Procurement eats innovation for breakfast Notes v1.0

1   The degree to which procurement can enable and accelerate innovation outcomes is heavily dependent on the prevailing culture of the organisation, its maturity in dealing with change and risk, the skill and attitudes of business owners and project proponents and the skills and attitudes of those working in the procurement function.

2   The perception remains that, too often, when public servants are exhorted to innovate, do things differently, be agile and responsive, try out new approaches and take more risks, their encounters with the formal structures and processes of the procurement system seem unhelpful and sometimes directly antagonistic.

3   Poor procurement outcomes for innovation are often the result of lack of clarity and consistency from the business proponents and a distinctly "us and them" attitude between project proponents and procurement professionals.   The ability to construct a more pragmatic and productive partnership – creating a "one team" approach - from the earliest stages of the project, which is itself partly a reflection of the prevailing culture and level of organisational maturity, matters a lot to the quality of the eventual outcome.

4   Part of the challenge of securing a better discussion about options to improve the way the public sector "buys" innovation lies in the often undifferentiated framing and language with which it is prosecuted. There should be a clearer distinction between the very different challenges involved in procuring something known and well defined in terms of outcome, quality and quantity (electricity, telecommunication services, paper, furniture etc) and procuring something which is inherently unknown, contingent and fluid.

5   In many ways, the discussion about how best to "buy" innovation shouldn't be a conversation about procurement at all, at least not in the first instance. Perhaps the search is for a surer, fairer, more open and more consistent approach to much more fluid ways to collaborate inside and outside the public sector and to co-design and co-discover approaches to complex problems many of the dimensions of whose outcomes and impacts, by definition, can't be known in advance.

6   It's almost as if there is a need for a different space, "snapped out" from the procurement process, and set up adjacent to it., within which to play a more fluid, open, engaged and exploratory game of thinking, designing and testing which is not subject to the normal rules of procurement.

But it is a space that needs its own rules too, to avoid some of the things the procurement system itself is trying to avoid – corruption, lack of transparency etc – and to ensure that where money and influence is being traded, as they inevitably will be, it is being done openly and honestly.

As well, playing in this space needs to have clear expectations set, and adhered to, about the ability to play in the larger and more formal procurement process when it comes time to buy solutions at scale. It has to break the assumptions that because you have played well in the open and exploratory space you will be privileged in your access to the larger process.

7   However, even if that distinction is allowed, there are still challenges to to "procure" the engagement and involvement of external expertise, knowledge and insight which can only come as a result of the investment of time and effort by those people. How that time and effort is properly recognised and rewarded, including (but not only) financially, remains a challenge at times, given the need to give proper support to people and organisations involved in necessarily the exploratory work of co-design, prototyping and testing ideas and approaches.

In most cases, formal procurement systems have created a "procurement free" zone for work whose financial value is under a certain value (in NSW, it is under $250k) that is intended to provide the space and flexibility to address this challenge. It is an interesting question whether that limit, which in NSW was increased from a much lower limit of $80k, needs to be revisited again.

8   Especially in the contemporary climate of start-ups, small and agile innovators and innovative companies and the new dynamic of design, rapid testing of multiple prototypes and eventual scaling of successful solutions, there are challenges involved in asking people and organisations good at that process to then also play the slower, more cumbersome and inevitably more complex game of the formal procurement process.

This happens especially when, following a period of co-design and prototyping, which typically can happen in relatively fast cycles of thinking, design and testing, the time comes to "buy" a solution at scale. The people and organisations which are proving to be adept and effective in the early "explore and design" phase are increasingly finding it difficult to bend their particular skill set and resources to the time-consuming and complex task of competing in the formal procurement process. Many can't, and some won't, play that game.

That means that, at least potentially, a lot of innovation value and expertise is being "left on the cutting room floor" as the creativity, agility and insight of the initial "explore" phase has to accommodate its insights and implications to a relatively unbending procurement process.

In that process, much value for public and social innovation is being lost. That's not good for the innovators and organisations who want to contribute, and it's not good for government, public agencies and the public sector more generally in its quest to live up to the rising demand for "new", "agile" and "risk".

9   Innovation is not an end in itself ("it's good because it's new") but should be a means to a larger policy goal or intended public impact. Innovation in one way to match the risk or opportunity that the public sector agency is trying to resolve and the impact it seeks to have in the lives of the people and communities they serve.

10   Often the proponents of a project (the "business" owners) are not sufficiently clear about the outcome they want to achieve and the impact they are seeking to have. But especially when there is a need to think and test new approaches and solutions, it isn't possible always to have that level of clarity which the traditional procurement process expects ("where do you want to get, what do you need to achieve and we'll work out the best way to buy a solution").

By definition, when you're trying something new, even if it's only "new to you" and has been done elsewhere, you don't necessarily know exactly what the outcome will be or even if you've defined the problem or question correctly.

In that situation, the procurement process – or should it be some other separate or adjacent process? – has to work with a level of flexibility and uncertainty which is often hard to build into the rhythms and processes of "the manual".

11   There are just as many challenges when solutions or ideas are sought from a marketplace which may not be in a position to respond. The ability to more rapidly identify the players – people and organisations – who not only "get it" but have even a remote chance of "getting it done" in areas where new ideas, different approaches and genuine innovation is being sought is in itself a key challenge. Being able to whittle down much more quickly often large and cumbersome undifferentiated pools of "hopefuls" to the ones that really do have a chance of success would deliver considerable savings of time and cost to the overall process, and especially to the public sector.

12   The ability to put together "rainbow teams" of disparate, and sometimes competing people and organisations to work together on a project is available through most procurement systems. It does require, though, a degree of maturity and sophistication on the part of both the agencies and the suppliers to play that game and manage the inevitable and inherent competitive tensions.

13   There are also other options in the procurement process, which often may not be either well known or understood by those seeking a solution, to offer much greater flexibility in the way solutions are procured and deployed. Examples include "evolutionary acquisition", "spiral acquisition" and "alliancing". In these cases, the intention is to move away from seeing procurement as an essentially linear process from problem to procurement to outcome, and to see to see it as both more evolutionary and more iterative.

14   Ultimately the procurement process rests on its ability to deliver high levels of transparency, probity and fairness in the way public money is spent. Even though there are times when the focus on process, especially when innovative outcomes are being sought, can itself generate adverse outcomes in terms of efficiency, fairness and productivity, there might be an irreducible price that we have to pay for the reassurance that the overall process remains as free as possible from distortion or even outright corruption.

15   There are plenty of experiences where business proponents seek help navigating through the procurement process to find a way to make the outcome they want to actually happen, but are met by rigid adherence to "the manual". "By the book" is usually safe and proper, but in some situations it can be a real obstacle to achieving other important and equally legitimate values and goals, including innovation, better policy and program outcomes, improved productivity and new social and economic opportunities.

16   Procuring a replacement for a large IT system or replacing a government car fleet should not be treated the same in procurement terms as the need to build and deploy a new app for citizen engagement or service delivery. The scale, cost, time and effort involved in each is dramatically different, but the procurement process tends to treat them as if they were comparable.

17   No public procurement process can escape entirely the inevitable constraints of politics (and the varying and sometime unpredictable appetite for risk by politicians and Ministers) and competitive sourcing from individuals and organisations who want to win.

18   Part of the challenge seems to be the need to set a new and clearer frame for having the debate in the first place about procurement and its relation to innovation especially. That framing has to build in greater levels of nuance and proportionality into the way different types and scales of "procurement", especially when it comes to trying to do something new, different or out of the ordinary, are in question.

19   How does the innovation procurement process – including both the open and exploratory phase and the more formal 'buying at scale" phase – get much better at calling a halt to ideas and projects that are not working?

20   The formal procurement process has become too reliant on formal numeric scoring as the basis for assessment, which can lead to unexpected outcomes in which the "right" solution doesn't achieve the outcomes or intended impact. It remains a challenge to find better ways to "mark" critical factors in a potential solution that can be factored in, beyond a simple scoring system, that are crucial to the outcome. In other words, how does the procurement system avoid hitting the target while missing the point?

21   Increasingly, and especially in the content of start-ups and agile and open innovation, the challenge is to procure an innovator, not necessarily an innovation. Agencies are trying to find, and then engage, with individuals whose insights, experience and especially mindset and approach makes them ideal partners for a continuing and evolving innovation journey. Sometimes the key is not necessarily to buy a solution at a point in time, but to" buy" the chance to add a set of skills, values and attitudes into an agency's innovation capability as an ongoing asset.

22   Knowing what questions to ask and how to navigate through the procurement process are often as important as formal knowledge of the provisions of the process itself. Agencies need "innovation advisors" as well as procurement advisors perhaps, people who become skilled at working out how to get the system to deliver the outcomes you want.

23   Typically, agencies are not good at capturing their experience in "good practice: procurement and sharing that with colleagues in their own agency, let alone across the rest of the public sector and, even more improbably, across jurisdictional boundaries. So even where "good procurement", especially in the context of innovation, is happening, rarely do others get to hear about it and integrate the learning into their own work. Too much of the procurement experience is stubbornly isolated and disconnected.

24   The "gateway" processes common in many procurement processes often become complex, slow and ineffective 'tick box' exercises, because questions about outcomes and impact are not asked or pursued vigorously enough.

      Alternative approaches, for example the Program Performance Office in DFAT, which relies on the input of highly experienced market players who have a mandate, and a licence, to be tough, penetrating and independent in their questioning, might be more effective. (Another example might be the Expert Advisory Group established to advise the Ministers for Human Services and Finance on aspects of the Welfare Payments Infrastructure Program or WPIT).

25 What happens when a great idea or solutions comes "unbidded", as it were, to the door of a public sector agency with demonstrable credibility and clear investment of time and effort to create something that has been proven to work? Often the agency simply doesn't know how to buy it because the only recourse seems to be back into the formal procurement process. Where "unsolicited bids" processes are established to handle these, the effect can sometimes be to divert or kill of the impetus for rapid adoption and integration.

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