



Public Procurement, Innovation, and Entrepreneurship: two sides of the same coin

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Outline

1. PPI as a Mission-oriented Innovation Policy
 - Examples of PPI
2. What is meant by PCP?
 - Examples of PCP
3. Public Proc. for Innovation and Entrepreneurship?
4. Conclusions and discussion

1.- PPI as a Mission-oriented policy

- The main rationale for PPI is:
 - To satisfy human needs,
 - To solve societal problems, and/or
 - To meet agency/mission-needs.
- Relevance of PP not only for stimulating the development of innovative activities but also for addressing "grand challenges".

1.- PPI as a Mission-oriented policy

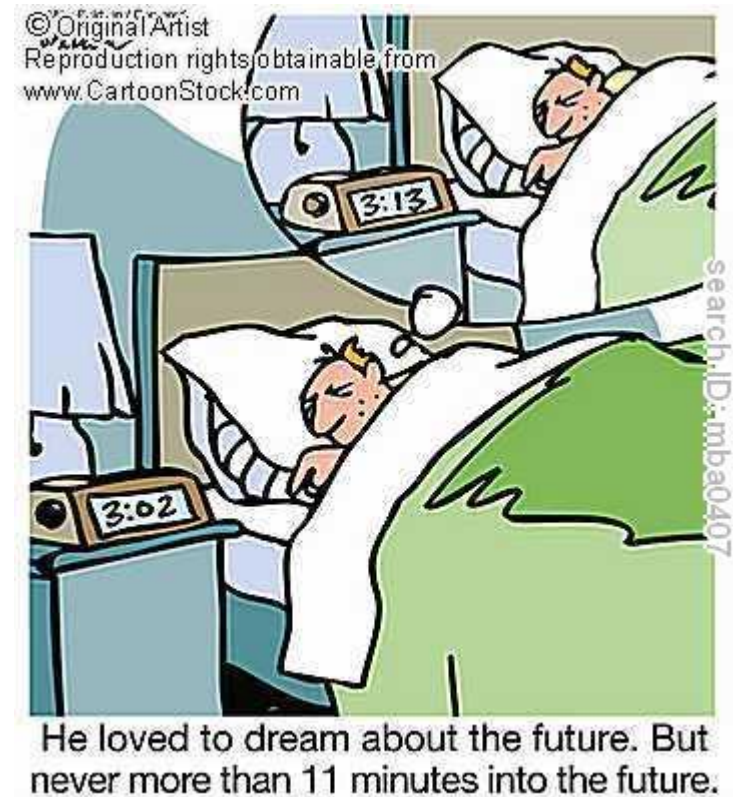
- In the EU15, more than 16% of GDP is used for Public Procurement.
- Vast majority represents regular public procurement.
- Examples of PP in stimulating innovation.
 - Declare innovation as the explicit and intentional goal of the initiative - intended PPI –
 - Examples where innovation is emerging as an important criteria - emerging PPI -
 - Innovation was not the objective of the procurement process.
 - Innovation turns out to be a by product of the public procurement process

1.- PPI as a Mission-oriented policy

Character of the Procurement Process	Adaptive Procurement	Developmental Procurement
User		
Direct Procurement	X2000 (Case 1) Nødnett Norge (Case 5)	AXE Telephone Switch (Case 2) ADS-B (Case 6)
Catalytic Procurement	Light corridors (Case 3) Swedish refrigerator (Case 4)	?

1.- PPI as a Mission-oriented policy

- Lessons learnt:
- Functional vs. Technical specifications
 - “Translating” the needs/problems/challenges into functional requirements requires high competence on the procuring organization.
 - Functional specifications should describe the desired performance characteristics of the product the procurer is ready to buy.
 - For the procurer it is irrelevant how the product mitigates the challenge; that must be left to the potential suppliers.
 - Too detailed specifications (set by the procuring agency) limit the ability and creativity of potential suppliers to provide innovative solutions to the challenge (e.g. X2000, NødNett)





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1.- PPI as a Mission-oriented policy

- Lessons learnt:
 - Interactive learning and cooperation
 - Successful cases are those where strong cooperation exists between procurer (user) and supplier (producer) (e.g. light corridor, Swedish refrigerator, AXE switch).
 - Cooperation does not guarantee success, competence is required on both sides (e.g. X2000).
 - E.g. the “industry days” promoted by public agencies in the US.



1.- PPI as a Mission-oriented policy

- Lessons learnt:

- Policy-mix

- PPI is a powerful demand-side innovation policy instrument to meet grand challenges, but...
- ... grand challenges can also be mitigated through means other than PPI.
- Policy-mix: use PPI in combination with other innovation policy instruments, including supply-side ones.
- E.g. public funding of R&D, tax incentives, development/modification of regulations and norms, standard setting, awards, innovation vouchers, etc.

2.- What is meant by PCP?

- PCP concerns the R&D phase before commercialization.
 - In PCP, the public purchaser does not reserve the R&D results exclusively for its own use.
 - The supplier owns the IPR or shares them (after negotiation) with the corresponding public agency.
 - The private supplier shares the risk of the R&D and the public authority will not be required to purchase the good, service or system resulting from the R&D.



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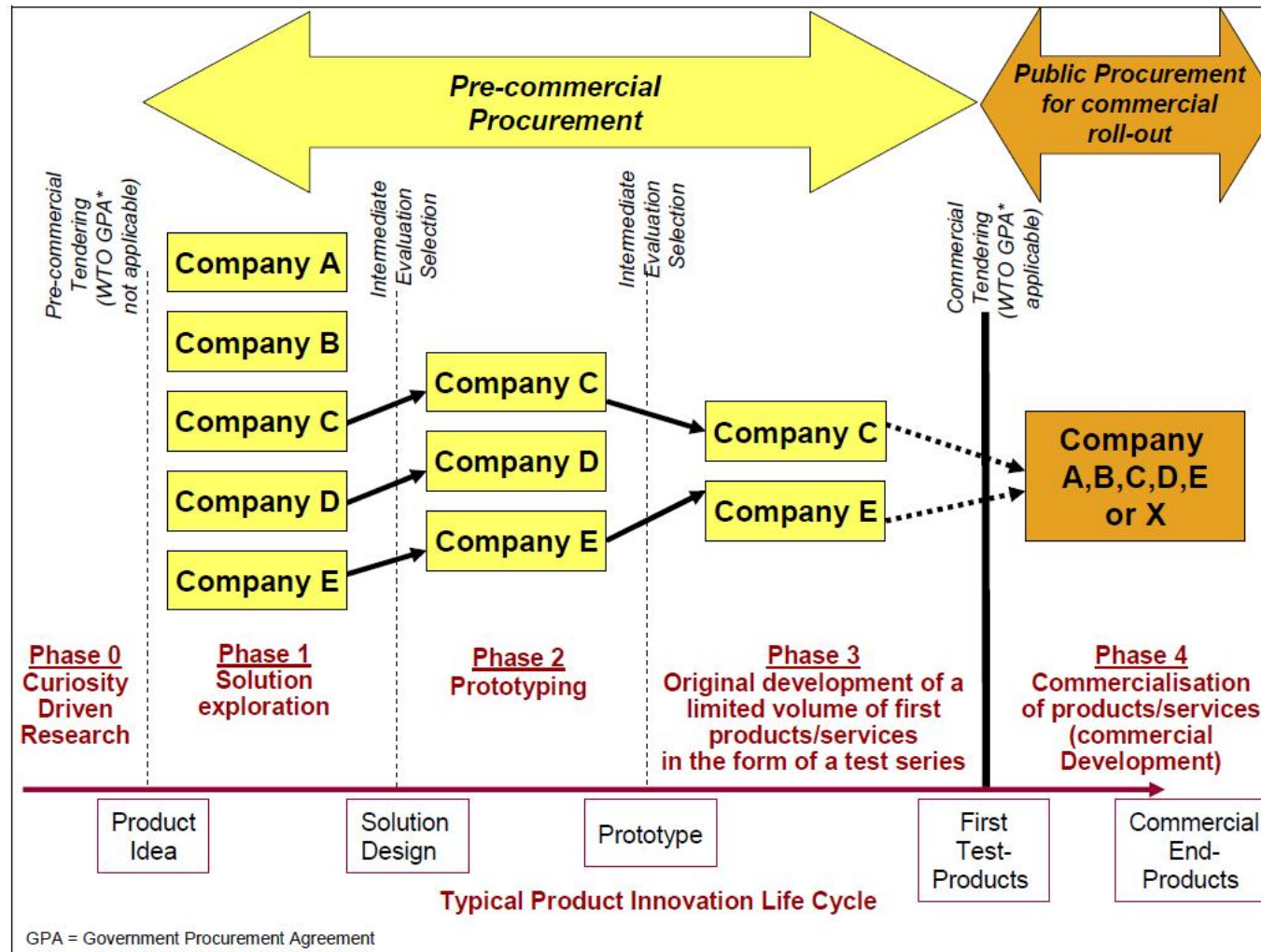
2.- What is meant by PCP?

- The purpose of PCP policies is to foster the development of new ‘yet-to-be-designed’ technology research.
 - To develop new R&D-based knowledge which may later lead to innovative solutions (or products), but...
 - ... the development of new products is not part of the PCP as such.

2.- What is meant by PCP?

- In general, PCP practices are managed in three steps:
 - 1. Solution exploration phase (~ 6 months): where a number of offers from competing suppliers are selected.
 - 2. Prototyping phase (~ 2 years): where the chosen suppliers develop their own models in parallel.
 - 3. Testing phase (~ 2 years): where at least two suppliers remain to ensure a future competitive market and the solutions are validated through field tests.

2.- What is meant by PCP?



2.- What is meant by PCP?

<p>Character of the Procurement Process</p> <p>User</p>	<p>Pre-commercial Procurement</p>	<p>Adaptive Procurement</p>	<p>Developmental Procurement</p>
<p>Direct Procurement</p>	<p>DigiDijk (Case 1) Market Validation Programme (Case 2)</p>		
<p>Catalytic Procurement</p>			

2.- What is meant by PCP?

- Lessons learnt
- PCP is very often mixed up with PPI
 - In PCP, unlike PPI, public agencies do not describe specific requirements
 - In PCP, there is no actual product development, and no buyer of such a product is involved.
 - PCP is a supply-side innovation policy instrument, since the responsibility for a possible commercialization lies on the shoulders of the company.
 - PPI and PCP may supplement each other as parts of a policy-mix, but they should not be mixed up.



“One day, this will all be yours. But right now, I need you down in the warehouse.”

2.- What is meant by PCP?

○ Potential challenges of PCP

- One of the potential risks of PCP is its degree of uncertainty.
- Probability of having only one single supplier from the beginning of the process, which may hamper the chances for competition.
- Regulations: cooperation and dialogue are important ingredients for the success of PCP and PPI, so they should not be prohibited.
- Protectionism vs. grand challenge mitigation

3.- PP for Innovation and E´ship?

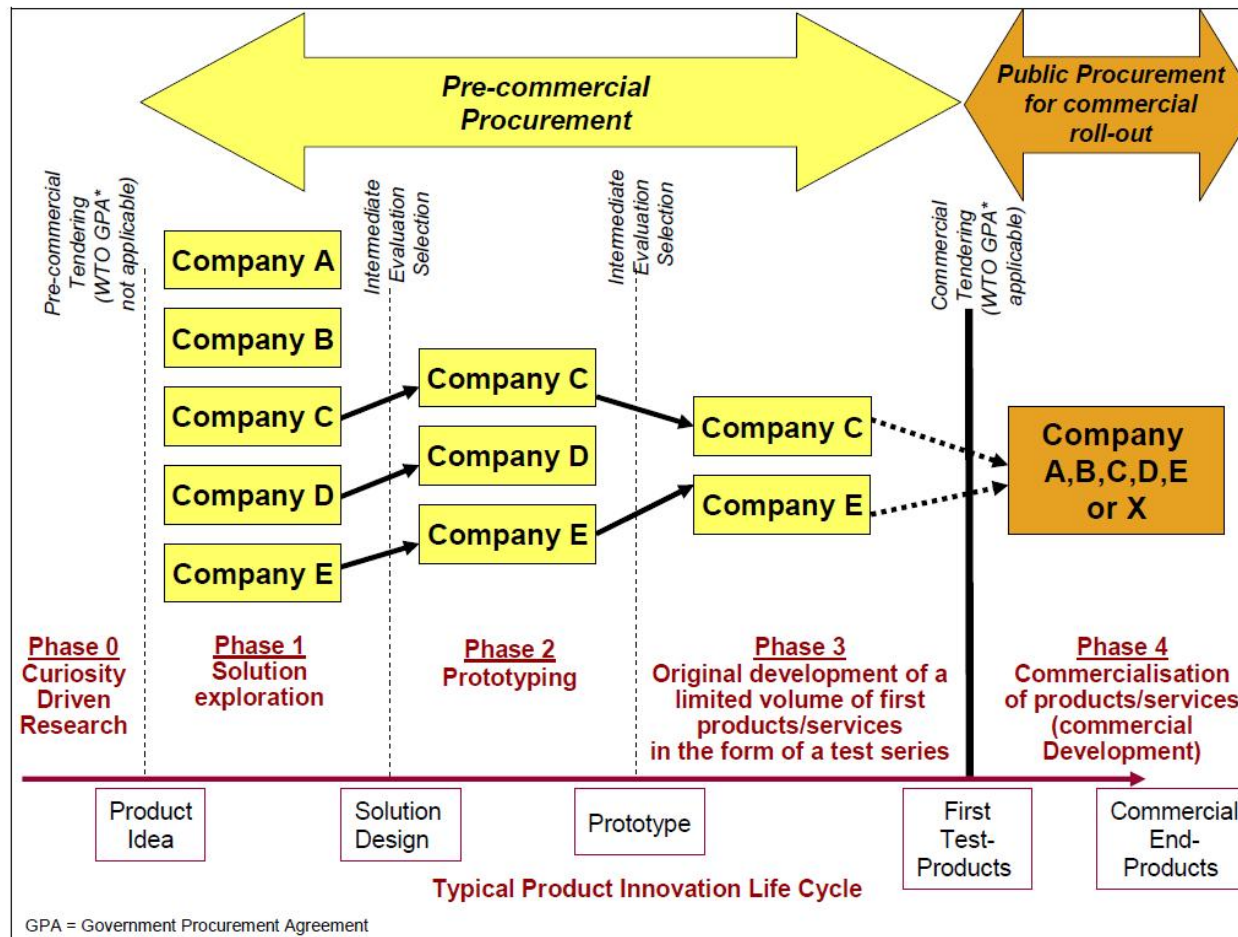
- Aim: Conceptualize the PPI process so it provides more room for the creation of new organizational forms.
- In what sense can the organization of the PPI support and stimulate entrepreneurship?
 - Double causality
 - The establishment of new organizational form can create innovation
 - Demand for innovation can stimulate the establishment of new organizational forms

3.- PP for Innovation and E´ship?

- Organizing PPI to stimulate Entrepreneurship
 - Coordinated unbundling of the PPI process.
 - Horizontal unbundling (divide the PPI process into independent – but still related - stages)
 - Involve more than one agency (cross-disciplinarity)
 - Vertical unbundling (same unit does not have to develop all the steps in the innovation process).
 - Idea generation – exploration - (tournament-based) and idea implementation – exploitation -.
 - Ability to mobilize smaller organizations.
 - Wider scope of innovative ideas
 - Increase competition pressures with large firms

3.- PP for Innovation and E'ship?

- Organizing PPI to stimulate Entrepreneurship





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4.- Conclusions and discussion

- Challenges
- Competence building among public servants in the requirement setting process: constrain
 - Professionalization of public procurers plays a growing role within political strategies.
 - Selecting the appropriate stakeholders to take place in the focus groups.



“With a good education you can grow up to be anything I want you to be.”

Challenges

- Dealing with intellectual property rights
 - Who receives ownership of the product. How is this arranged in the vertical unbundling approach where idea and implementation can take place in more than one firm.
- Providing monetary incentives
 - Setting the prize for which the public actor will buy the product or service Identifying ex-ante prizing.
 - Providing a market that is large enough for firms to participate in the bid and remain in the procurement process.
- Setting the overall policy mix
 - Requires a mixture of various demand and supply based policy measures to reach the desired outcome.