

Public Procurement of Innovation: The concept and some empirical insights from a UK company survey

Presentation at the Seminar
International Perspectives on Public
Procurement of Innovation.
Held by the Procu-Inno Project
Helsinki
February 16 2012



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Structure

1. Introduce Underpinn project
2. Public Procurement as Policy - trends
3. The survey – some basics
4. Public Procurement: effects on innovation
5. Enablers and Barriers
6. Conclusions

1. Underpinn project

Starting point: Public demand..

- has great potential to spur innovation
 - has been on policy agenda in UK for quite some time, and some recent changes in focus..
 - is underutilised and still poorly understood as innovation trigger
- Knowledge needed
 - How do innovations in public services link to innovation stimuli in firms and supply chains?
 - How is public demand defined, articulated and transmitted to concrete procurement by firms?

Three aims

- Process and institutional context of public .procurement
- Understanding the supplier's perspective and supply chain issues
- Some link to sustainability in procurement

Methods

- Literature review
- Multiple case studies to cover different „situations“
- **Supplier survey (focus today)**
- Institutional analysis and context interview

Team: J. Edler, L Georghiou, S. Gee, A. James, S. Maddock, E. Uyarra, J. Yeow,

2. Public Procurement within the Demand Side Dynamic

- **No doubt:** demand *and* supply needed
- **Good news:** demand policy back

Type of demand-side policy tool	AT	BE	BG	CH	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HU	IS	IT	IR	LT	LV	LU	LI	MT	NO	NL	PL	PT	RO	SE	SK	SI	UK
Fostering public procurement of innovation	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Pre-commercial public procurement						■				■	■					■								■	■				■		■
Regulation as a tool for innovation policy							■	■			■	■																			■
Tax incentives to foster innovation demand							■																								
Awareness raising campaigns, labels	■	■					■	■	■	■	■	■															■		■		■
Lead market type of initiatives		■					■				■													■	■		■		■		
User-driven innovation							■	■			■	■				■								■	■				■		■
Countries	AT	BE	BG	CH	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HU	IS	IT	IR	LT	LV	LU	LI	MT	NO	NL	PL	PT	RO	SE	SK	SI	UK

Source: Izsak, K. and Edler J. (2011) Trends and Challenges in Demand-Side Innovation Policies in Europe: Thematic Report 2011 under Specific Contract for the Integration of INNO Policy TrendChart with ERAWATCH (2011-2012)

- lopsided to Public Procurement
- Public Procurement initiatives: mixed results beyond good cases
- Co-ordinated supply and demand policies? Few...
- UK: forerunner, but..

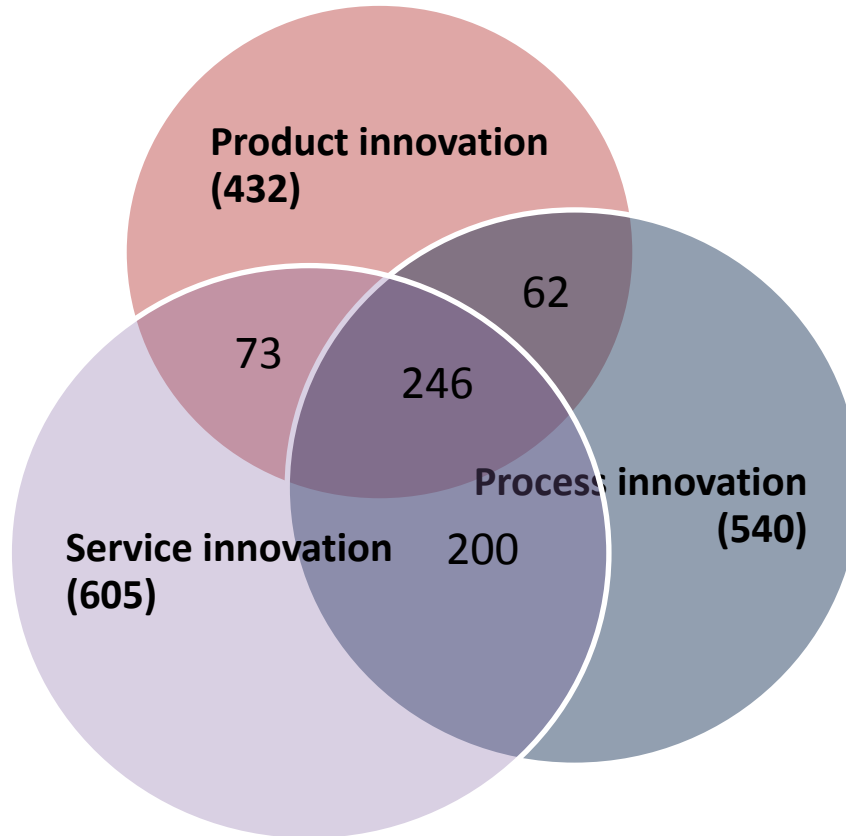
3. The Survey

- CATI survey conducted between June and July 2011
- 800 responding organisations - 10% response rate (non biased across sectors or areas of government)
- Structure:
 - Types of innovation
 - Procurement experience: main supply categories, clients, tendering modes and procurement practice
 - Procurement and innovation: main drivers and barriers, comparing public and private.
 - General assessment
 - Open ended qualitative assessment (not analysed yet)

Profile of respondents

Type	Categories			%
Size (employees)	Less than 10	82		10%
	Between 10-49	297		37%
	Between 50-250	226		28%
	More than 250	190		24%
Age	<5 years	32		4.0%
	between 5-10 years	147		18.4%
	between 10-25 years	231		28.9%
	between 25-50 years	117		14.6%
	> 50 years	33		4.1%
Type of organisation	Private	649		81.1%
	Social enterprise	139		17.4%
Main category of goods and services supplied	Facilities & Management services	91		11%
	Healthcare equipment, supplies and services	116		15%
	Office equipment & IT	61		8%
	Professional services	159		20%
	Social community care, supplies & services	133		17%
	Other (incl. utilities, education, transport)	54		7%
	Works	145		18%
Main client	NHS	195		24%
	Local Government	423		53%
	Central Government	121		15%

Innovation activities



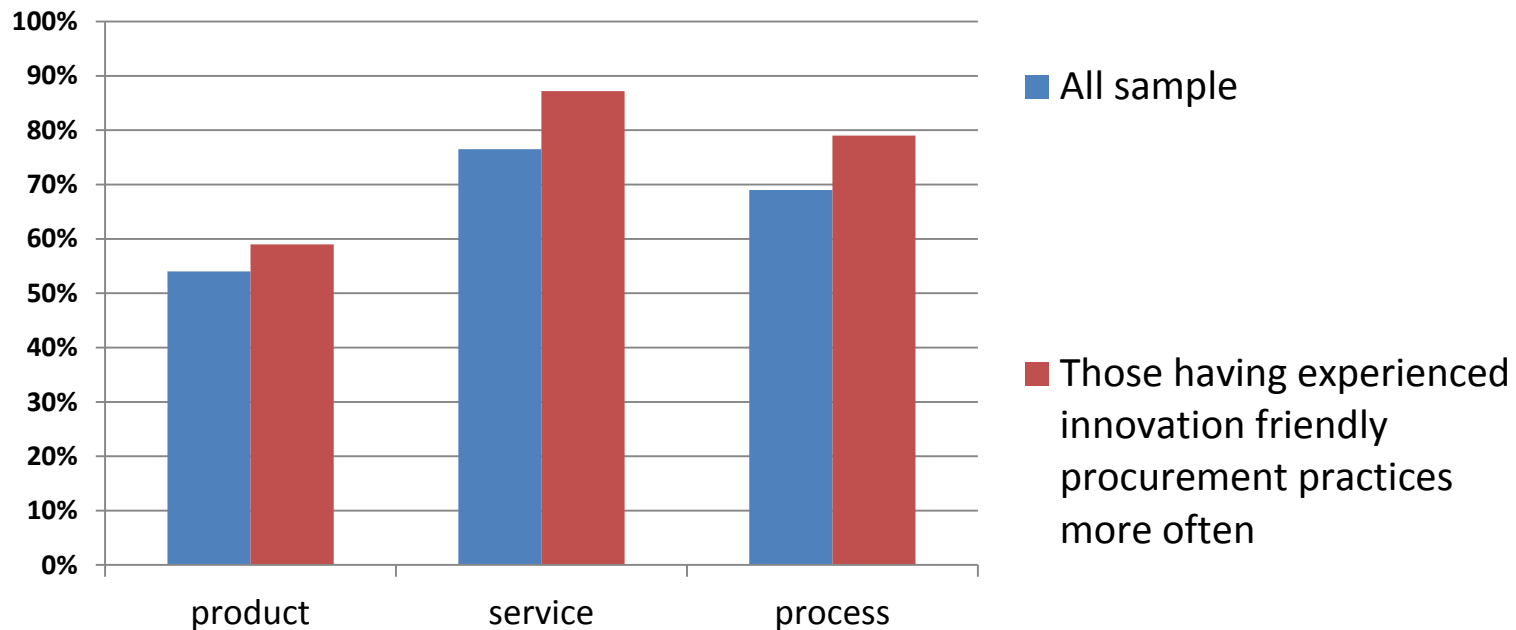
Respondents have **introduced** a mix of product, process and service innovations **in the last three years** (N=800)

- Larger companies slightly more innovative
- Service providers more innovative

4. Public Procurement Effects on Innovation

Procurement practices make a difference

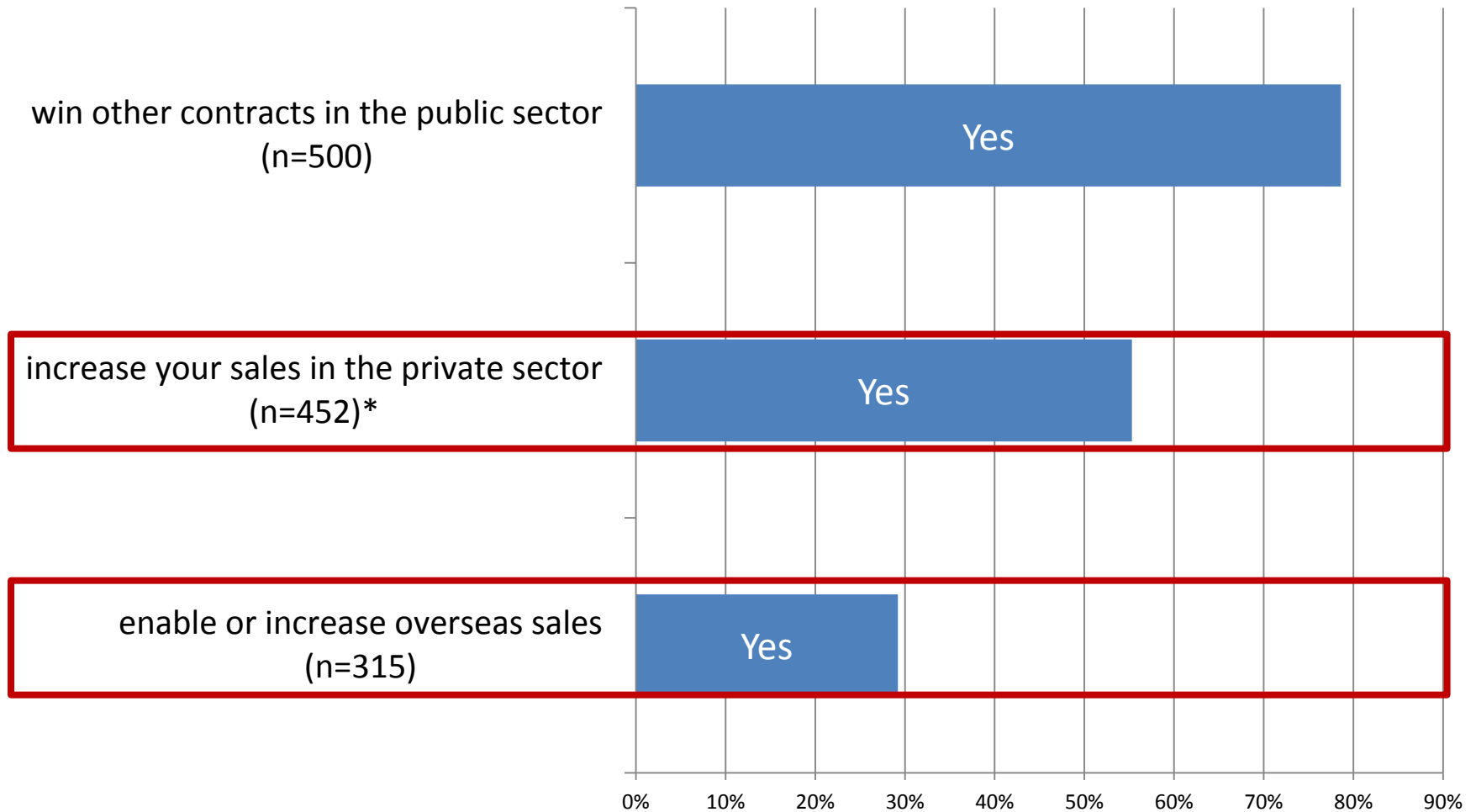
- Certain practices are **more innovation friendly**: outcome based specifications, innovation requirements, early communication, incentive contracts, etc
- Innovation friendly practices lead to **more innovation** : Figure: Share of those suppliers having actually **introduced a new or significantly improved product/service/process innovation** in the last three years



- **Innovation pays off: 60.4%** of respondents reported having won a contract **because of an innovation.**
- This figure raises to **72.2%** for those more exposed to innovation friendly practices.

Catalytical effects of public procurement

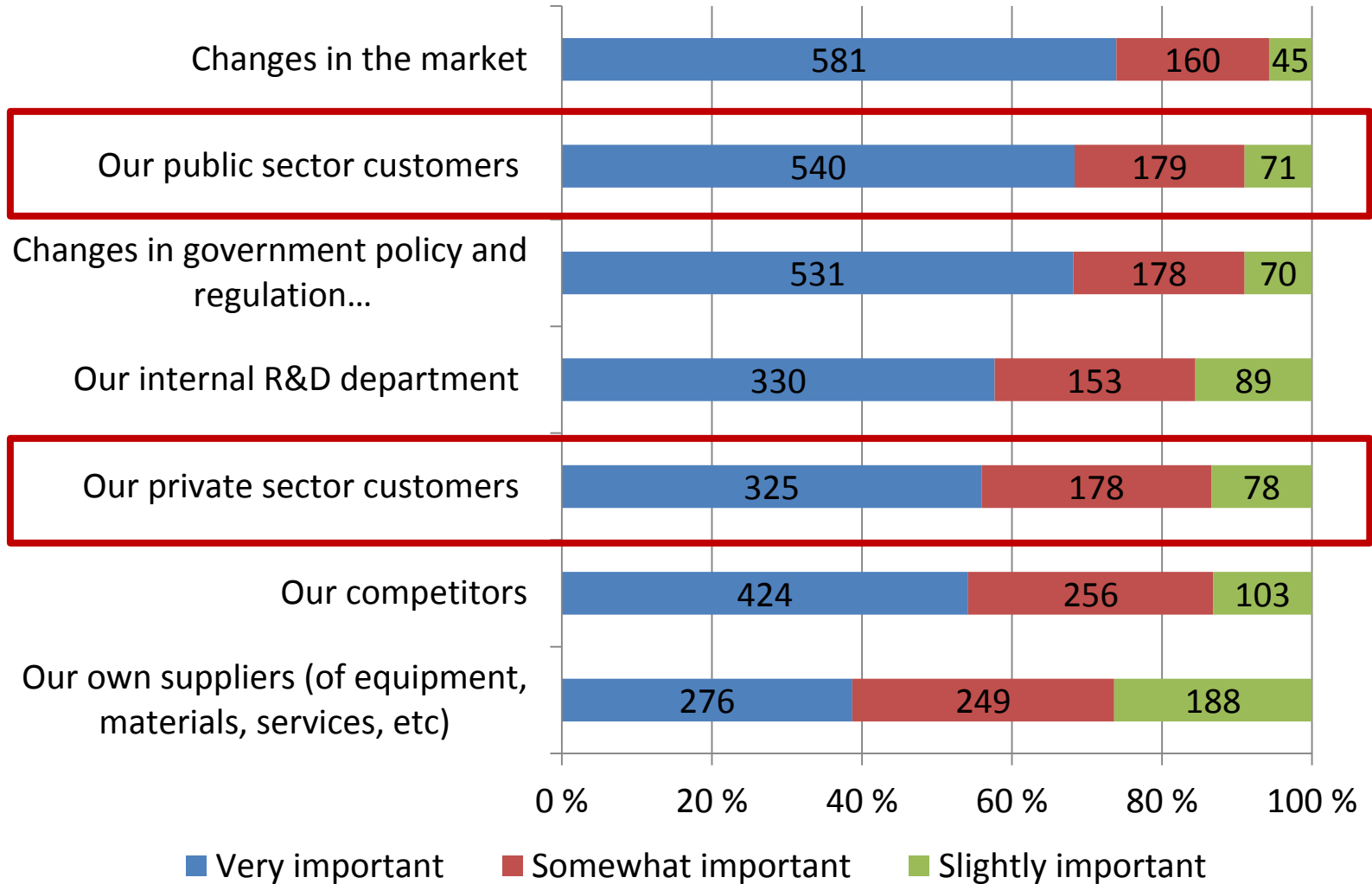
Innovations that resulted from bidding for or delivering public sector contracts have subsequently helped us to



* Excludes those organisations who said that virtually all their sales in the last three years have been to the public sector.

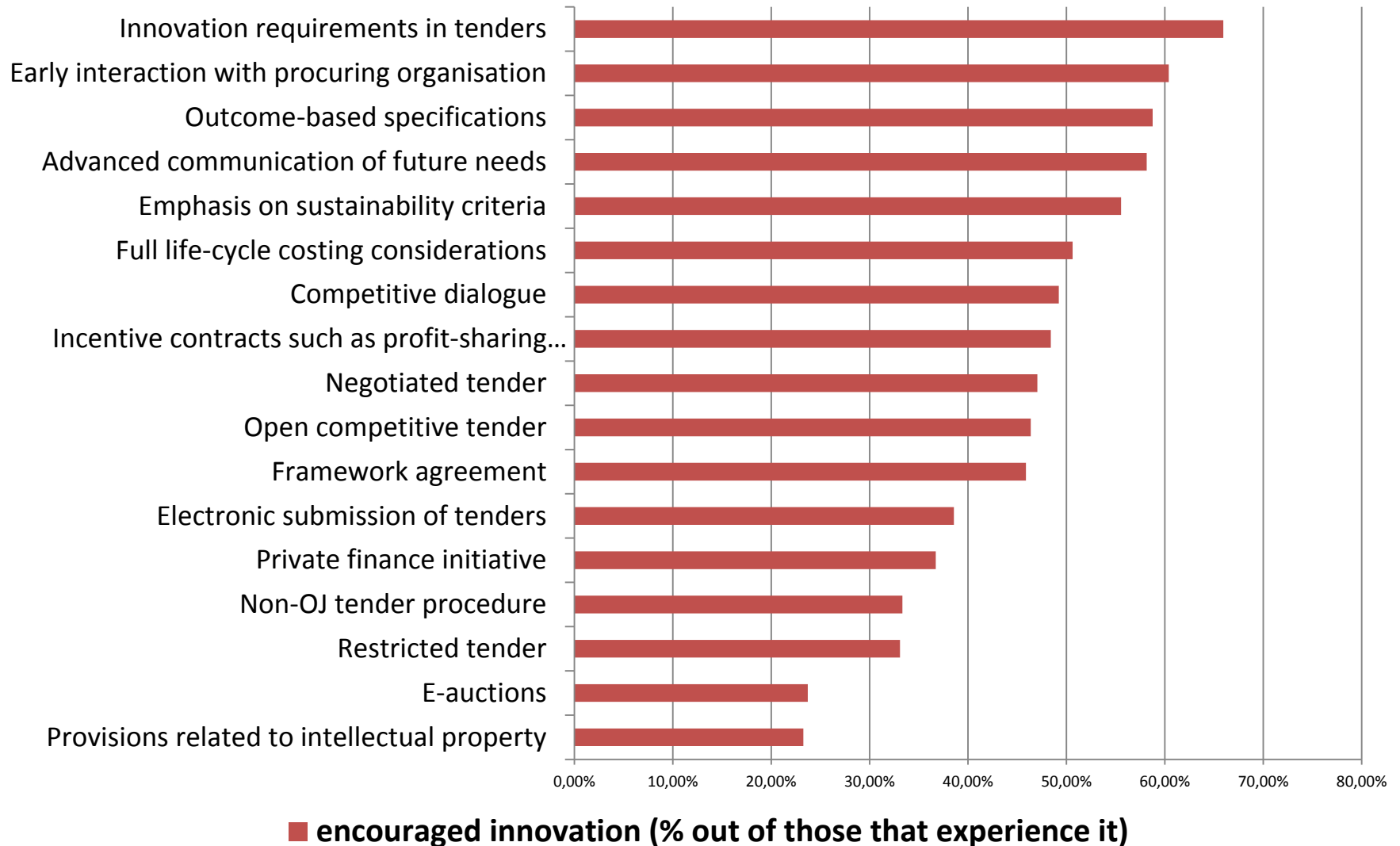
Public clients are important sources for innovation

Importance of sources for driving innovation

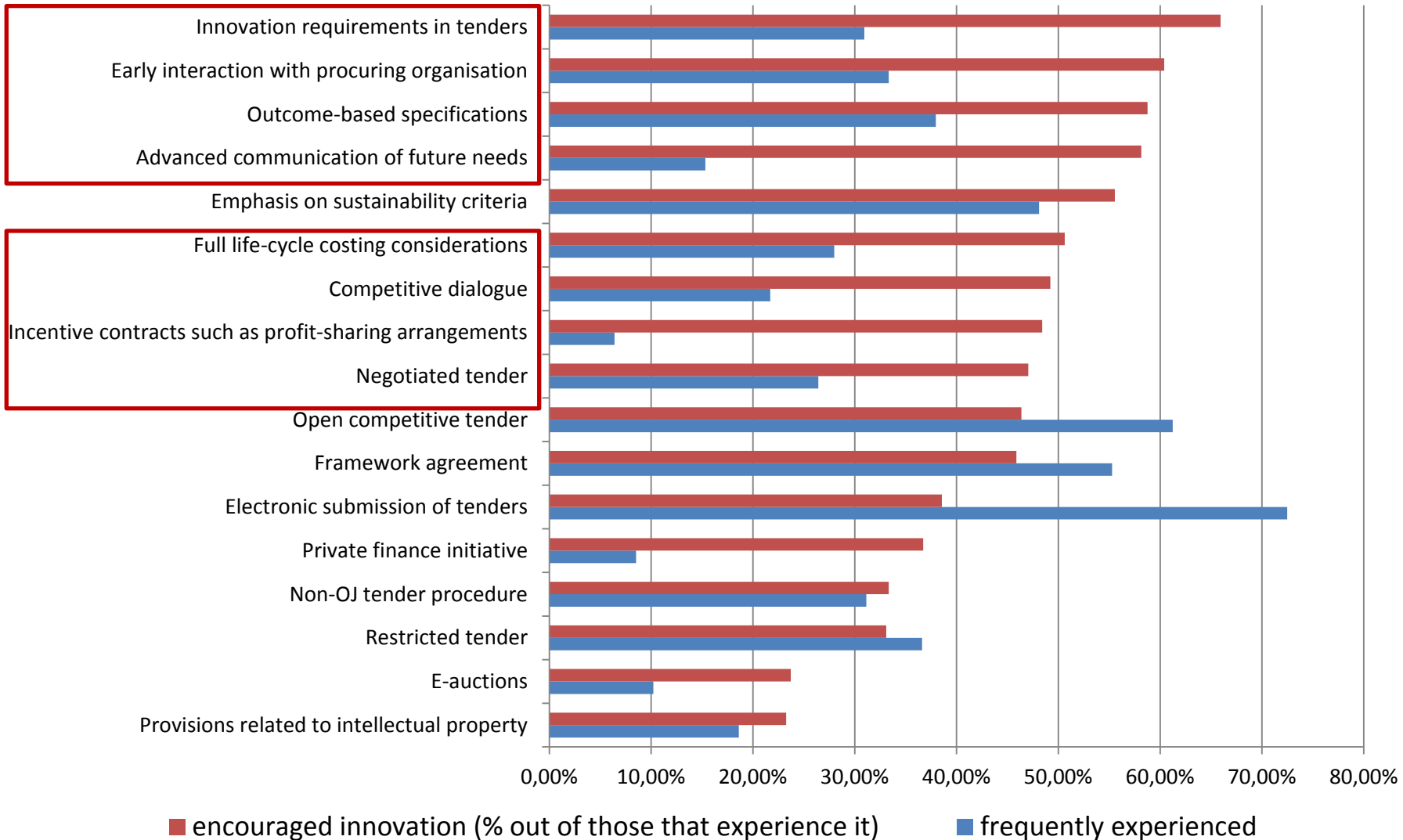


5. Enablers and Barriers

What is the influence of different practices and modes of procurement on innovation?

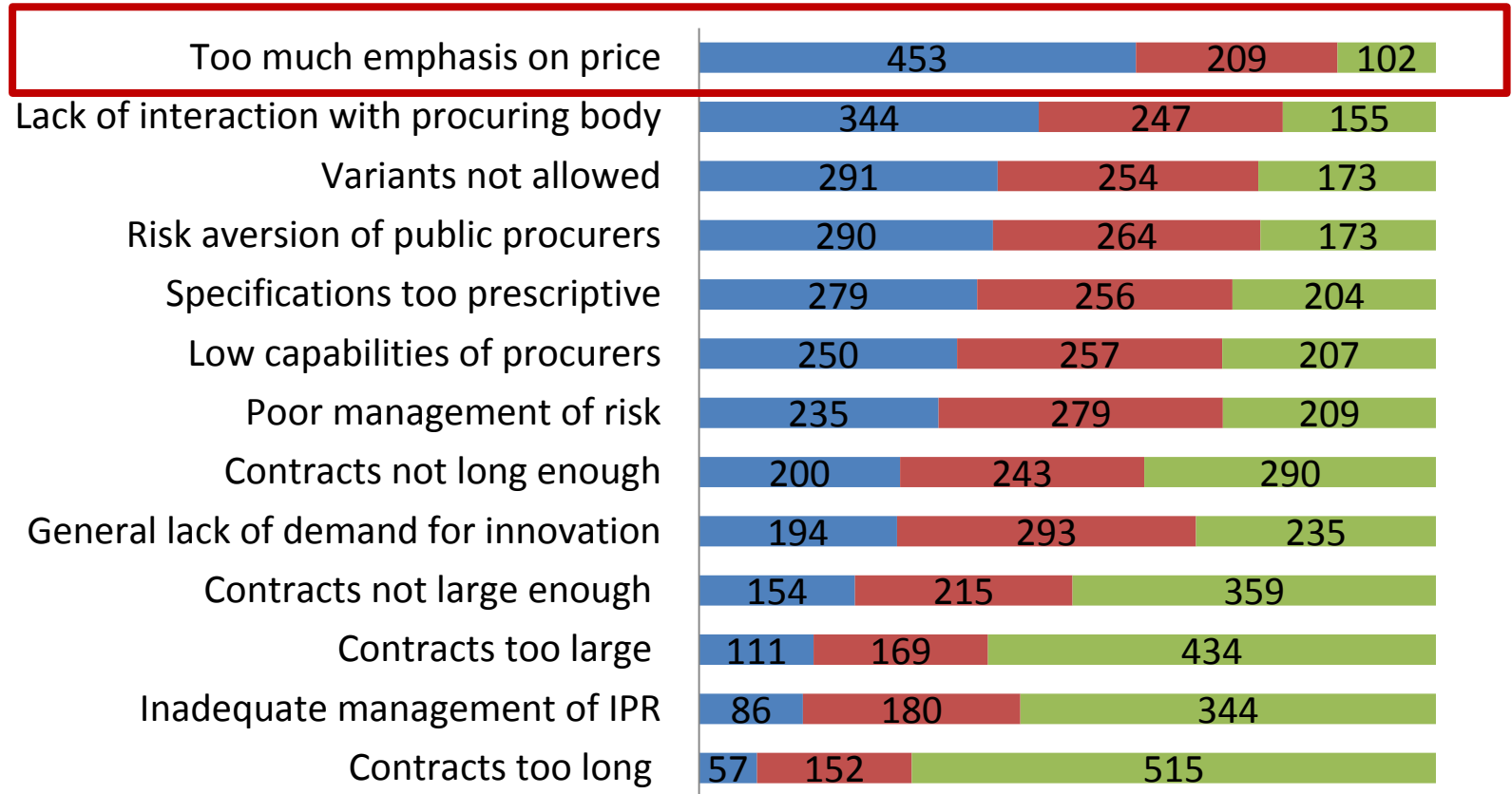


Those practices that are innovation friendly are not very common



Barriers to innovation in procurement

■ Very significant ■ Moderately significant ■ Not at all significant

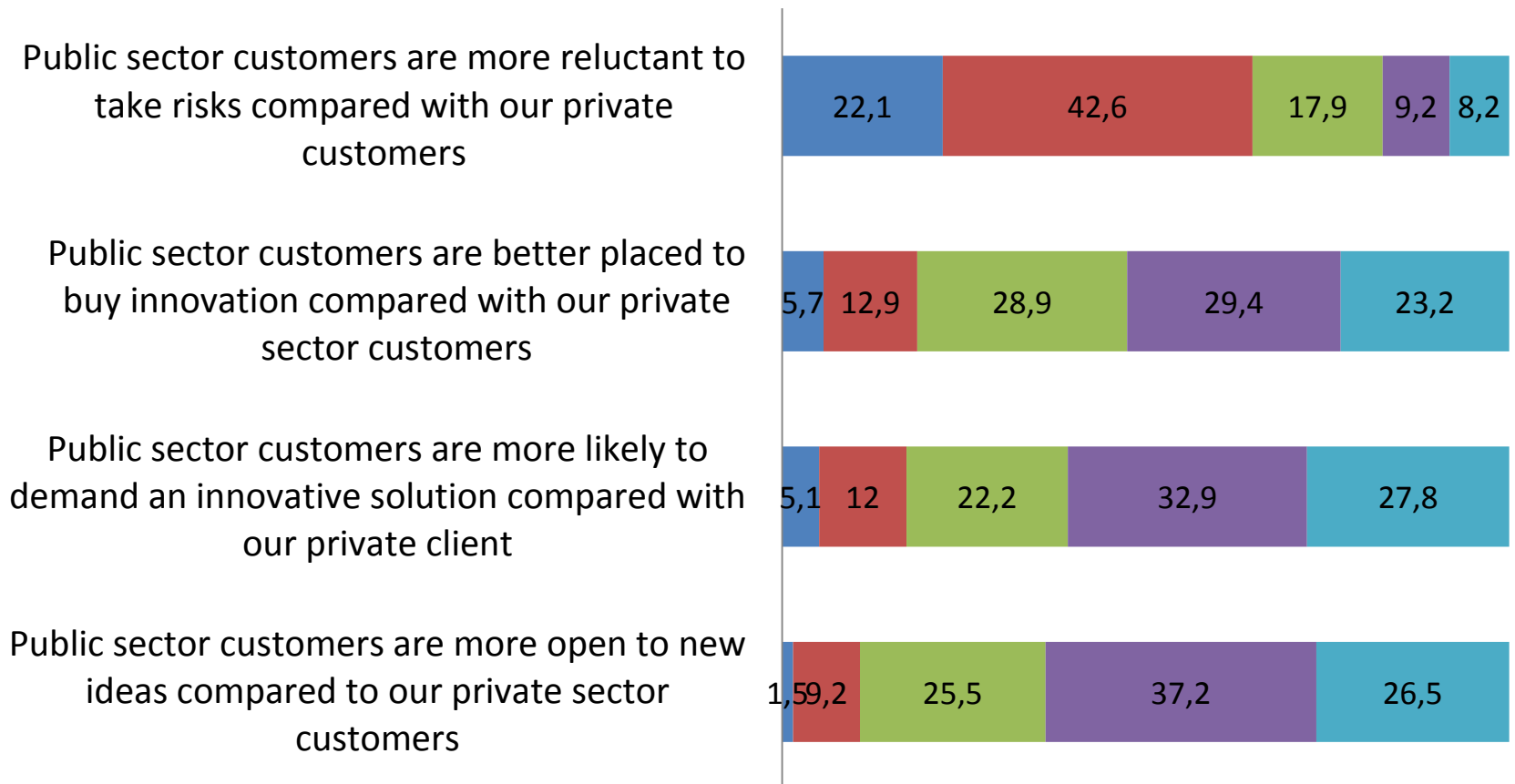


- Differences by category: healthcare & works suppliers: too much emphasis on price; Social and community care organisations: contracts not long enough
- Differences by firm size: Large companies emphasise the lack of risk management
- **Further** : Lack of market / technological knowledge; poor use of supply chains

Public procurers **worse** equipped than private...

Some comparative assessments

■ Strongly Agree
 ■ Agree
 ■ Neither agree nor disagree
 ■ Disagree
 ■ Strongly Disagree



6. Conclusion

- **Public procurement does indeed drive innovation:** Winning contracts, triggering innovations, being source for innovation, first customers
- **Much of this innovation is hidden**
- **Catalytical effects – lead customer effect**
- **Large firms** benefit (slightly) more In general
- **Central government** / professional services: more prone

6. Conclusion

- **Pre-conditions – to debate**
 - **Explicit** commitment (across organisation)
 - **Pre-procurement signals** and interaction (not only during process)
 - **Roadmaps**, visions, commitment
 - Allowing **variety** (outcome spec., unsolicited ideas...)
 - Managing **risk/benefit**
 - Link **sustainability** to innovation
 - Capabilities and knowledge:
 - Establish **closeness** to market and technology
 - **Closer interaction** between internal users and procurement
 - To **trigger innovation**: two-stage processes and **intermediaries** to support and roll out good practice

