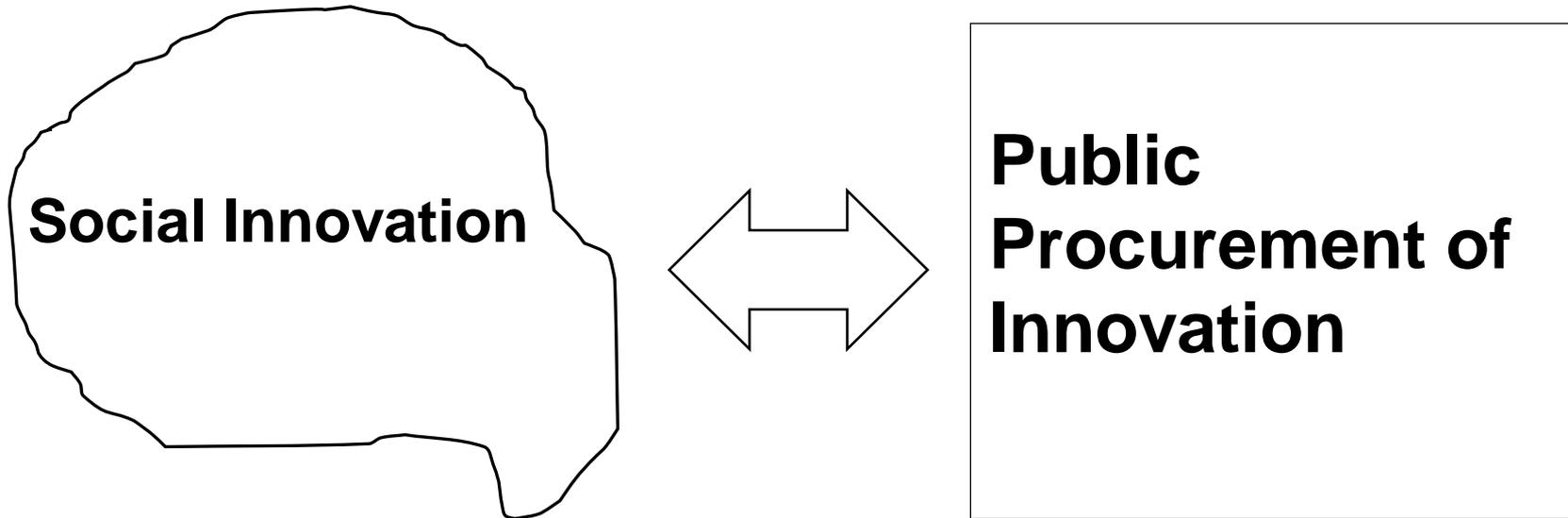


Bringing Social Innovation into Public Procurement of Innovation: Challenges and opportunities

Max Rolfstam

**Department of Business and Management, Aalborg University
Denmark, E-mail: max@business.aau.dk**

Pufendorf Institute, Lund, Sweden, 28/11/2016



With the purpose of merging these two discourses, the paper examines how the Social Return of Investment (SROI) framework can be applied in the context of public procurement.

Policy targets formulated at the Lisbon European Council, 2000 and refined in Barcelona 2002, for the European Union to become 'the most advanced knowledge economy in the world'

Emphasise demand-side before supply side measures

Public procurement as a demand-side innovation policy instrument

A shift from early neo-liberal policies in the past (Martin Hartley and Cox, 1997; Arrowsmith, 2005)

→ Government "as a fundamental provider rather than an adjunct to the business of running the economy" (Callender and Matthews, 2002, p. 230)

It appears as if the policy development has not materialized into concrete action to the extent envisaged by policy makers.

The official view is still that “Europe has an enormous and *overlooked opportunity* to spur innovation using procurement” (European Commission, 2011, p. 16, italics added).

Also practitioners note that “public procurement of innovation is hardly ever used in a strategic way” (van Putten, 2012).

“lack of systemic policy design and implementation”, even in UK (Edler, 2009)

A solution without (connection to the) problems?

Public procurement of innovation (technology procurement) understood to occur

“when a public agency acts to purchase, or *place an order for*, a product – service, good, or system – that does not yet exist, but which could (probably) be developed within a reasonable period of time...” (Edquist and Hommen, 2000, p. 5, italics added)

Which might be considered a ‘command-perspective’

- which has also rendered critique among scholars -

it, for instance, ignores the processes leading up to the procurement (Euarra and Flanagan, 2010; Rolfstam, 2012; Guerzoni and Raiteri, forthcoming)

- Implied division of roles: (one) public procurer vs suppliers
- A public agency will buy what it needs to deliver public service
- Economic organisation operating with scarce resources
- Legal requirements: the most economically advantageous bid, or the lowest price.
- Specification, Selection Criteria, Award Criteria

**Scrutinise to what extent
social innovation would
be a useful concept to
take into account**

Everything from an individual setting up a voluntary beach lifeguard service, to a multi-billionaire funding research projects devoted to the development of orphan drugs.

Microfinance (Phills et al., 2008), intermediaries enabling diffusion of grass-root innovation (Hargreaves et al., 2013), or living labs set up for collaborative place-based innovation aiming at satisfying elderly people's needs (Edwards-Schachter et al., 2012), centrally funded experiments aiming at addressing social problems in socially underdeveloped areas (European Commission, 2011b)

“an approach, rather than a sector” (European Commission, 2012, p. 7),
“...that can influence all walks of life for the better” (European Commission, 2012, p. 11).

Even innovations developed by commercial firms (Phills et al. 2008)

As a concept intuitively comprehensible: but finding its boundaries in the literature is not a straight-forward task. → "Social" + "Innovation" (Phills et al., 2008).

“novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals” (Phills et al. 2008, p. 36).

“new ideas (products, services and models) that simultaneously meet social needs and create new social relationships or collaborations. In other words, they are innovations that are both good for society and enhance society’s capacity to act” Murray et al. (2010, p. 3)

“the generation and implementation of new ideas about how people should organize interpersonal activities, or social interactions, to meet one or more common goals.” Mumford (2002, p. 253)

Like any type of innovation (Lundvall, 1992), also social innovation rests on interaction, and actually, at least sometimes some kind of user-producer relationship (von Hippel, 1988).

Firstly, social innovation will require an active exchange of information and elaboration of ideas through interchange with others enabled by a conducive climate allowing for such exchange.

Secondly, ideas must have tangible benefits and be capable of low-cost implementation within the context of existing systems.

Thirdly, the support of elites must be obtained along with the support of relevant constituencies.

Fourthly, effective communication is required for acceptance of the innovation. (Mumford, 2002, p. 255).

Social innovation per definition is beneficial for society, but:

A central problem becomes measuring value and how to display social innovation efforts in rational (monetary) terms.

Increased interest among public and philanthropic investors, for measuring outcomes (Arvidson et al., 2010).

Our vision is that the principles of social innovation ... are applied effectively to measurement and assessment practice.” (European Commission, 2012, p. 9).

Especially if we by Mumfordian ‘elites’ understand public agencies and ‘support’ by public procurement.

Establishing scope of the project and identifying key stakeholders

Here is established purpose and the main line of activities, who the project is for, the background, available resources etc. An important part is also the analysis of stakeholders understood as “as people or organisations that experience change, whether positive or negative, as a result of the activity” (Nicholls et al., 2012, p. 22).

Mapping outcomes

This stage contains identifying the inputs, i.e. what kind of activities (investments) stakeholders will perform, the output of these activities and the outcome expressed also in their monetary value.

Evidencing outcomes and giving them a value

In the SROI model this is mainly treated as the collection of ex post evaluation conducted e.g. as qualitative surveys with stakeholders, but also through quantified results e.g. number of reduced hospital admissions.

Establishing impact

This stage essentially estimates additionality, in the SROI model referred to as deadweight i.e. to what extent found outcomes were generated with the specific project or if they would have happened anyway. This stage concerns also attribution, i.e. to determine if outcomes were caused by the current project or by other things happening at the same time. The drop-off is also calculated here, i.e. the decreased impact of a project over time.

Calculating the SROI

This is mainly an ex post activity attempting to determine the value of the project in the future.

Reporting, using and embedding

Reporting should be done in a way that makes it meaningful to all stakeholders and include qualitative, quantitative and financial aspects in order to display the social value created.

Planning and preparation: Gearing up for procurement

Market consultation and establishing need. Assembling the teams and partnerships needed to manage the process. Project definition. Selection of procurement procedure. Determination of contract award criteria.

Notification and pre-qualification (if applied)

Initial advertisement and contract notice, inviting expressions of interest. Assessment of expressions of interest. Definition of shortlist.

Tendering

Issue of tender invitations. Arranging for dealing with clarification requests from bidders. Receipt of tenders

Evaluation

Formal tender opening and checks for compliance with requirements Formal tender opening and checks for compliance with requirements Tender evaluation of quality and price Arranging tender presentations (if applied) Negotiating with selected tenderers (if applied) Selection of the most economically advantageous tender.

Contract Award

Notification to successful tenderer, Notification to unsuccessful tenderers

Contract Management

Monitoring that delivery meets specification

Evaluation

Draw lessons that might improve future procurement projects

Social Innovation: “diffuse events involving interactions among multiple parties over rather long periods” (Munford, 2010, p. 254)

The public procurement process relying on codification and formalisation of requirements as outlined above would function poorly with the generic characteristics typically embedded in social innovation.

The SROI model could then function as an interface between the ‘diffuse events’ in social innovation and public procurement of innovation, as it would tentatively help to transform outcomes into measurable and therefore specifiable elements.

For public procurement of innovation, the SROI prompts attention to stakeholders which may call for new ways of organising the procurement-side.

The possibility of including other stakeholders (willing to pay for certain outcomes) on the procurer-side?

Such a stakeholder analysis would tentatively challenge the initial buying task. Fire fighting – fire safety

SROI: A solution to the public procurement of innovation policy problem?

Summary:

A potential win-win situation

Social Innovation, in need for formalisation of value in order to work well in the formal context of public procurement

SROI may be a useful tool for that purpose

Public Procurement of Innovation policy in search for application

Public procurement of innovation potentially more utilised if connected to social innovators who have identified social needs

SROI may be a useful 'translation tool' for realising public procurement of social innovation

The SROI model challenges conventional thinking of public procurement

Success of this merge is determined by to what extent this challenge is accepted

Aalborg Universitet
Fredrik Bajers Vej 5
Postbox 159
9100 Aalborg
www.aau.dk

