Can service innovations be procured?

An analysis of impacts and challenges in the procurement of innovation in social services

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Background for the study

- Public procurement of innovation has gained attention as an approach to (1) deliver better public services, (2) promote economic growth through supplier innovation

- Implicit focus on tangible products and technological systems

- Public procurement of innovation in services is an understudied area

- How does the nature of service innovation impact applicability of innovation procurement approaches?
Content of the paper

- **Literature review:** What does the research literature say about the relationship between public procurement of innovation and services?

- **Case study:** Procurement of social services for drug abusers by the Social Services Department of the City of Helsinki (Finland) in 2011-2012.

- **Empirical data:** Document material, interviews with representatives from the procuring agency and suppliers.
Public procurement of innovation

- “A process whereby public organizations place an order for something that does not yet exist. The object of procurement has to be developed by the supplier before its delivery.” (Edqvist & Zabala-Iturriagagoitia 2013)

- Two types: (1) Trigger innovation, (2) Responsive to innovation (Yeow & Edler 2012)

- Early interaction between buyer and suppliers (market dialogue)

- Use of functional / performance-based specifications
Service innovations and public procurement

- Service innovation has two important characteristic compared to goods-based innovation: **intangibility** and **interactivity** (Miles 2008).

- **Intangibility**: what do you buy when you buy a service innovation?
  - No physical prototype, only a service description
  - Validation of performance of new services can be challenging

- **Interactivity, co-production**
  - Service innovations often require participation of the client or the end-user and other innovation partners

- Is it possible to buy ´new to market´ service innovations through public procurement?
Case study

Procurement of social services for drug abusers by the Social Services Department of the City of Helsinki
Procurement of social services for drug abusers, City of Helsinki

- Goals of the procurement: to create new types of services, generate innovations in the service area, diversify the service portfolio of the city, activate and engage the suppliers in this domain and develop partnership between the city and the suppliers.

- A new procurement model was developed and applied, the first time such a procurement model was applied in social and health care sector in Finland.
The procurement process – main steps (1)

Market dialogue
- Seminars and workshops with suppliers.
- Suppliers were informed about the needs of the city.

Integration of end-user perspectives
- Prior users of similar services were asked about their views concerning the services. The importance of support from peers was raised here.

Invitation to participate in the tender process (‘negotiation procedure’)
- Open definition of the needs of the city: the city did not tell directly what they need. Created ‘space’ for innovation and for new services.
- ‘Openness’ may also create risks as it may turn out to be a ‘writing competition’
The procurement process – main steps (2)

Negotiations

- 2 negotiation rounds. The suppliers were able to bring forward their perspectives. Considered as beneficial by both suppliers and the procurer. Lack of group negotiations considered as a shortcoming.

Call for tenders

- Innovativeness used as an award criteria in some service categories, weighting of quality up to 40 % in some service categories.

Contracts (Framework contracts for 4 years)

- Bonus/sanction models in contracts: Not realised yet

Collaboration during contracting period

- Unsure whether has taken place
Impacts of the procurement
Did the procurement generate service innovations?

- "Conceptual innovation": New service production model (multi-supplier model, integration of services)

- Service innovations, especially in outpatient care
  
  I. New types of services (e.g. detoxification at home, reward care, web-based services)

  II. Improvements in existing services
   - More tailored services for certain patient groups (e.g. for women)
   - Integration of peer support, possibilities for relatives to participate in the treatment
   - Bringing the treatment closer to the patient (e.g. home)
   - Modular services
Benefits for different actors

End-users
- Improved accessibility (services closer to the patient)
- More emphasis on quality in the call for tenders.

Procuring agency
- Diminishing costs (shift from institutional care to outpatient care)
- More diversified service portfolio

Suppliers
- Systematic innovation process as a response to the procurement
- Some of the new services have been sold to other customers
- New service providers were able to enter the market

Society at large
- Potential to scale up new services for wider impacts
Public procurement of service innovation

- The two key features of innovation procurement appear to apply well when procuring services:

- Early interaction and market dialogue are capable of communicating buyer needs to suppliers, feeding back supplier views to better specifying the tender, and generating innovative service propositions.

- Outcome-based specifications instead of input or design-based specifications do encourage innovation.
Specificities of service procurement

- Due to **intangibility** of services, generating new innovations can take place within the timescale of tender negotiations. Additional R&D phase and extra funding for it are not necessary.

- Due to **interactivity** of services, involvement of users is necessary for relevant innovation to occur.
Contracting in public social services

- Contracting public services to nonprofits and private care provider firms creates ‘quasi-markets’: service is paid by the city but used by citizens. End-user is thus not the buyer.

- Outcome-based procurement requires measurement of service impacts on client wellbeing.

- Due to clients having multiple social problems services should be ‘seamlessly’ integrated with other contracted services and those produced by the city (e.g. rehabilitation, education, housing).

- Competitive tendering not sensitive to purchasing integrated solutions.
Thank you for attention.

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