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Disruptive Innovation: A Potential Approach to Transform Public Organisations' Performance in Iraq to Successfully Attract FDI

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Abstract

Infrastructure development is considered a key facilitator for achieving economic growth in developing countries and has a direct impact on the growth and overall development of an economy. However, meeting the significant infrastructure investment needs will require greater involvement of Foreign Direct Investment (FDI) in the forms of transactional companies (TNCs) and multinational companies (MNCs).

There are however a number of factors (external and internal) that affect the flow of FDI to developing countries. External factors include political, social and economic stability, market size, business conditions, etc. Internal factors are mainly related to the quality of the government institutions of the host country which is reflected by their level of transparency, bureaucracy and corruption. These institutional factors have a significant impact on the level of FDI inflows to developing countries. Such factors are a result of, rather than a cause for, an underdeveloped institutional framework.

In Iraq, development of infrastructure is conducted as part of the government procurement by the public sector organisations. The World Bank ranked Iraq 156 out of 189 countries in its 2015 overall "ease of doing business" category. Transparency International ranked Iraq 170 out of 175 in its 2014 Corruption Perception Index. There are number of business excellence models such as EFQM, PDCA and Baldrige, which can improve the current performance of organisations. However, this approach is a lengthy one and the implementation of which can jeopardise any improvement due to the lack of quick wins. Thus, this paper suggests that "Disruptive Innovations" can be a viable approach for improving the quality of Iraq government organisations in the shortest period possible and with less resistance to change. Such an approach can help achieve the commitment of top management to engage in a large scale public sector reform programme.

Keywords:

Bureaucracy, Corruption, Disruptive Innovations, FDI, Public Sector Reform

1. Introduction

Economic growth is the best way to help raise people's income, reduce poverty, create jobs and build more stable future in the developing world. Stimulating and sustaining economic growth is not an easy task for developing counties given the challenges they are facing such as weak institutions, high unemployment, poor infrastructure, a lack of access to financial services and unsuitable laws and regulations (Greening, 2014b). So as to improve their conditions some countries such as the People's Republic of China (PRC) and East/Southeast Asian countries have made swift improvement in their macroeconomic situations, investment, exports and employment over two and half decades because of vast investment in infrastructure (Straub, Vellutini and Warlters, 2008, Chatterjee, 2005).

Infrastructure development is considered a key facilitator for achieving economic growth in developing countries (Greening, 2014a). According to Nataraj (2012) developing the infrastructure will have a direct impact on the growth and overall development of an economy. Since it contributes to production growth by stimulating economic activity, productivity and enhancing the quality of life (WorldBank, 1994). Conversely, lack of infrastructure, creates hiccups for sustainable growth and poverty reduction (Sahoo, 2011). However, Sahoo (2011) argues that infrastructure development requires developing countries to have adequate financial resources, strong planning, coordination, decentralisation, private sector participation and commercialisation of service providers. Moreover, meeting the significant infrastructure investment needs of developing countries will require greater involvement of Foreign Direct Investment (FDI) in the forms of Transactional Companies (TNCs) and multinational companies (MNCs) (UNCTAD, 2008).

FDI and its relation to economic growth have been discussed widely in the literature. According to Saravanamuttoo (1999) and Klein, Aaron and Hadjimichael (2001) FDI is considered as a key pillar of sustainable economic growth. It also offers non-financial benefits, particularly positive spillovers such as productivity gains, knowledge and technology transfers and human capital enhancement (BKPM, 2010, OECD, 2002, Wang, Gu, Tse and Yim, 2013). Yet, in order to attract FDI, developing countries need to understand investors' requirements and work rigorously to address them. Of those number of FDI determinants, institutional factors, such as non-transparency, bureaucratic red-tape and corruption, are found to have a significant impact on the level of FDI inflows to developing countries. Since such factors directly reflect the quality of the institutional framework of host countries' government organisations, see (Drabek and Payne, 2002, Habib and Zurawicki, 2002, Dahlström and Johnson, 2007, Al-Sadig, 2009). Therefore, in order to successfully attract MNCs to foster FDI inflows, developing countries need first to improve the institutional framework of their public organisations in line with best practices of world class organisations. This paper aims for proposing a strategic approach that can help public organisations to transform their current organisational framework into one that are accepted internationally in a reasonable period of time and with less resistance to change.

2. Literature review

2.1 FDI and Economic Growth

FDI is a key ingredient for successful economic growth in developing countries. This is because the very essence of economic development is the rapid and efficient transfer and adoption of "best practice" across borders. FDI is particularly well suited to effect this and translate it into broad-based growth, not least by upgrading human capital (Klein et al., 2001, Akinlo, Akinsokeji and Oziegbe, 2013). Therefore, many countries around the world have realised that attracting foreign direct investment (FDI) is essential to the process of economic development and to the prosperity of their citizens. It lay foundation for local investors, SMEs and entrepreneurs to prosper in a more efficient, market driven and professional atmosphere, consequently, enabling them to add value to their economies (Asfour and Murphy, 2006). Nevertheless, attracting FDI is not an easy task; it requires a careful understanding to the common needs and requirements of international investors which affect the FDI flows to developing countries. These factors will be discussed in the following section.

2.2 Factors Affecting the FDI Flows to Developing Countries

There are number of factors that affect the investment inflows to a country, the Multilateral Investment Guarantee Agency (MIGA) categorises investor needs under three levels of importance: (Asfour and Murphy, 2006)

- **Critical factors** which relate to: Political and Social Stability, labour costs, utilities costs , labour availability and utilities reliability
- **Important factors** which relate to: Real estate, business conditions, infrastructure, market Access, e-Taxes
- **Less Important factors** which relate to: Living conditions.

Other requirement stated by OECD (2008) include market size and real income levels, skill levels in the host economy, the availability of infrastructure and other resources that facilitates efficient specialisation of production, trade policies, and political and macroeconomic stability of the host country.

On the other hand, the literature has also showed that, there are three interrelated institutional factors that have been found to increasingly reduce the FDI flows to developing countries which are; non-transparency, bureaucratic red tape and corruption of host country institutions (Drabek and Payne, 2002, Onyeiwu, 2003, Dahlström and Johnson, 2007). According to Finel and Lord (1999) transparency is a mechanism that facilitates the release of information about policies, capabilities and preferences to outside parties or the market. Transparency, particularly in the public sector, also implies outside access to the mechanisms by which decisions are made and implemented (Lebovic, 2006). Thus, the lack of transparency, on the other hand, facilitates arbitrariness, helps to mask bribery (Zurawicki, 2003) and imposes transaction costs on the conduct of business in which any additional information that is pertinent for making an investment decision will have to be secured at extra time and cost (Seyoum and Manyak, 2009).

According to Drabek and Payne (2002) there are strong reasons to believe that transparency in economic policy-making and in the activities of government institutions is vital in attracting foreign investment. Drabek and Payne found that on average a country could expect 40 percent increase in FDI from a one point increase in their transparency ranking. While, non-transparent policies translate into lower levels of FDI and hence lower levels of welfare and efficiency in the host country's economy. This has been seen in a number of countries such as Indonesia, Nigeria or Slovakia where the lack of transparent policies has been suggested to be one of the main reasons why foreign investors have demonstrated extreme caution to invest and for capital flight. This reflected a growing suspicion of investors about the intentions of governments concerned and their commitments to policies in the countries concerned (Drabek and Payne, 2002).

Additionally, the literature has shown that non-transparency is a composite of number of factors and from those that are most important are corruption and bureaucratic red tape. For example, according to Drabek and Payne (2002) economic policy-making will be seen as non-transparent if it is subject to *corruption and bribery*. Bribery is non-transparent not only because it is normally illegal but also because the non-transparency strengthens bargaining

positions of the beneficiaries from these illicit payments. Wei (2000) and Smarzynska and Wei (2000) indicated that host country corruption can have a negative effect on the volume of FDI inflows since it increases the costs of operation in the host country for MNEs and reduces the profitability of investment. Payments to the host country officials do not have a market value and, hence, raise the cost of goods/services when compared to a competitive market. This can be a major disincentive for foreign investors (Habib and Zurawicki, 2002). Johnson (2006) also concluded that host country corruption reduces FDI inflows.

Moreover, Drabek and Payne (2002) believes that bureaucratic inefficiency within the government is another aspects of non-transparency and can be a major hurdle to business. If the quality of government service is unpredictable, companies' exposure to additional risks is increased. Moreover, their ability to cover against these risks impeded due to the unpredictable nature of government service. Onyeiwu (2003) added that corruption/bureaucratic Red Tape is a very significant factor that explains why MENA countries receive less FDI than other countries. Rivlin (2001) also argues that even in the presence of a conducive macroeconomic environment, corruption and bureaucratic red tape can deter foreign investors from investing in a country (Rivlin, 2001 - p.191). Apart from raising the cost of doing business, corruption slows down the process of obtaining the business permits necessary for operating in the host economy, (Onyeiwu, 2003 added). In fact, according to Al-Sadig (2009) a one-point increase in the corruption level leads to a reduction in per capita FDI inflows by about 11 percent. Al-Sadig found that corruption has a negative impact on the level of investment and economic growth, on the quality of infrastructure and on the productivity of public investment, on health care and education services, and on income inequality. All those factors are also found to be important determinants of FDI location. Therefore, foreign investors would tend to avoid investing in countries with high levels of corruption.

Besides, from the institutional context, there are a number of empirical papers on institutions, corruption and FDI many of which use measures of perceived corruption to reflect institutional quality (see, e.g., Mocan (2004), Caetano and Caleiro (2005), Abramo (2007) and Dahlström and Johnson (2007)). Other studies on FDI, corruption and institutions include those by Habib and Zurawicki (2002), mentioned above, Egger and Winner (2006) and Hakkala, Norbäck and Svaleryd (2008), who all found corruption to be detrimental to FDI. Therefore, according to (Tingvall, 2011) acknowledging that corruption can be viewed as a general index of institutional quality, evidence suggests that weak institutions (a corrupt environment) hamper ingoing FDI. Also as Dahlström and Johnson (2007) put it corruption is a result of, rather than a cause for, an underdeveloped institutional framework. Indeed, according to Al-Sadig (2009) the results show that the country's quality of institutions is more important than the level of corruption in encouraging FDI inflows into a country. For example, *ceteris paribus*, a country with sound institutions is able to attract as much as 29 percent more per capita FDI inflows than a country with poor institutions.

Equally important, according to (Brack, 2013) public/government procurement is the acquisition of goods and services from a third party on behalf of a public agency, such as a public sector organisations or local authority. Also, according to OGC (2008) it includes

much that supports the work of government and ranges from routine items (e.g. stationery, temporary office staff, furniture or printed forms), to complex spend areas (e.g. construction, Private Finance Initiative (PFI) projects, aircraft carriers or support to major change initiatives). It also includes a growing spend where the private and third sectors provide key services directly to citizens in areas such as welfare-to-work, further education, social care and health. Such services may also be provided by the public sector directly, and in some cases even this public provision can be handled through procurement mechanisms. A public body may bid for government work against private sector firms through a formal competitive process (OGC, 2008). Government procurement is an important economic activity involving large amounts of public money in most countries around the globe (OECD, 2010). According to WBG (2012) Foreign Direct Investment (FDI) can also be affected by public procurement policies. This is supported by the cross-section analysis of Mardas, Papachristou and Varsakelis (2008) which indicated that it is statistically significant determinants of FDI. Furthermore, as a government activity, it is particularly vulnerable to corruption (OECD, 2010). Consequently, as stressed by Rivlin (2001) that corruption and bureaucratic red tape significantly reduces FDI inflows even in the presence of a conducive macroeconomic environment. In the Cameroon, for example, the high-level officials in charge of the execution of public investments declared that administrative and bureaucratic red tape was the reason for the insufficient financial execution rate of the investments. The insufficient qualification of the employees in charge of the follow up of the contracts was included in the description of the administrative red tape (Le messenger 2008 cited in OECD (2010)).

Additionally, governments that intend to address their infrastructure investment needs through attracting FDI, in forms such as public private partnership (PPP), PFI, etc., Kadarisman (2015) stress that the function of government institutions is to regulate and facilitate public service developments. Related government ministries and agencies are the ones responsible for programs and project developments beginning from the planning stage, devising of project tender and contracting procedures down through supervision on their execution stage. According to Dahlström and Johnson (2007) multinational corporations (MNCs) get into contact with host country institutions as soon as they start activities in a foreign economy and institutions naturally have a large effect on the continuous operations of the MNCs. Thus, key to attracting MNCs to foster FDI inflows is when government organisations adopt high quality practices to achieve high quality performance to effectively and efficiently interact with MNCs. Accordingly, apart from creating a conducive macroeconomic environment, governments in the developing world are also required to create a conducive organisational environment (excellence in practices to achieve better performance) to attract MNCs to foster FDI inflows to address their infrastructure investment needs.

Thus, by leveraging public procurement to attract FDI, developing countries are required to focus more on improving the quality of the practices and performance of their public organisations responsible for the delivery of public procurement. By doing so, they will actually be fighting the root cause of the main symptoms of weak institutions, which are non-

transparency, bureaucratic inefficiency and corruption, and which will enable them to attract MNCs and foster FDI inflows, as depicted in figure 1.

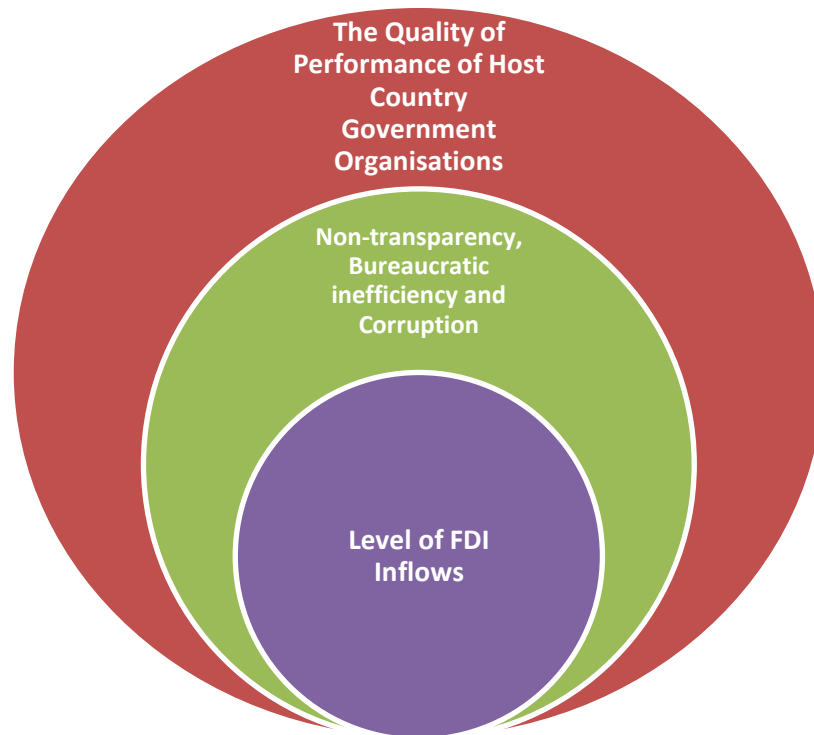


Figure 1: Spheres of Influence of the Factors Affecting FDI Inflows to Developing Countries

3. Public Procurement and FDI: The Case of Iraq

In Iraq, public procurement, which is defined in the Public Procurement Law of Iraq as “procurement of goods, services and construction services by the State of Iraq acting through Ministries or federal agencies, governmental units including Regions, Governorates; and all other subdivisions of the State of Iraq that may commit public funds”, plays an even more important role in supporting the reconstruction and rehabilitation of the national economy and the development of the private sector as well as providing the necessary infrastructure for the Government of Iraq (GOI) to execute its investment budget (OECD, 2010, JAU, 2014).

Despite the GOI large budget, totalling IQD 138.4 Trillion (\$ 118.3 Billion) in 2013 alone, of which 93% is from Oil revenues (JAPU, 2013), however, the budget execution rate was and still low. According to JAU (2014) for the fiscal years (FY) 2009 and 2010, 2011 and 2012, and 2013 GOI allocated about 75%, 70% and 60%, respectively, of its annual budgets for operational expenditures (primarily salaries, pensions, and office expenses), with the remainder allocated for investment expenditures. For the fiscal years from 2009–2012, the GOI consistently executed its operational budget with an execution rate ranging among 80%–90%, while investment budget execution rates were generally lower 60%–70% with some ministries reportedly failing to execute even half of their annual budgets. For example, in FY 2011, the execution rate fell to less than 50% in key development ministries including Communications (16%), Agriculture (23%), Oil (32%), Industry and Minerals (40%), Municipalities and Public Works (47%). This is alarming since not only do these development ministries receive a significant amount of the total investment budget, but this also indicates inadequacies in operationalising these funds into approved projects (JAU, 2014). As a result, about 60% of Iraqi households are suffering from the lack of at least one

of the following: access to improved drinking water source, access to improved sanitation facility, a minimum of 12 hours of electricity from the public networks a day, or food security (JAPU, 2013).

According to JAU (2014) one of the main challenges that limit the ability of the GOI to spend its investment project budget apart from security issues is public corruption. The World Bank ranked Iraq 156 out of 189 countries in its 2015 overall “ease of doing business” category. Transparency International ranked Iraq 170 out of 175 in its 2014 Corruption Perception Index. According to OECD (2010) representatives from various agencies and institutions of the Government of Iraq (GOI) demonstrated their awareness of the problem of corruption in procurement and have asked for the identification of good international practices to help Iraq fight corruption and promote integrity in public procurement. Other factors that hinder the budget execution as a whole include implementation delays due to the underdevelopment of the financial sector and the limited capacity of private contractors, unnecessary delays in approving the budget, allocative inefficiencies across sectors and ministries, poor planning, particularly on the local government level and poor procurement processes. It can be argued that these factors are the symptoms of weak organisational performance and are just the tip of iceberg. Underneath that come the organisational practices which are the causes/enabler/drivers of that weak performance. Accordingly, it can be concluded that the weak practices of Iraq government organisations is the umbrella that lumps together the main factors that cause the low execution rate of Iraq’s national budget.

The Government of Iraq, as the primary commercial actor, continues to rely on cash allocations through budget provisions, taking advantage of high oil revenues, to fund projects at the ministerial level and local government level. According to JAU (2015) Iraq is an Oil dependant country. Oil revenue remains the main source for state revenue with a share of 93% and 84% materiality of total state revenue in 2013 and 2015 respectively. However, Blanchard (2010) argued that continued fluctuations in oil prices and production may jeopardise Iraq’s fiscal stability and the sustainability of its reconstruction and development plans. The recent drop of oil prices has supported this argument. According to Bowler (2015) the recent fall of global oil prices has significantly affected Iraq’s oil revenue and thereby affecting its national budget. Iraq deficit has exceeded \$21 billion which is just about 21% of total expenditure (Parker, 2014, JAU, 2015). Besides, the large amount of operational budget and the sudden increase of budget deficit has significantly affected the amount of fund available for key development sectors making it even more difficult for Iraq to meet its urgent infrastructure needs such as the 2 Million housing units and other important services such water and electricity shortage (IAU, 2014, Sait and Nkuuhe, 2013). This means that oil should no longer be the only source of revenue for Iraq. FDI can be an important source of private external finance. Thus, attracting MNCs to foster FDI inflows to build the infrastructure should become a priority for GOI to bridge the deficit gap, meet its various infrastructure shortages to address the citizens’ needs as well as benefiting from FDI positive spillovers.

Considering that Iraq infrastructure investment needs cannot be addressed by the sole reliance on oil revenue, according to USDC (2013), the Iraq Council of Representatives is considering legislation to establish an Infrastructure Development law that would allow the government agencies to enter into contracts with MNCs on infrastructure projects, improving services in areas like water supply, power and education, etc. This law would basically obligate government agencies to attract FDI and take out “loans” with MNCs tasked with the jobs and then repay them annually at a later date, for example in contracts similar to PPP, PFI or BOT.

Yet, as discussed earlier attracting FDI is not an easy task, it requires developing countries to create environment enabled for MNCs to foster FDI inflow. Hence, improving the performance of government organisations responsible for the delivery of public procurement projects beginning from the planning stage, devising of project tender and contracting procedures down through supervision on their execution stage, should be Iraq's main priority. Since, it is the main key for sustainable investment flow in the short and long term as well. This will help Iraq to, first, achieve a high execution rate of the national budget and, second, enable them to attract MNCs and foster FDI inflows. However, understanding what drives improvement/change initiatives and the available improvement methodologies is, therefore, critical to the success of any change/improvement programmes and this will be discussed in the next section.

4. Organisational Improvement Methodologies

According to Talwar (2011) despite their limitations, business excellence models (BEMs), such as EFQM, Baldrige, PDCA, etc., are a comprehensive means in which the level of organisational excellence can be thoroughly monitored and assessed. They provide an internal mechanism for making improvements to face the competition. BEMs recognise excellent organisational performance and have emerged as a tool for the promotion of productivity and quality improvement strategies. They are subjected to changes according to external environment evolution and are considered a contemporary way to attain excellence. They focus on number of factors including leadership, people, organisational strategy, organisational processes and performance management which could bring a tremendous impact on the improvement and achievement of their organisational goals. However, according to Sokovic, Pavletic and Pipan (2010) such models is a long-term, strategic tool where all organisational aspects and areas can be monitored, assessed and improved. Therefore it cannot be used as a tool for day-to-day business, since its positive effects can be seen in the long term. They are more complex and demanding methodologies and therefore need more time and resources for their proper implementation. Therefore, they should be introduced properly with strong support and commitment of top-management and appropriate training of the people included.

Furthermore, it is well known that people are resistant to any sort of change. This is especially true in the case of transformational change. There are many factors that contribute to this matter such as; fear of the unknown, habit, the possibility of job insecurity, threats to social relationships, and failure to recognise the need for change (Nadler (1980) cited in Longo (1997)). The importance of identifying these factors prior to change is therefore critical to success. Depending on the existing organisation's culture and the degree to which the proposed change differs from that culture, an organisation may or may not be ready to successfully absorb the change. This is especially difficult when there is no apparent performance crisis in the organisation i.e. no serious threat to the existence of the organisation.

Moreover, the issue of leadership is also critical when discussing transformational changes, which often occur in the implementation of quality improvements. Resistance to change is especially relevant if the vision of a leader differs from the values and beliefs of the existing organisational culture. If that is the case, then cultural issues must be addressed. This is the part of the process improvement that is easy to be overlooked in major change efforts in organisations. If the organisational culture fails to assimilate the vision and its implications, desired change will never become accepted and will ultimately fail (Almaraz, 1994).

Therefore, issues of organisational culture, leadership and people of Iraq public sector has to be taken into account before initiating a change/improvement programme.

Al-Tameemi and Alshawi (2014) have benchmarked the practices and performance of a government organisation, which is responsible for budget execution in Iraq, using a standard benchmarking tool called PROBE. Clear evidence of the PROBE tools' ongoing effectiveness and broad applicability lies in their resonance and compatibility with the principles embedded in definitive frameworks such as the Baldrige criteria and the EFQM Excellence Model, and in contemporary implementation methodologies such as Lean Thinking, Six Sigma and Best Value (PROBE, 2015). In their paper, Al-Tameemi and Alshawi (2014) focused on the practices and performance in relation to the organisations and culture which include management style, service culture and employee/people management and their impact on the internal service quality of the organisation. Al-Tameemi and Alshawi concluded that the performance of public organisations in Iraq is greatly affected by the weak practices related to their leadership and people. Their findings show that the overall practices and performance of the government organisation in question is far behind that of those world-class organisations working in the same field. Their findings suggest that in order for the government organisations to improve their overall performance they are required to adopt new practices (best practices) similar to those of world-class organisations. Best practices for such organisations can include adopting new technologies to facilitate interaction between these public organisations and their customers such as the use of e-procurement, adopting new management styles where employees are empowered to deal with service problems, etc.

However, the findings of Al-Tameemi and Alshawi (2014) has shown that there is a little attention paid by top management for the development of service culture. The organisations leadership team does not communicate and reinforce clear values and high performance culture. They emphasise that the leadership team do not develop a service mindset throughout the organisation or drive service culture by example such as focusing on anticipating and exceeding needs that actively drive up the ambition of the community. Moreover, the executive and non-executive/members do not reach to a solid consensus on priorities for best use of resources for best possible service to the community. There is no shared plan or vision statement and customers service expectations and satisfaction not known. Quality values are not quite part of the core values of the organisations' employees because the organisations have not either defined its quality values, such as customer focus, in its mission and goals nor are quality values embedded in the organisations culture. The blame culture is a barrier to the gathering of facts and solutions to the problems tend to be "quick fixes". There is no measurement of employee satisfaction, neither the organisation captures the voice of the customer nor there informal means, such as employee feedback and customer complaints, are being exploited. In addition, Al-Tameemi and Alshawi (2014) stressed that there is no feedback or recognition of service performance at employee level in their organisation. Employees were not aware of neither formal process for getting external and internal feedback on individual service performance against expectations nor there 360 ° (including upwards) appraisals is used in the organisation. The organisation lacks a formal people-development plan that is linked to organisational/service need and involvement is almost blocked by attitudes of both management and employees, in aspect such as the decision making process. The employees have not been explicitly and appropriately empowered to deal with service problems/failures, and to take immediate decisions to resolve problems without recourse to supervisors.

Consequently, given such an organisational culture, introducing best practices and advance technologies to improve the organisation performance will have a significant impact on how

such public organisations currently work. Introduction of such change to such an old and weak business model will be very alarming to the people who currently operate this business model since it will/may have a direct impact on their positions and matters of interests, force them to change their habits/ways of doing things and adopt new ways, change to their social relationship, etc. Thus, such a change initiative may/will face a huge resistance, especially from those (corrupt bureaucrats) who are having a “monetary gain” from this complicated system. Furthermore, since benefits of such change initiatives only appears in the long term (as argued above), thus, following such an approach can jeopardise any improvement due to the lack of quick wins, and may/will ultimately fail. Besides, since the situation in Iraq is calling for an immediate need for FDI to engage in the development of the country. Accordingly, an alternative approach is required that can “disrupt” the current business model, designed to execute public procurement, and pave the way for the adoption of best practices. An approach that is able to provide a radical change to the current organisational performance and help attract MNCs and foster FDI inflows. The following section will shed light on the available approaches that can be used to “disrupt” the performance of government organisations in Iraq.

5. Disruptive Innovation: An Approach to Transform The Performance of Iraq Public Sector

According to (Eggers, Baker, Gonzalez and Vaughn, 2012) because of shortages in public fund that is facing most governments around the world, leaders are challenged to “do more with less”. However, following such an exercise inevitably resulting in a difficult trade-off, between price or performance. In order to break such unavoidable trade-off, leaders are required to look at the public sector in an entirely new way. Looking away from the public sector, many industries have been able to steadily lower prices while, at the same time, improving products and services. So why does the public sector seem so immune to the kind of innovation that allows getting more for less over time? Certainly, because government is a monopoly that lacks both competition and profit motive, as do the political incentives to increase spending and protect incumbents over upstart providers. The ultimate reason for this difference may be what is present in the private sector and absent in the public sector, a phenomenon called disruptive innovation (Eggers et al., 2012). According to Eggers and Gonzalez (2012) disruptive innovations have helped reshaping number of industries to deliver more for less and most of the world today looks fundamentally different than it did just a decade or two ago because of disruptive innovations.

5.1 What is Disruptive Innovations?

First articulated by Harvard business professor Clayton Christensen “Disruptive innovation describes a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves up market, eventually displacing established competitors”(Christensen, 2015). It “is not a breakthrough innovation that makes good products better; it has very specific definition that is, it transforms a product that historically was so expensive and complicated that only few people with a lot of money and a lot of skills had access to it. A disruptive innovation makes it so much more affordable and accessible that a much larger population have access to it” (Christensen, 2012).

The concept of this theory is about teaching any industry giant how to survive in their market when there are other businesses that can provide customers with services similar to theirs yet more affordable. The idea is to let businesses not to pay their attention on one market direction and not to focus only on increasing the efficiency of their products to target those

that can pay more, where there are other businesses (Disrupters) that can provide products (Disruptive Innovation) that are much affordable and can serve the same purpose. Eventually, they will not only attract the other customers that the former businesses (Disrupted) have overlooked, however, they will “sooner or later” overtake those high paying customer too and thereby destroying the market of those former businesses. Example of disruptive innovations are the steel mini-mills and how it have significantly disrupted the market of the integrated steel mills and the laptops and PCs and how they have gradually destroyed the market of the mainframe computers (see for example Bower and Christensen (1995), Christensen (1997), Christensen, Raynor and Anthony (2003), Christensen (2013)). Another example of disruptive innovations is the Lexus and how Toyota has used it to disrupt the marketplace of the incumbents of luxury cars at that time such as BMW, Mercedes (see Liker (2004)).

So the theory teaches the industry/sector giants how to avoid ending up like the integrated mills and mainframe computer companies. To do that, such companies are required to do their own disruptive innovation. To succeed, they must develop their own disruptive innovations and treat them as a separate unit with different business model and growth expectations and ask what job do customers need to get done and then segment customers by job not by product, market size or demographics. Then they need to develop basic low-cost/transparent ways/solutions to get the job done for customers. Eventually these new “Disruptive” solutions will help these companies to dominate the market again, keep or increase their customers and ultimately keep their businesses alive (HBR, 2013).

After reviewing numbers of researches on disruptive innovations, Barahona and Elizondo (2012) synthesised and summarised the characteristics of Christensen's disruptive innovations. These disruptive innovations:

- Face no demand at the beginning, the client base is small and the service or the product can be costly.
- Are not initially attractive to the best clients.
- Exceed the current abilities of typical clients at some level.
- Are at a new level of competition.
- Change the meaning of quality and improvement compared to the traditional model.
- Address potential sectors/clients that under the prevailing logic would not have access to the current product or service.
- May have small initial profit margins.

Thus, what is really needed now more than ever is for the government of Iraq to follow the path of disruptive innovation to find new (disruptive) ways to deliver its national budget so to gradually destroy the old ways of executing public procurement.

5.2 Disruption of the Public Sector in Iraq

As discussed earlier, Iraq government organisations are not able to successfully execute their allocated budget nor are they able to provide the necessary services to the Iraqi citizens. Number of reasons behind that including, corruption, relying on an underdeveloped private sector companies (see WorldBank (2012)) to execute public contracts, unnecessary delays in approving the budget, allocative inefficiencies across sectors and ministries, poor planning, particularly on the local government level and poor procurement processes. MNCs can help the government in the successful execution of public contracts, introduce better and more affordable services to citizens, build the capacity of both the public and private sectors by transferring best practices as well as fund those projects that the government can only afford in the long term when utilising certain procurement systems such as PPP, BOT or similar.

However, the realisations of such hopes entirely depend on the government ability to develop an environment attractive to MNCs. Along with the establishment of right policies, developing such an environment will require the government to break the mould of the existing organisational culture and adopt best practices to produce performance that is accepted by those internationally recognised MNCs. The adoption of best practices may entail adopting new (disruptive) technologies, such as e-procurement, which according to Christensen (1997), may entail business model disruptions, for the public sector organisations, as they change the relationship of the organisation with its customers and suppliers, disrupt the traditional way of doing things within the organisation and the financial arrangements created for its current marketing and technology. Thus, following the disruptive innovation approach can well help the government of Iraq in its quest for finding a better way to deliver the services that its people desperately needs and make them more accessible and affordable.

5.3. Implementing Disruptive Innovations

The requirements to improve the performance of Iraq government organisations seem to fit with the characteristics of disruptive innovations, see table 1.

Table 1: Rationale on the compliance of public sector improvement initiative with the characteristics and conditions of Disruptive Innovation

Characteristics of a Disruptive Innovation	MNCs Enabled Environment Rationale
Face no demand at the beginning, the client base is small and the service or the product can be costly.	Big local contracting companies in Iraq (especially those with political power) have adapted to the current traditional system of public procurement and consider its complexity and non-transparency as an advantage against their international rivals (MNCs). The latter group does not seem to consider Iraq public organisations as their potential clients because there is no certainty that they can sell their products/services to the public organisations given the ambiguity of the buying process (procurement system) of the public sector.
Are not initially attractive to the best clients.	Currently the best clients for these public organisations are those big “local” companies that know how to let the public sectors buy their services despite its complicated system. Therefore, introducing a change programme to improve the public sector performance and simplify procedures so that to attract MNCs, is not something those big “powerful” companies would ask for.
Exceed the current abilities of typical clients at some level.	Such a public sector reform (disruptive innovation) will be more than satisfactory for those clients segment (MNCs) that are not/slightly being served by the Iraqi public sector.
Are at a new level of competition.	Assuming that this change initiative (disruptive innovation) will be conducted through separate organisations, in the beginning these newly established public organisations, which will adapt the public procurement best practices, will not be under competition to attract the clients of those old public organisations that are still operate under the old system. Because the targeted clients segment (MNCs) are not/slightly being served by those old organisations which have no interest/ability/capacity to attract them.
Change the meaning of quality and improvement compared to the traditional model.	The current processes and criteria for setting priorities (values) of these old public organisations have been followed because they are thought to sustain the current performance. Typically, key processes that are thought to have worked well in the current system (such as

	the planning cycle, procurement processes, etc.) will impede what needs to be done by the new system. Also, the criteria for setting priorities and making decisions that are inherent to the business model of the new organisation often must be very different from those that are useful in the old organisation. That is why disruptive innovations often need to be managed as independent business units. A key to nurturing a new system is recognising when to leverage the parent/old organisation's resources, processes and values, and when to create new ones.
Address potential sectors/clients that under the prevailing logic would not have access to the current product or service.	By adopting best practices to execute the public procurement in Iraq, the new public organisations will have the leverage to attract those potential clients (MNCs) that were not satisfied before with the performance of those old public organisations.
May have small initial profit margins.	The profit margin for the central government/local government/public organisations that receive public fund, is perceived in: a) how much percentage of their allocated budget they can execute during the fiscal year, b) how much percentage of successful projects they can deliver during the fiscal year (i.e. projects that are on or ahead of planned time and budget, fit to purpose and aligned to Iraq/city strategic plan. According to number of researchers, such as Al-Tameemi (2009), Batool (2011), Faiq, Rana and Shaymaa (2013), about 75% of projects are considered failed and that is due to the poor planning and poor project management methods adopted by the public and private sector in Iraq), c) how much percentage of their "strategic" projects are being implemented/funded by MNCs, d) how much percentage of the population are receiving the required service. So, initially these profit margins that are supposed to be achieved by the new organisations that will adopt the new system will be small because they will not directly take over all the market "work" from those which operate under the current system. However, this will happen gradually until these disruptive (new) organisations will eventually be fully accountable for delivering the various types of public services. At that time, those bureaucrats that used to operate the old system will have no choice but to blend in with the new system or retire.

(Note: these rationales are prepared based on (Christensen and Overdorf, 2000, Christensen, Johnson and Rigby, 2002, Christensen et al., 2003, Barahona and Elizondo, 2012))

According to Barahona and Elizondo (2012) public entities, by their very nature, are less flexible when making structural changes. In view of this, the adoption, implementation and diffusion of a disruptive innovation within a public organisation is more prone to non-compliance or failure, than the success and satisfaction of interested parties. Thus, in order to implement disruptive innovation, Christensen and Overdorf (2000) developed a matrix (see figure 2) which is designed to help managers understand what kind of team should work on the project and what organisational structure that team needs to work within. For example, in region C in figure 2, there is a disruptive change that does not fit the organisation's existing processes or values. This complexity could pose challenges and opportunities within the organisation, obligating it to change management practices and giving rise to new organisational forms. This means that a viable introduction of a new best practices based on a disruptive technology makes the case for a new and independent organisation with other values and skills, not threatened by the new possibility of how to do things, and that does not see the possible market in the same way as the threatened entity.

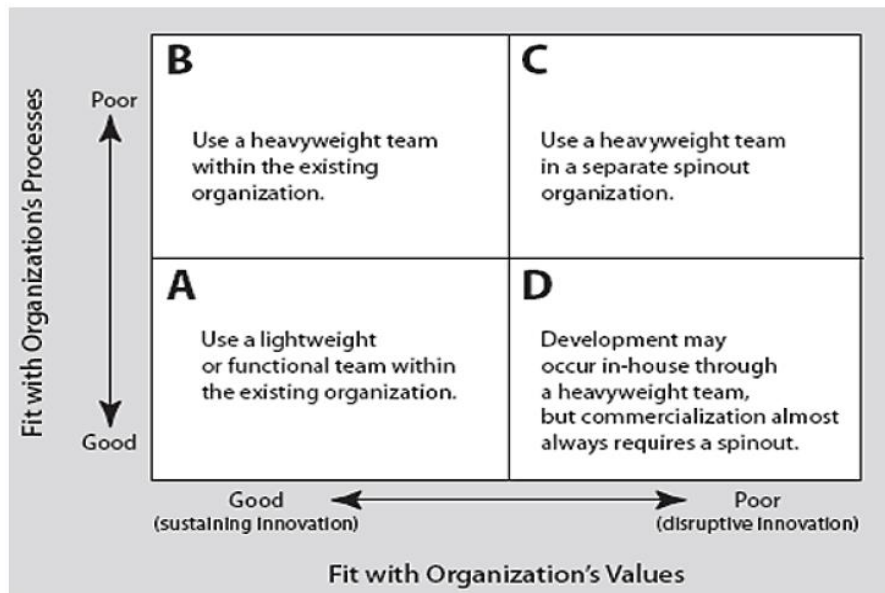


Figure 2: Organisational Considerations of Sustained and Disruptive Innovations, source: (Christensen and Overdorf, 2000)

It does not keep anything from the one it is replacing. At the highest level, it may have a contact or two that facilitate the use of some resources; but the new one “forgets” how the original one did things and how it saw its clients. Otherwise, there is a risk that the new organisation will remain immersed in the assumptions, values and decisions of the parent company (Barahona and Elizondo, 2012).

Based on the above discussion, the type of innovation/change required to improving the performance of Iraq public organisations does not seem to fit with their current processes and values and thereby this type of innovation/change fits in region C of figure 2. The organisations’ existing processes do not seem to be suited to getting the new job done effectively nor will their values seem to permit the organisations to allocate the resources the new initiative needs. Therefore, using a heavyweight team in a separate spinout organisation to work with MNCs seems to be a viable approach to implement such a disruptive innovation to Iraq government organisations.

A practical example of this theory was presented by Cook (2014) about the cornerstone behind china’s economic development and growth. He mentioned that someone can ask the question of whether it is possible that government policies can be set through a discovery base or through experimentation approach? And one country did this and that was china. In 1980s china’s economy was a wreck and people are starving on the street and they could not generate the work or jobs to even feed their people. The government at that time has done many things but one innovative thing they did that is when they run experiments to have a set of assumptions of a better way to change this miserable situation but instead of legislating them they tested them first. They took Shenzhen city, for example, and put fence around it and run Shenzhen with different economic rules while the rest of the country run base on communist economic rules. Shenzhen was run under more free market rules with foreign investment allowed and what happens is that the Chinese economic miracle started there. Jobs were creating, companies, investment and people from other cities started to cross the fences to get to Shenzhen. Eventually, when that success formula has been proven they expanded it to the rest of china.

Another example is laid out by Liker (2004) about the development of Lexus which were meant to disrupt the market of the kings of luxury cars in Europe and America and was one of the best examples of the Toyota Way in action. Liker explains that Toyota is known as a very conservative company even by Japanese standards, although it is thought to be a very innovative company given its domination of the auto industry. Conservative means in this case as conservative politically, conservative styling, conservative financially, conservative in changing their ways etc. Yukiyasu Togo was a successful Toyota executive in charge of Toyota Motor Sales at the time. Togo thought that making high-quality, fuel-efficient, and economical cars was fine, but he saw no reason why Toyota could not also make luxury vehicles competing with the best in the world. To do this, Togo realised Toyota would need a new sales channel and name. He took his idea to management. At first he faced resistance. At Toyota this was not unusual. Building a luxury car meant breaking the mould from sturdy and reliable but basic Japanese built cars to competing with the kings of luxury in Europe. Also the development of a luxury car would mean simultaneously developing a vehicle and a brand: a car company within a car company. But after some debate it was clear that Toyota was not living up to its challenge of staying a step ahead of trends in the market and the concept for the Lexus was born. In order to convince such a conservative management that this idea will work they needed to build a prototype car that shows a quality, efficiency and effectiveness better than the competitor's luxury cars. In order to achieve this they entrusted this mission to a one of the best engineers in Toyota who in turn worked with the best engineers in different departments and created a team which worked separate (spinout organisation) from the parent company. This team eventually has generated the first Lexus car that has changed Toyota's production path since then (Liker, 2004).

Therefore, in order to stop wasting the public fund, improve budget executing rate, open the prospects for international corporations (MNCs) to come, join and help in the development of Iraq infrastructure. Government leaders should focus on establishing "new", "separate and independent" organisations/units/departments built on world-class best practices, with the aim to disrupt the old public procurement system, seek top management and main stakeholder buy-in and gradually expand the new system to eventually replace the old one. The new separate spinout units will work based on new business model, resources, quality values and objectives and aim first for targeting MNCs until, eventually, the new system will get entirely accountable to execute the allocated budgets from central government.

Nevertheless, a detailed framework to implement such an approach (disruptive innovation) will require number of questions to be answered including:

- What are the main factors which affect the government organisations performance in executing their allocated investment budgets?
- How complex is the current business process map of these organisations?
- How satisfied are the local companies with current processes and procedures of the public procurement system?
- What are the weaknesses and strengths of the public organisations' overall practices and performance compared to those of world-class organisations?
- How satisfied are employees with the current public procurement system and what their suggestions for improvement are?

The Answer to these questions will be the clue for the development and successful implantation of such an effective approach. The researcher is intended to answer these questions in subsequent publications.

6. Conclusion

Attracting investment is still seen as a major tool to bring about prosperity and growth to developing and developed countries alike. However, the major challenge for developing countries is how to attract investment. This paper has shown that apart from economic and social stability, market size, etc., MNCs are mostly deterred from countries having poor quality institutions. Thus, in order to attract MNCs and foster FDI, developing countries, such as Iraq, are required to create environment enabled for FDI by working at improving the quality of their public institutions. To do so and in order to break the mould of the existing organisational culture this research paper suggested following the disruptive innovation approach. This approach will focus first on having top management consensus for change by building a separate spinout unit based on world-class best practices of organisations working in the same field. This Unit's main clients are MNCs and will focus on illustrating the difference in performance between the new and old system. The successful operation of the unit will help achieve consensus among the organisations' key stakeholders and pave the way for large scale change that will eventually help in getting rid of the old system.

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