14. Business model innovation and the financial dimension of strategy in the public sector

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INTRODUCTION

The view of strategic leadership in public organisations is entering a next generation. In the classic publications, the question was asked how strategies are developed and implemented in public organisations. In doing so, the literature generally used the planning approach of strategy work, which largely separates development from subsequent implementation (Bryson, 1995). In particular, however, the strategic view encompasses more the content dimension of the strategy, and this with a focus on the administrative organisation under consideration. The financial dimension was usually dealt with under the heading of "budgeting" and was thus not very much included in the strategy.

A more open approach to strategic public management is to look at collaborative arrangements for delivering public value. The literature is full of studies on collaborative governance embracing public and private actors that aim to create public value (Klijn, 2002; Torfing, Andersen, Greve, & Klausen, 2020). However, they are often based on the political science approach of governance networks and less on managerial, strategic thinking. In the latter, developments can be observed in practice that focus on the analysis and innovation of business models (Mogyorósy, n.d.). At the centre of these considerations are questions of the design of value chains, the design of customer-centred services or innovative financing models that go far beyond the classic financing with tax money. The question arises: How must collaborative arrangements between the state and the private sector be designed so that value creation systems emerge that exist sustainably and develop themselves further, while at the same time generating a high public value?

This chapter explores this question by understanding innovative business and financing models as strategic options chosen by the state to achieve public value as effectively as possible. The focus is primarily on the financial dimension, and related to this, the opportunities and risks that arise for the different partners. I will argue that a strategically acting public organisation must not only understand its own business model, but also the business models of all actors involved. Only then will it be possible to develop a value creation system that provides sustainable benefits to all stakeholders. Using selected examples of innovative financing models, I will show that such arrangements can be successfully constructed, but that they also have their own pitfalls and vagaries.

THE CHANGE IN FINANCIAL PERSPECTIVE

Financial management in the state – as accounting and budgeting – is often treated quite technically. Accounting in particular is primarily intended to document how public funds are used by the administration and how the financial situation in a public budget is presented (Broadbent & Laughlin, 2003). The budget, on the other hand, also has a highly political function: it reflects political priorities, serves as a political steering instrument and as the basis for the administration's accountability to politicians, as well as politicians' accountability to the population (Rubin, 2006). As an instrument of strategic management, the budget in its traditional form was hardly considered at all, as it was too short-term with its one-year horizon and, as a line-itemised budget, contained too many operational details. Interestingly, this contrasts with early approaches to a more strategic perspective on the budget, such as those developed in the USA in the Department of Defense under Robert McNamara, which tried to combine systems analysis with budget analysis: The Planning, Programming, and Budgeting System (Barzelay & Campbell, 2003) – which, however, did not spread much from there and thus remained an isolated application for years.

The New Public Management (NPM) significantly strengthened the management perspective in many public organisations, which also affected the financial dimension of strategic management. This became visible in performance-based budgets that were introduced on a broad scale (Melkers & Willoughby, 1998). In the new management instruments, performance and finances were presented together (OECD, 2007), in so-called "bulk budgets" (or: one-line budgets) the scope for management was expanded (Boston, Pallot, & Martin, 1996), and finally the medium-term optic typical of a strategy was strengthened (Boyne & Gould-Williams, 2003). Instead of a linear extension of the annual budget, a planning approach was adopted that first considered the desired or foreseeable development on the task side and derived the financial consequences from this. In an iterative process, finances and services were then to be brought into line. In Switzerland, the term "task and financial planning" was coined for this (Schedler & Proeller, 2010), Barzelay and Campbell (2003: 215) speak of "medium-term policy and expenditure planning". All this shows that the public organisation has undertaken for itself a strengthening of the strategic perspective in financial management. However, these instruments still refer to the classical financing forms of taxes, fees and other charges with which administrative organisation is built up and financed.

A next development step is the opening of financing in the direction of involving private entrepreneurs, initially within the framework of public–private partnerships (PPP) for public infrastructure. PPPs were developed as a tool to have public infrastructure financed by private investors. Hodge and Greve (2019) emphasise that infrastructure PPPs should be analysed with a number of fundamental concepts in mind, such as risk, innovation, long-termism and power-sharing. First, it is about an explicit distribution of tasks and risks to those actors who are best able to deal with the respective risks. Furthermore, PPPs are supposed to make innovative solutions possible that cannot be achieved by the state alone or by purely private performance. The duration of cooperation and its construction within the framework of PPPs is geared to the life cycle of an infrastructure, that is, to a significantly longer period than, for example, a contracting-out would do. And finally, decision-making powers and mutual dependencies are newly regulated, which distributes power among the actors in a different way than would be the case in a classic client–contractor relationship. For the financial dimension of the strategy, this has the consequence that not only the political approval of a long-term budget for the infrastructure must be guaranteed, but that a financing model must be found that works with incentives and risks – and this in relation to an entire life cycle.

Forms of cooperation between public and private actors are not limited to pure infrastructure projects. Organisationally, they can go as far as joint ventures (Andrews, Esteve, & Ysa, 2015); thematically, they are even important in foreign aid as "public-private partnerships for development" (Lee, 2006). The literature is currently dominated by discussions of new forms of collaborative governance, new governance or hybrid governance, most of which analyse the nature of the interaction between various actors from the private and public sectors with an emphasis on political science aspects (Hodge & Greve, 2019; Koppenjan, Karré, & Termeer, 2019).

In the strategy literature of the private sector, one aspect has been singled out in recent years from a whole range of innovations that increasingly seems to be becoming a next development step for the creation of public value: business model innovation. Companies are constantly developing innovative technologies and commercialising them through business models, which, in turn, are often left unchanged. However, for a company's strategy to be successful, it may be more rewarding to innovate the business model than to invest even more in new technologies (Chesbrough, 2010). For this reason, the ability to innovate the business model is vital in a business context. Public management scholars may observe this development and think about analogies that are relevant for the public sector. In order to strengthen the innovativeness of public organizations, the approach of business model innovation can be considered as an idea that could travel from the business to the public domain, with necessary adaptation (Sahlin & Wedlin, 2008). In the following, I will describe how the basic idea of business model innovation has been transferred to public organisations, what role the financial dimension in particular plays, and where we find potential for further application.

BUSINESS MODELS IN THE PUBLIC SECTOR

Where the term "business models" is used in the government context, it has obviously been borrowed from the private sector, as it implies that a business with profit potential is associated with a public service. In the context of the NPM debate, it was also occasionally used to denounce the then new way of organising public organisations similar to businesses (James, 2001). In the meantime, these rather fundamental hurdles seem to have largely fallen; the term is used analytically as a metaphor for complex value creation systems that follow an innovative financing model. In the traditional "public administration" and "public management" journals, the term is hardly used, which suggests that it has not yet established itself there: as of 1 August 2021, a search in the Web of Science for the search term "business model*" yields zero hits in *Public Administration*; *Public Administration Review*; *Public Administration and Development*; *Public Policy and Administration*; *Public Policy*; *International Public Management Journal*; *International Review of Administrative Sciences*, and only one hit in *Public Management Review* (Timeus, Vinaixa, & Pardo-Bosch, 2020). In contrast, there are several papers in field-related journals such as *Government Information Quarterly* (Magalhaes & Roseira, 2020; Ranerup, Henriksen, & Hedman, 2016; Zhang, Zhao, & He, 2020) or even *Research Policy* (Agarwal, Mittal, Patterson, & Giorcelli, 2021).

Business models provide a systemic view of how organisations or networks create value for themselves and others (Amit & Zott, 2021). They divide complex organisational arrangements of creating individual products or services into different perspectives that illuminate both the demand and supply side of a product or service (Agarwal et al., 2021). Two themes dominate the different business models: firstly, the focus on customer value, and secondly, a statement of the fundamental logic of value creation (Janssen, Kuk, & Wagenaar, 2008).

Gassmann et al. (2014) have shown that business models can be typified: for the private sector, they identified 55 different types to which almost all models found in practice can be assigned. Nespresso, for example, uses the same business model as the manufacturers of printers: the basic device (investment by the consumer) is inexpensive, and the capsules or cartridges (consumption) deliver a high margin. In their analysis, the authors distinguish four key elements of a business model in the private sector: first, who are the target customers?; second, what is the value proposition? ("What do we offer customers?"); third, how is the value chain designed? ("How do we produce the service?"); fourth, what is the revenue mechanic? ("How is the financial value achieved?").

Even today, the public sector is by no means as monotonous in terms of business models as it might appear at first glance. Various of these 55 business models can also be found in the public sector (Table 14.1), even if they were not always originally developed as strategic innovations. For example, the "flat rate" model is used in Switzerland for the annual general season ticket for public transport; the "auction" model comes into play when attractive car licence plates are auctioned off by the state; the "add-on" model is an analogy to the fees that private individuals have to pay for the commercial use of urban land owned by the city.

Business models are generally seen as a suitable vehicle for making the state's service delivery or impact generation more innovative. "In the public sector, there is no competition to serve the citizens or the requirement to generate profits. However,

Table 14.1 *Examples of private business models that also exist in the state context*

Business models according to Gassmann et al. (2014)	*Examples of applications in the state*
Add-on; separate billing of extra services that come along with a core product	Fees for private use of a public infrastructure, e.g. if a restaurant uses municipal land to run an outdoor part or a beer garden The core product would be the licence, the add-on the outdoor allowance
Auction; sale in the competitive process	(Not only) in Malaysia, governments offer public tenders for attractive number plates for cars[a]
Cross-selling; selling product A while promoting product B	A city promotes a ban on oil heating and combines it with offers for sustainable energy provided by the city administration
Experience selling; emotionalisation of products	"Züri Wasser" – in the city of Zurich, drinking water is bottled commercially in the same quality as it comes out of the tap. This leads to the awareness of high quality water provided by the city administration
Flat rate; unlimited consumption at a fixed price	In several countries, annual public transport season ticket for trains, buses, and vessels can be bought with a flat rate

Note: [a] https://www.carsome.my/news/item/car-plate-number (accessed 28 September 2021).

the need to improve public services and foster new ideas and collaborations is particularly relevant" (Panagiotopoulos, Al-Debei, Fitzgerald, & Elliman, 2012: 193).

Business models take on strategic importance in the public sector when they are considered as the subject of innovation. The concept of business model innovation is mainly discussed in connection with the digitalisation of public administration (Janssen et al., 2008) and the design of smart cities (Timeus et al., 2020). The focus here is on the role of the state in complex value creation systems that unite a large number of different actors. More recently, business model innovations based on digital platforms have been discussed (Ranerup et al., 2016): data platforms, service platforms, but also platforms for mediating services that create public value. In the context of e-government, Janssen et al. (2008) mention three different roles of the state in different platform models, the content provider, full service provider, or infrastructure service provider. As a *content provider*, the state makes its information statically available, which in turn is used by other actors to develop services for citizens. Value is created and financed through the commercial use of the information. As a *full service provider*, the state itself makes its services comprehensively available, and financing comes from taxpayers' money. The value creation therefore remains solely with the state. As an *infrastructure service provider*, the state provides infrastructure so that other actors can offer their services through the use of this infrastructure. Platforms are not primarily a technical challenge, but they must be set up skilfully. Cordella and Paletti (2019) find for Italy that platform models in the government context can generate high public value if they are well orchestrated. If the state lacks this capacity, they can also have counterproductive effects. Platform models (with their challenges) are, of course, only partly new – the state, for example, has long been active as an infrastructure service provider when competitive models are applied in network industries, and has learned to tame the resulting market forces (Finger, 2022).

Practitioners usually appreciate tools that reduce complexity. Thus, visualising charts are often used to summarise the respective business model of a product or service on one page and to think about innovations. Osterwalder and Pigneur (2010) call this a business model canvas. The approach has subsequently been taken up and further developed for public organisation types, such as smart cities (Timeus et al., 2020). This type of visualisation can be a valuable tool in the process of strategising a public organisation (i.e. when it comes to strategically repositioning the value creation of a service). Based on this literature, it is possible to identify the core elements that need to be considered when analysing, developing and innovating business models in the public sector (Figure 14.1). These are:

Public value and impact. In the terminology of the business model literature, the term "value proposition" dominates in the sense of the benefit that a product or service should provide to the customer (Panagiotopoulos et al., 2012). For government value creation, the focus is on public value (i.e. the benefit that the government should generate for the community). In contrast to private-sector models, the effects that are important for the sustainable well-being of a community (i.e. economic, social and ecological dimensions, must also be taken into account) (Timeus et al., 2020). The core questions of the government business model here are: What is the public value being delivered? What impact is defined as the basis for assessing value creation?

Target groups/beneficiaries. Clarifying the target groups is essential so that their needs can be placed in the focus of value creation (Timeus et al., 2020). However, the strategic scope for public organisations is often limited, as the political mandate usually defines the target groups – at least those who are to benefit from the impact. The core question of the government business model here is: Who are the addressees of the services through which public value is to be delivered?

Value creation processes. The type of value creation has a significant influence on the quality of the service: duration of creation, costs, citizen-centredness or involvement of citizens in the delivery of impact depend not least on the architecture of the value creation (Ranerup et al., 2016). The value creation process defines which actors are involved in the value chain with which services. Many business model innovations explicitly define an active role of the users here (i.e. the citizens in the case of the public sector). The core question of the government business model here is: In which value chains and processes is public value delivered?

Risk distribution and accountability. When different actors work together in value systems, the risks and associated responsibilities can be distributed among the actors, as is also the aim of PPPs (Hodge & Greve, 2019). Central in this context is the awareness that each actor pursues its own business model, which should finance it sustainably. Understanding private companies and their respective business logic can be key to the long-term success of the whole (Magalhaes & Roseira, 2020). The key questions of the government business model here are: How are risks distributed among the actors in such a way that they can best bear them based on their specific competencies? Who is responsible for which parts of the value creation system?

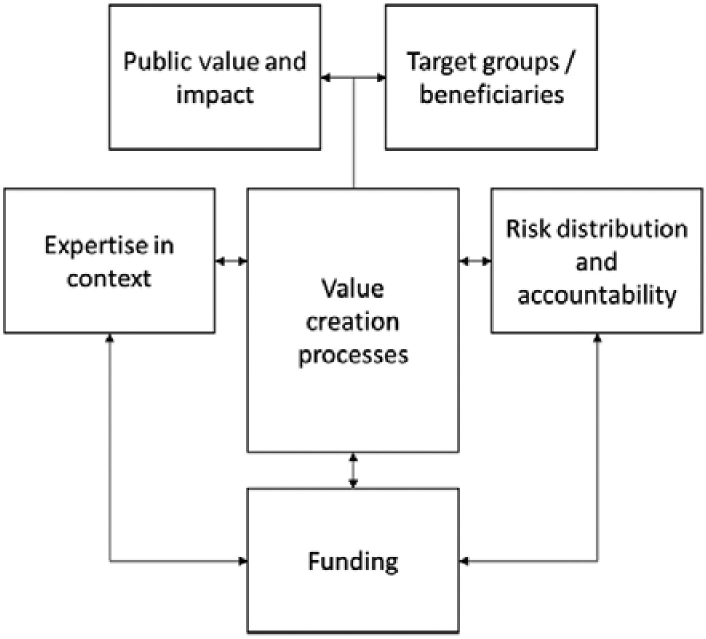

Figure 14.1 *Elements of business model innovation in the state*

Expertise in context. The development and application of business models requires both technical expertise and knowledge of the multiple areas touched by the business model (Panagiotopoulos et al., 2012). Beyond the technical expertise, however, in-depth knowledge of the concrete (local) context in which the value creation system is to operate is also required. At the same time, this distributed agency leads to a need for coordination that can be met, for example, through regulation and orchestration (Axelson, Netz, & Sandstrom, 2017). The core question of the state business model here is: What technical and contextual competences are available among diverse actors to make the value chains work?

Funding. For a value creation system to function sustainably, a funding mechanism must be in place for all actors to contribute to public value creation. Owner costs, pricing methods and revenue structures are part of this element of the business model (Panagiotopoulos et al., 2012; Ranerup et al., 2016). The key questions of the government business model here are: How is sustainable financing of public value delivery ensured? Which actors generate, which receive financial flows in the value system?

ZOOMING IN: INNOVATIVE FINANCING MODELS

The financial dimension of the strategy to develop new business models in the public sector is reflected not least in innovative financing models. They are a central building block of business model innovation in the public sector. Since this chapter focuses primarily on the financial dimension, these innovative financing models are discussed in more detail here in the sense of a "zooming-in".

Innovative financing models usually aim to replace existing state financing with outcome-based alternatives of financing involving private actors (Klasen, 2022). Simple approaches are bonds that are tax-exempt in order to attract investors for specific projects. More complex constructions can be found as project-specific revenue bonds, green bonds or social impact bonds. But also, result-based financing in connection with performance contracts or crowdfunding are among the innovative financing models (Mogyorósy, n.d.).

In the development sector, innovative financing mechanisms have been used for some time to facilitate cost-intensive projects (Gelil, 2018). Sandor et al. describe these models in an OECD publication as

> … to comprise mechanisms of raising funds or stimulating actions in support of international development that go beyond traditional spending approaches by either the official or private sectors, such as:
> - New approaches for pooling private and public revenue streams to scale up or develop activities for the benefit of partner countries;
> - New revenue streams (e.g. a new tax, charge, fee, bond raising, sale proceed or voluntary contribution scheme) earmarked to developmental activities on a multi-year basis;
> - New incentives (financial guarantees, corporate social responsibility or other rewards or recognition) to address market failures or scale up ongoing developmental activities. (Sandor, Scott, & Benn, 2009: 3)

However, the strategic importance of such innovative financing models extends far beyond the policy field of development. They form an essential core of strategic considerations for business model innovation in a city or country. In practice, there are quite a few applications of innovative financing models. Like the business models in Gassmann et al. (2014), they can be categorised into a typology, which I will limit to the most important five types for the time being. Further research should add to the list of basic types of innovative financing models.

1. Financing the Results: Using the Expertise of the Private Sector

Many innovative financing models use the result of an action as a benchmark for financing. In this way, the risk of whether a result can actually be achieved is transferred to the private partner, and the commissioning state benefits from the performance and expertise of the private partner. Financing can take the form of a result-dependent one-off payment or a performance-based contract (Gelil, 2018).

An Energy Performance Contract (EPC) can be mentioned as an example: In an EPC, a city concludes a performance contract with an energy service company that undertakes to achieve a certain reduction in the city's energy consumption through a bundle of measures. The financing of the measures is linked to the achievement of this target, usually graded according to the extent of the reduction (Mogyorósy, n.d.).

This financing model is based on the performance contracts and performance budgets familiar from the NPM, but it is consistently impact-oriented. The structure, on the other hand, is relatively less complex as long as the impact (i.e. the reduction in energy consumption) can be reliably measured.

2. Guarantees: Reducing the Risk of the Lender

The range of applications for guarantees has grown enormously and become diverse in recent times. By assuming a guarantee for a debt, the state assumes part of the default risk that the lender would otherwise have to bear alone. If it took the risk at all, the lender would demand a premium corresponding to the risk level. This could lead to a situation where the fulfiller of a public task cannot financially afford the financing and the task is thus not fulfilled without direct state financing.

The instrument of the guarantee generally only makes sense if it is assumed that private financing can be repaid by the borrower with a calculable probability. If the private financier participates in the risk (e.g. by the guarantee only referring to a part of the loan amount), an incentive is created for the financier to check the lending with his expertise – whereby the specific know-how of the financier can be integrated into the value creation system.

A current example of a guarantee solution is the rapid granting of COVID loans to companies in Switzerland. In order to bridge the emerging liquidity bottlenecks of Swiss companies, COVID loans were granted by Swiss banks to companies in need, guaranteed by the Swiss government. For loans of more than CHF500,000, the banks shared 15 per cent of the credit risk. The cooperation of the banking system with the Confederation led to a very efficient solution: on 20 March 2020, the programme was presented in the amount of CHF20 billion, on 3 April 2020 it was expanded to CHF40 billion due to the great demand, and by the end of July 2020, about 150,000 loan agreements had already been concluded between banks and companies.[1]

Another example is Denmark's Eksportkredit (EKF) for innovative companies. Here, the European Investment Fund and EKF have signed a counter-guarantee agreement to increase lending to innovative small and medium-sized enterprises.[2]

3. Crowdfunding: Involving the Citizens

Crowdfunding models take the momentum created when citizens want to get involved in a specific cause. They create the opportunity for citizens to invest in a project that meets this concern. As a rule, citizens then become not only investors but also users. Depending on the design of the model, they can also obtain an economic return on investment, which, according to a recent study on civic crowdfunding, can increase the willingness of citizens to get involved as financiers of a public task (De Crescenzo, Botella-Carrubi, & Garcia, 2021).

The city of Bern (Switzerland) wanted to promote solar energy. Instead of simply installing solar panels themselves, the city made the roofs of municipal properties available to a non-profit organization (NPO) that developed a business model:

- Citizens buy shares in the NPO and use them to pre-finance the investments;
- The NPO plans, builds and finances the infrastructure;
- The municipal electricity company takes over the electricity into its grid;
- As investors, the participating citizens receive discounted solar electricity for 20 years.

The programme has been so successful that there is now also a "business solution" for companies that want to get involved in promoting solar power.[3]

4. Impact Investing: Activating Big Investors

Impact investments aim to generate a social impact, typically of a social or environmental nature. At the same time, they should enable a financial return for the investor (Gelil, 2018).

The best-known instrument in this category is the Social Impact Bond (SIB). With a SIB, large investors typically invest in projects that are intended to achieve a certain social impact. If this impact is achieved, there is a repayment plus an agreed risk premium. The state guarantees this repayment. The entrepreneur who implements the projects also receives a performance-based payment. An independent auditor carries out the performance review and reports to all parties involved.

This financing model includes the individual business models of the actors into its consideration:

- The state benefits from the guarantee that the impact will actually be achieved – which, in view of countless ineffective projects of traditional financing, is worth the risk premium to it;
- The investor benefits from the reputation of a social impact investment ("corporate social responsibility") or is intrinsically motivated to look for investment opportunities in this area. Furthermore, the risk premium is economically exciting. Last but not least, private investors are likely to keep a special eye on the entrepreneur when they take this risk, which in turn relieves the state in its monitoring task;
- The entrepreneur receives a performance-related remuneration;
- The independent auditor provides his know-how as an expert on site.

An example of an international SIB is the "Humanitarian Impact Bond" launched by the International Committee of the Red Cross for the construction and operation of three rehabilitation centres in Nigeria, Mali and the Democratic Republic of Congo.[4]

Table 14.2 Types of subsidies

Types	*Expressions*	*Examples*
Contributions (*à fonds perdu*)	• Investment contributions • Operating contributions	State subsidises a task
Concessionary loans	• Interest rate subsidy • Contingently repayable loans • Loan with subordination • Overlong runtime	State awards low-cost liquidity to a private party that performs a public task
Revenue foregone	• Waiver of fee/charge/price	State provides infrastructure for free
Loans	• Mezzanine financing	State promotes innovation by granting loans that are only conditionally repayable

Source: Based on Klasen (2020) and Schedler & Bolz (2021).

5. Subsidies: Support with Government Money

Subsidies are in themselves a traditional financing instrument of the state. They are often contributions *à fonds perdu* (i.e. purely financial transactions for a specific task that do not generate any revenue). If state financing is thought of more broadly, it includes other instruments, such as concessionary loans or foregoing revenues that the state could otherwise generate (Table 14.2). In any case, the state provides more or less direct financial support to the provider of a public service.

When analysing or designing more complex innovative financing models, it can be helpful to think in terms of various types. There is rarely a single instrument that can solve all problems. Therefore, the clever modular combination of types of subsidies that are linked to a specific purpose is often the royal road to a functioning business model innovation.

The variations on innovative financing models are countless. What is striking is the networking of competencies that were not required in the traditional models of self-fulfilment by the state: knowhow from public law (e.g. public procurement) is combined with specific technical knowledge of a service provision, with local knowledge of what is culturally feasible, with networks in the capital market and with the knowledge of financing experts. This results in a wide range of possible solutions that increasingly aim to use leverage effects and multipliers to strengthen a public value and to mobilise different actors with specific competences for implementation.

STRATEGIC SKILLS FOR INNOVATIVE BUSINESS AND FINANCING MODELS

Business model innovation is an important pillar of a successful strategy not only in the private sector, but also in the public sector. However, it is associated with some risks, as it entails a change that is sometimes very noticeable. Chesbrough describes it for the private sector as follows: “Business model innovation is vital, yet very difficult … the barriers to change are real. [Model] experiments will fail, but [if] they inform new approaches and understanding, this is to be expected – even encouraged" (Chesbrough, 2010: 362), and there is no reason why the situation should be easier in the public sector with its multiple stakeholders and conflicting interests.

For public organisations, business model innovation means that they must first become familiar with business model thinking. Different rationalities have to be brought together to arrive at an innovative business model that works sustainably. The interplay of disciplines, each with their own specific expertise, is a challenge for the openness of the actors and their ability to communicate with each other beyond their own disciplinary fields. Examples include:

Legal competencies: At least in continental Europe, the first step is to master the requirements of public law, such as public procurement law, the equal treatment of citizens and companies in a country, or the legally prescribed budget processes – and, if necessary, to adapt or create new legal foundations (Schedler & Bolz, 2021).

Political competencies: As before, business models of the state operate in a political environment that functions according to its own rules of the game, depending on the local context. The political conditions must be created so that private sector actors and instruments are activated for the production of public value.

Financial competencies: Many business model innovations use financial instruments that are unfamiliar to the traditional state entity. Investments (with return-on-investment), swaps, fund-of-funds, and other instruments from the capital market are not familiar to the typical politician and civil servant (de Gruyter, Petrie, Black, & Gharghori, 2020). This expertise has to be borrowed from the private sector or newly developed (Klasen, 2022).

Public management competencies: The repertoire of management competencies in the public sector needs to be expanded to include the ability to innovate business models. This may be supported in terms of content with tools such as the City Model Canvas (Timeus et al., 2020), taxonomies for analysing business models in the public sector (Janssen et al., 2008) or a business model evaluation tool (Díaz-Díaz, Muñoz, & Pérez-González, 2017). However, management and organisation of change processes in the state context remain a central challenge, as was already the case with NPM.

As with PPPs, where we now have three decades of experience, the challenge with business model innovation is likely to be good governance and orchestration. Hodge and Greve (2019) show that the expertise of the actors involved in designing a PPP, but also the open collaboration culture, has a significant influence on the success of a PPP. Practical experience in Switzerland with business model innovations confirms this picture; the big challenge here is often to bring the experts, who function very differently, to the table and jointly develop "up-front" arrangements that last (Schedler & Bolz, 2021).

BENEFITS OF THE BUSINESS MODEL APPROACH FOR THE ADMINISTRATION'S STRATEGY

Business models can be applied in both private and public contexts, both analytically and as a design tool. In analysis, they provide a heuristic that helps with their structure to work out the individual elements of a value creation system. At the same time, they offer a holistic, systemic view of value creation that captures the dynamic relationships between the different elements. As a design tool, the approach helps to question and innovate existing business models in the state. In their method of business model innovation, Gassmann et al. (2014) show how organisations can use a design approach to gradually arrive at innovative business models.

Timeus et al. (2020) cite three advantages of the business model approach as a strategic innovation tool: (1) identification of those stakeholders who can be activated in a value creation system; (2) a holistic view of all important elements of a service; (3) inclusion not only of the economic, but also the social and ecological effects of an innovation in service delivery. A similar conclusion is reached by Axelson et al. (2017), who see the strengths of the business model approach primarily in the fact that it shows innovation potential and makes innovation barriers in the public sector transparent. In their study, they find that while there is a demand for innovation, at the same time the incentives for public and private actors in traditional forms of cooperation diverge to such an extent that sustainable cooperation is hardly possible. And although market actors are open to cooperation, the different roles often remain unclear. Finally, Díaz-Díaz et al. (2017) show that thanks to this approach, different business models can be compared in a structured way to identify the one with the better cost-benefit ratio. At the same time, all studies point out that business model thinking is still very new for many administrations and sometimes overwhelms them.

The new funding models are not only seen in a positive light. Critics warn against using them in policy areas that do not have reliable impact measurements, such as criminal justice systems (Fox & Albertson, 2011). They also argue that government funding could crowd out purely private activities, or at least disrupt local competitive processes, if it is not possible to adequately measure the outcomes of the intervention (Klasen, 2022). Finally, a recent study from the United Kingdom shows that it is difficult for public communities to familiarise themselves with the thinking of private investors and – here using the example of a social impact bond – to design the business model in such a way that it is attractive to investors (de Gruyter et al., 2020).

CONCLUSION

Business model innovation is a topic that belongs to the repertoire of research on strategy work in the public sector. It comes from management rather than political thinking, and it needs to be implemented carefully and with consideration for the local political context. The starting point of business model innovation is the question: How could the public value of this service of the state be created differently, in cooperation with private parties? With a view to future developments in the strategies of public organisations, business model innovation cannot be ignored. There is still a need to catch up in this area in the public administration and management community, which can be covered by targeted development of the necessary competencies in practice and by further research in academia.

NOTES

1. See https://www.efd.admin.ch/efd/de/home/covid19-ueberbrueckungshilfe/infos.html (accessed 9 August 2021).
2. See https://www.eif.org/what_we_do/guarantees/news/2016/efsi_innovfin_ekf.htm (accessed 20 August 2021).
3. See https://sunraising.ch/business/ (accessed 10 August 2021).
4. See https://www.icrc.org/en/document/worlds-first-humanitarian-impact-bond-launched-transform-financing-aid-conflict-hit (accessed 4 August 2021).

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