organizations, (Zott et al., 2011a), but, as Julnes, Gibson, and Park (2016) implicitly predict, also in the public organizations. Thus, there is a need to investigate business model innovation in the public sector.

The main aims of the chapter are: (1) to indicate and discuss the opportunities of adapting the business model innovation theory to public organizations, (2) to conceptualize the theoretical framework of

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business model innovation for public organizations, and (3) the role of public service design in this the process of innovating public sector business models.

The chapter is structured as follows. The background section outlines the specificity of business model innovation as a research field located on the overlapping area of its two baseline theories: innovation theory, and business model theory. Then, according to the same scheme, the third section investigates the construct of public sector innovation, and public sector business model. Its main output – the General Framework of Public Sector Business Models - is then used to conceptualize how public sector business models may be innovated. The final point is made in the fourth section, where Public Service Design is presented through the lens of public sector business model as an important strategy to increase citizens quality of life. In the end conclusions summarize the main findings.

BACKGROUND

Innovation

Innovation has been deeply explored over the last couple of decades in several different fields of research, such as business and management, economics, organization studies, innovation and entrepreneurship, technology, science and engineering, knowledge management and marketing (Baregheh, Rowley, & Sambrook, 2009; Cooper, 1998). Despite the variety of research disciplines, the classic Schumpeterian definition of innovation says that it is an introduction of a new production method, product or its quality, the opening up of a new market or a new source for raw materials or semi-manufactures, or the creation of a new organizational structure in industry (Schumpeter, 1934, p. 66). According to Damanpour (1996) innovations encompass new products or services, new process technology, new organization structure or administrative systems, or new plans or programs pertaining to organization members. In turn, in the Oslo Manual (OECD/Eurostat, 2005) innovation is conceived as "the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations" (p.46). Those recognized definitions only implicitly refer to the components of a business model framework, but not acknowledge business model innovation as such. Even more recent and comprehensive approaches not always do that (Baregheh et al., 2009; Cooper, 1998).

Cooper (1998) claims that every innovation is defined at the same time by three dichotomous dimensions, encompassing product versus process, radical versus incremental, and technological versus administrative. Baregheh et al. (2009) examined 60 definitions from aforementioned fields, and synthesized the six attributes of the innovation process:

1. Stages of innovation: creation, generation, implementation, development, adoption;
2. Social context: organizations, firms, customers, social systems, employees, developers;
3. Means of innovation: technology, ideas, inventions, creativity, market;
4. Nature of innovation: New, improve, change;
5. Type of innovation: Product, service, process, technical;
6. Aim of innovation: succeed, differentiate, compete.