


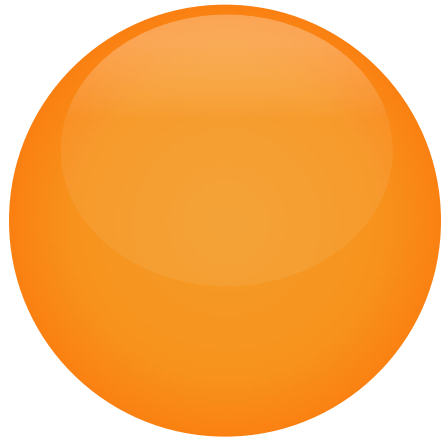
Su Maddock
Kilpailutustemppuradasta
hyviin hankintoihin
From competition to collaboration-



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Public Procurement for innovation





**DR SU MADDOCK
MANCHESTER INSTITUTE OF
INNOVATION.**

Procurement For Innovation

- The EU and OECD promote public procurement as the vehicle for the adoption of innovation in all sectors.
- The total value of tenders in the EU for the three-year period between 2006 and 2008 was estimated by the Commission services to amount to ca. 1,137 billion Euro.
- Public procurement of good, services and thought-leadership has become central to public sector reform
- The question is how far current procurement practice is embracing or thwarting innovation ?

Procurement for Innovation

- Innovation Policies in the West continue to be underpinned by classical economic models of growth, supply and demand
- Social media and new technologies have speeded up the transfer of new ideas and practices. Yet, the dominant model of innovation transfer remains a managed pipeline from *'science to the business'*.
- Innovation uptake is conceived as a practical matter of getting *'products to market'*.
- This perspective completely ignores the unpredictability of the innovation journey.
- People's agency, motivation and perseverance underpin innovation and can take years to gain acceptance even in these times of 24/7 news and social media [Flanagan & Uyarra 2011].

Procurement for Innovation

- Elinor Ostrom, the Nobel Prize [2009] winner observed how people's capacity to connect made 'whole-systems' work; and that economists who only looked at isolated components failed to observe either the whole system or the dynamics of the system.
- She questioned whether the neo-classical economic model was an appropriate mode for innovation, given its narrow focus on 'financial gain' and undervaluing of people's capabilities.
- She also challenged, the widely held assumption, that '*competition*' automatically leads to business growth and innovation and instead put forward the idea that both rely as much on trust, connectivity and collaboration.
- Almost all innovation depends on a journey of collaboration and connectivity to spread, a view endorsed by the former Nobel Prize winner, Elinor Ostrom.
- <http://www.nobelprize.org/mediaplayer/index.php?id=1223mm>. Maddock, S *Creating the Conditions for Innovation*. (2009) www.nsg.gov.uk/creating-the-conditions-for-innovation.

Procurement for Innovation

Not all innovation is the same

PRODUCT INNOVATION can travel to market with ease i.e. smart phones,

PROCESS INNOVATION is introduced through new technology and present less of a challenge to public management **SYSTEM**

PUBLIC SERVICE INNOVATION IS HARDER it involves a dramatic shift in attitudes, relationships and behaviour change

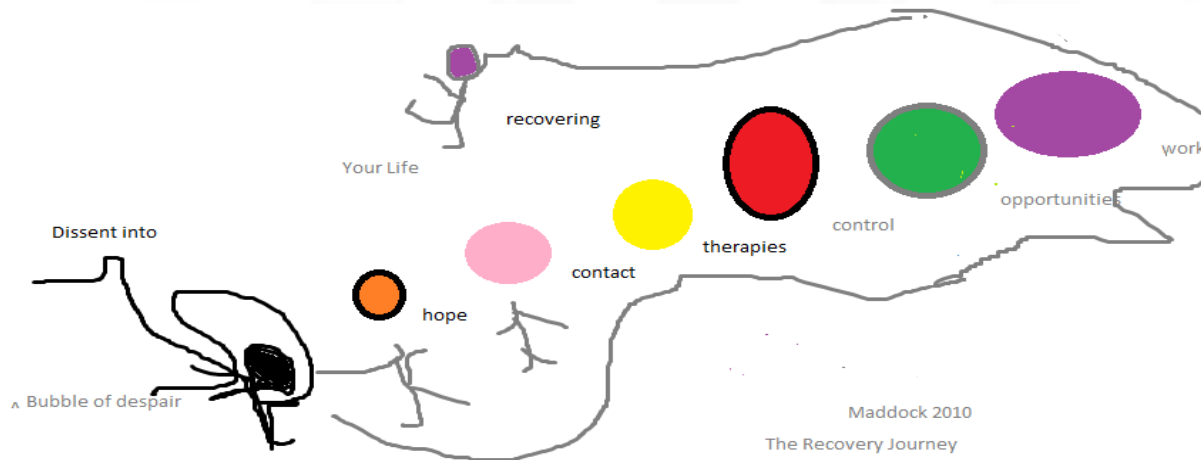
Government has fewer expectations of controlling SOCIAL INNOVATION as VIRAL

All innovation requires INNOVATION in and GOVERNANCE AND SYSTEMIC SUPPORT.

The question is whether public procurement is nurturing the collaboration and conditions for service and social innovation?

Procurement for Innovation

Innovation is about collaboration
and connecting people and events ...



Procurement for Innovation

- **What we have learnt about innovation flow.**
- **Innovative ideas and practice tend to spread in viral not linear fashion** unpredictable and hard to control.
- Innovators have a quest for innovative solutions to persistent problem.
- Social innovation & Innovative personalized services are shown to be best delivered by organisations that are social-value driven, flexible, lift people's aspiration and collaborate across agencies.
- 'connectors and brokers who work in the interfaces and on the boundaries between organisations, act as catalysts for innovation networks and locality innovation ecosystems.
- The early stages of service innovation usually involve a network of agencies and champions who forge new relationships and enterprises.
- Smaller, socially innovative contractors network with a wide range of people and organizations;

Some examples...

- Twitter and social media platforms
- Collaborative Learning Networks in health, education.
- Plastic Bag campaigns
- Community banks
- FINLAND

Procurement for Innovation

Ways and means of spreading Innovation
Thinking digital and people connectivity

- Early interest by intermediaries
- Social Media
- Pilots, Hubs & Incubators, Mind Labs
- Demand through procurement, prizes etc
- Innovative leadership building open systems
- Reward innovation, incentives

Hall and Soskice report that the rapid transfer, model of innovation is counterproductive to innovations dependent on human-capacities, i.e. services.

Procurement for innovation

Realities of government procurement in the UK – A case study by MIOIR. DWP assumed could achieve

- Savings through rationalisation
- **reduce number of prime contractors**
- **A transfer of risk from government to the Tax payer**
- **Payment by results system**
- **personalised and innovative services.**

through one centralised two-tier model of Primes and sub-contractors/ specialists to buy service that dependant on human capacities and collaboration.

DWP Adopted the TESCO model for buying personal services for claimants to get them back to work

based on a 'one size fits all' model as a good fit arguing that their operations as no different from that of a supermarket with:-

- High volume sales, turnover and profit-margins
- Commitment to service quality and choice
- Consistency between outlets suppliers across the country

The consequence of DWP adopting this business model

- contracting framework geared to a few large companies
- Specialist innovators got receiving contracts
- local Job Centres left with no flexibility for collaborative relationships
- Payment by results cut out smaller innovative suppliers who cannot wait a year for payment
- Model undermines inter-agency working and service innovation (even Primes agree)
- **prime contractors agreed the model not conducive to personalised service innovation.**

<http://www..mbs.ac.uk/cgi/apps/research/working-papers/view/?wld=239>

Procurement for Innovation

The barriers to collaborative public procurement

- Government focus on savings not innovation
- Inappropriate innovation procurement models
- No reward for relationships involved in collaboration with external partners
- Dominant management regimes - resistance to any change and cultural inertia
- Transactional managers who prefer process to people (male cultures)
- Silos and competition in public institutions and companies
- The latter are barriers to innovation generally

TENSIONS between

- Tensions between financial innovation and collaborative innovation
- Market model and public innovation
- locality and government commissioners, localities say devolved procurement does support local collaboration (inter-agency)
- Central, corporate procurement and local public service innovation, given growing evidence of that local connective networks support innovation across a wide range of public services.
- Transformational and transactional managers

Procurement of innovation

PUBLIC SYSTEM INNOVATION

- Public system innovation called for as service failures reported as due to poor communication and inter-agency working;
- Gulf between commissioners and procurement practice.
- While system approach lacking to support intelligence and stimulation of new social markets
- Is an on-going struggle between innovative commissioners who support collaboration and political demand for efficiencies and savings.
- Poor strategic public leadership.
- Current procurement practices integral to the public sector command – control management leading to poor public procurement and management of connectivity in supply chain for all innovation.
- Research suggests that social value is lost if relationships are institutional and engagement superficial rather than collaborative.
- Marsh, I & Edwards, L. (2008) The development of Australia's Innovation Strategy: can public sector system access new policy frameworks? Occasional paper, Sydney: Australian Business Foundation.
- Akkermans et al (2009) Policy Research 38(1):181-191

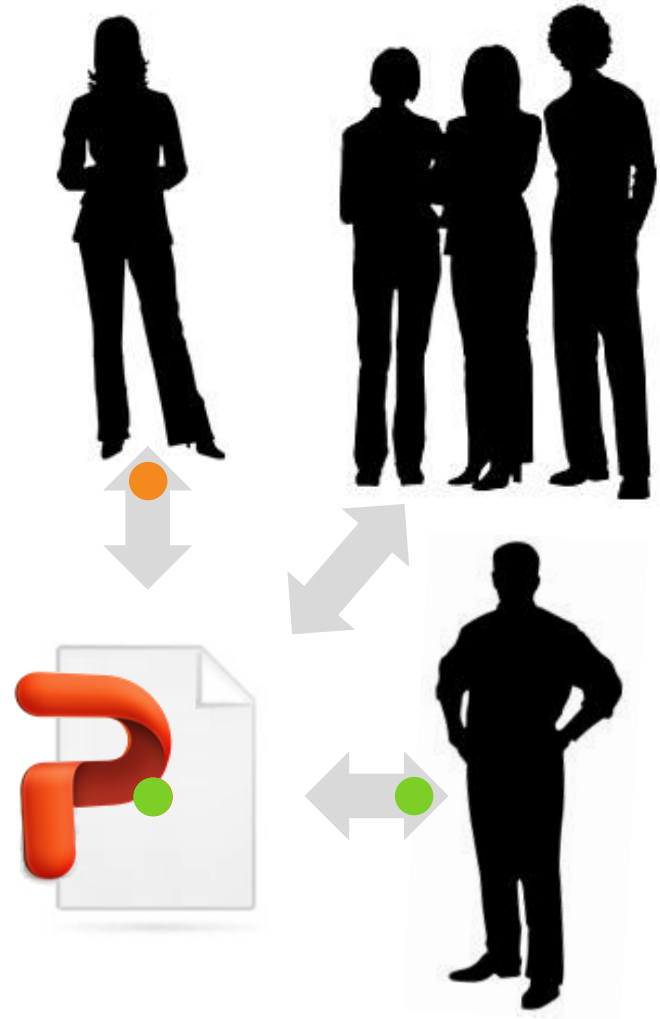
SO WHAT ARE THE ALTERNATIVES

To the market model of procurement that will support collaborative practices and the relationships across sectors ?

Procurement and Innovation

Making
procurement
capable of capturing
innovation and the
collaborative
practices that
underpin it!

Collaboration



Procurement and Innovation

WHY LEADERSHIP MATTERS

Collaborative Procurement calls for leadership support - people who identify early with champions and give them space, backing and contacts.

Kosonen (2008) said successful leaders are need to motivate staff, stay close to the problems, provide others with the confidence to explore new ways of working. This requires a transformation of practices, including procurement.

The biggest challenge for public procurement in the UK is to the leadership capabilities to transform public organisations and practices

Cultural Barriers

Too often procurement teams are often middle managers not close enough to commissioners or corporate leaders.

- The author suggests that paternalistic cultures can inhibit collaborative leaders and hence
- there appears to be a tension between transactional and transformative leadership and male cultures
- Relationship with transformative women executives over time provides evidence of the connection between transformative leadership and to the creation of innovation cultures.
- Transformative women are thwarted by gendered cultures.

Procurement for Innovation

- There are alternative innovation strategies that acknowledge the significance of human capabilities & connectivity
- System dynamics, sustained relationships within eco-systems.
- a growing number of locality /place – based models of innovation which support collaboration, social value, inter-agency working and an evolutionary approach to innovation.

- **These can be categorised under**
- **Developing innovation Leadership , collaboration and behaviour change**
- **Place Based Innovation**
- **Technical support for procurement**
 - **Social Value**
 - **pre-procurement**
 - **Managing supply chains**
 - **Mapping tools**
- **Commissioning**
- **Innovation Systems Change**
- **Governance**

Procurement for Innovation

Examples of transformative leaders transforming commissioning and procurement

- **Wiltshire Head of Children Services working with youth to reframe criteria in services**
- **Joint commissioning and purchasing groups**
- **Police commissioners – working with offenders prior to contracting with private security firm.**
- These strategic leaders ensured that public procurement did not become formulaic **or have unrealistic timescales.**

Karen Mclusky –reduced Knife crime in Glasgow by 40%

Irene Lucas, co LA

Involved garbage men in local solutions to vandalism by giving them smart-phones.

The Transformative leader

- Seeks to solve challenges through collaboration & innovation
- Seeks out innovators at any level and creates space for them
- negotiates rather than controls
- Is open to new ideas & accepts the messiness of early innovation
- drives corporate change to support innovation
- take risks to make a difference
- Is not frightened of conflict
- Change cultures -towards open systems and more creative and transformative public leadership.

Procurement for Innovation

Communities and Collaboration

Place-based model.

- Public leaders driving more collaborative procurement in UK
- Inter-agency working most evident at the local level where partnerships are strong & a narrative for locality commissioning
- They support digital connectivity, whole system budgeting, locality supply chains and third-sector consortia.
- **Solihull Metropolitan Borough Council contacted its core suppliers to develop plans for increasing employment opportunities for local people**
- Maddock & Robinson (2010) Place-Based Innovation. National School of Government (closed 2012)
- Leadbeater, C (2009) Manchester's journey to innovation and growth. NESTA provocation 11, Sept

76% of local authorities are already engaging with suppliers in order to increase social value.

- Only 7% of local government (UK) commissioners believe that suppliers are a barrier to social procurement [2013]
- Many believe that suppliers are more innovative than procurement teams. =- demand is not a good lever for innovation
- 27% of authorities surveyed stated that a lack of training is a barrier to delivering social value.
- 41% pinpointed lack of experience as a barrier. Or lack of understanding of managers is as important, Cultural and opportunities to work with recipients and suppliers can change mind and mind sets.
- politicians should endorse to stop narrow Value for Money
- Suppliers may be willing to support the social aims of contracting authorities because of the commercial advantage they may gain over competitors by meeting an authority's broader social value requirements.

Procurement for innovation

Leading system change

- Social Innovation intermediaries are moving from service innovation to systems innovation
- local leaders recognise the connection between local environments, people's capacities and business growth are attempting to integrate strategies.
- Want more innovative solutions to austerity and are investing in digital connectivity, whole system budgeting, locality supply chains, and third-sector consortia.
- Local innovation strategies are not only emerging in large cities such London, Manchester and Birmingham but also in Places like York, Swindon, Rotherham and Gateshead. Rural areas as well as cities are calling for locality banks and devolved powers.
- Locality partnerships are driving an emergent political and governance reform process, the laggard in this process is central government.

- **Government's role in UK**
- Commissioning Academy –Jan 2013
- Peer to peer support for commissioners in government and local authorities .

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Procurement for Innovation

TECHNICAL SUPPORT

Social Value Legislation

- The Public Services (Social Value) 2012 Act in the UK allows to specify increases the emphasis on 'social value' in public procurement.
- Suppliers will not benefit from the legislation, unless they change their relationships with suppliers and their business models.
- The challenge is to either support social value via collaboration or continue with competitive transactions ?
- Social value needs to be built into on going contract management.
- Social Value can be the driver of collaboration

The concept of 'social value' can be confusing.

- **Social value needs to part of contract spec**
- The inclusion of social value in specifications means that suppliers are contractually obliged to deliver social wider benefits.
- **Knowing what is legally possible is the barrier most frequently mentioned by public procurers in the UK.** However, EU and UK procurement legislation is actually less restrictive that procurement teams think
- A shift in attitude is needed that involves senior know-how in terms of setting and applying strategic objectives around social value, and overseeing the right incentives for staff and suppliers.

Procurement for Innovation

Collaborating across supplier chain

- Suppliers to local services and government are a key driver for generating social value from procurement transactions.
- **Develop collaborative relationships with chosen suppliers** who demonstrate a capacity to deliver social objectives and value as well as cost savings.
- Sustained relationships and collaboration underpin the supply chain that drives social value objectives.
- Ensuring suppliers are aware of social/environmental priorities then desired outcomes are more likely to follow
- increase opportunities for small, local suppliers.
- Dialogue with suppliers on a regular basis ensures that social value criteria are taken seriously.

Collaborative relationships enable public bodies to encourage suppliers to contribute to wider social, economic and environmental outcomes.

Collaborative relationships lead to all parties understanding each other's concerns, are transparent, agree joint objectives and have a shared commitment to local strategies; it does not mean a purely accommodating approach to suppliers. Developing and sustaining collaborative relationships takes time and effort, procurement teams need to identify priority suppliers to work closely with.

Redesign and pre-procurement

- Procurement teams make the case for collaborative relationships in pre-procurement legal within EC legislation & is an important part of commissioning for social value.
- public partnerships with local strategic objectives, community Strategies and priorities seek practices that support collaboration and public value.
- Partnership working is a particular area where small, local suppliers will require support.
- Local authorities are increasingly looking for suppliers to work more closely together and develop joint bids, particularly in the social care and construction markets.
- Regular open meetings between commissioners, procurement teams, suppliers and service recipients

Examples

- Solihull Metropolitan Borough Council has a Business Charter that sets out its expectations for businesses, including social responsibility, local jobs and the use of SMEs.
- Cardiff Council's 'Source Cardiff' good example of pre-tender engagement with local supply chains. insisting on supply chain clauses such as holding buyer events requiring bidders to submit 'jobs 'plans.
- Northamptonshire County Council has a construction framework to encourage smaller organisations to bid for lower value opportunities from £200k to £500k.

Procurement for Innovation

Tools for support whole system

Mapping Systems and needs/problems

- Identifying the problem: elder care, trafficking, waste, obesity, crime.
- Mapping relevant system
- Innovators, stakeholders, power brokers, commissioners.



Collaborating with

- Communities
- businesses
- Intermediaries
- Local leaders

To Explore solutions

- Creating social media platforms
- Forming Networks
- Engagement in contractual arrangements with innovators prior to procurement.

Procurement and Innovation

COMMISSIONING

Commissioners can

- Determine procurement models (DWP)
- consider the social consequences of social value and value for money
- with involvement of local partners, then with collaboration may improve value for money.
- Involve communities and local partnerships in criteria and relationship through Whole System Commissioning

The big obstacle is the gulf between commissioners who care about need and social markets of innovative suppliers than procurement teams, who tend to be technical middle managers with too little authority to develop collaborative relationships.

Regional Commissioning grouping

- The role of public leaders is not always to lead but to align their strategies to the energy of innovators and create the frameworks and mechanisms for more open and dynamics relationships within procurement.
- **West Yorkshire Procurement Group**
- **Collaboration reduces risk.**
- **Reduce costs**
- **Ensure value**
- **Ensure commissioning objectives**

Procurement for Innovation

There is an emergent paradigm that values collaborative relationships within procurement

- at the locality and city level
- Intermediaries are playing a role in demonstrating the value of collaboration and connectivity
- Procurement remains formulaic because procurement teams are detached and junior to commissioners in the UK
- Logical technical systems reinforce transactional management.
- Women leaders are playing a critical role in orchestrating collaborative relationships at the local level.
- Commissioners more likely to be closer to needs and solutions not always effective at transforming procurement technical systems.

However.....

- Academics and policy-makers remain too little interested in practice and prioritise theoretical concepts at the expense of live transformative practice
- The belief that *ideas that drive change* undermines the significance of agency within practice
- The hegemony of rationalism assumes that effective change can be delivered through restructurings & technical-logical management
- Innovation synonymous with products rather than with people's capacity to explore and collaborate
- The *structuralist framework* is currently intellectually discredited but persists because it is the easiest way to control finances, operations and people.

Governments are increasingly interested in procurement, not only a matter of technical processes but in terms of its capacity to capture social innovation as well as savings.

Which is why UK government have set up The Commissioning Academy

However, if this does not also incentivise a connection in practice between procurement teams and commissioners – no matter how good the commissioners in practice procurement will remain technical and competitive.

- More positively, the public in the UK is questioning the governance of privatisation and the corporates benefitting from marketisation in all government services.
- Locality partnerships are driving an emergent political and governance reform process, the laggard in this process is central government.

Thanks for inviting me!

I can be contacted on

Su.maddock@mbs.ac.uk

@sumaddock

***Innovation is about
creating environment
for collaboration and
connectivity.***



Su Maddock Helsinki May 2013