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End-user engagement within innovative public procurement practices: A case study on public–private partnership procurement

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ABSTRACT

The purpose of this paper is to establish a model for an end-user engagement process within innovative public procurement practices. Even though the importance of the public service end-user has been recognized by researchers and policy makers for some time, there's a genuine lack of commonly acknowledged user engagement tools for both procurer's and supplier's practical implementation. We focus on the way value creation can be enhanced through actively engaging end-users as co-creators of value in public procurement. The study employs an intensive single-case methodology, where the findings are based on qualitative data gathered on a Public–Private Partnership (PPP)-based school property procurement in Finland. The end-user's value potential does not rest only with creating individual user value but also with increasing e.g. the public service's social, environmental and political value. Our findings support the existing theoretical understanding according to which the most significant end-user value is achieved through interactive dialogue in the design phase of the public procurement project. The most significant advantages of active end-user engagement are especially seen in the usability of the provided public service. Study results also indicate positive effects of end-user's independent value creation and the sensation of involvement in the user's individual value experience.

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1. Introduction

The infrastructure and services procured by the public sector can be seen as a necessity to preserve society's economic and social structures (Lähdesmäki & Kilkki, 2008). During the last few decades, public procurement managed through traditional bidding practices has faced significant pressures to change because of notable shifts in the public procurement environment. Noteworthy drivers for the emergence of new public procurement practices include larger demand for public services due to aging, cuts in funding due to scarce financial resources, and new services formed through technological advancements (Jamali, 2007; Krtalic & Kelebuda, 2010; Pekkarinen, Hennala, Harmaakorpi, & Tura, 2011). Aligned with these changes, various more market-based public procurement tools have been introduced to procurement practitioners, ranging from public finance initiatives to various public–private partnership and pre-commercial procurement options. There is still a lot of untapped opportunities in learning across public sector procurement and private sector purchasing (Arlbjørn & Freytag, 2012).

Both policy makers and researchers have taken increasing notice on the substantial potential for public procurement in developing

innovations and thus enhancing people's well-being in general (Aho, Cornu, Georghiou, & Subira, 2006; Edler & Georghiou, 2007; Uyarra & Flanagan, 2010). Public procurement seen as a demand-side-oriented tool for stimulating innovation (Aschhoff & Sofka, 2009) thus challenges current institutional practices and skills in the field (Rolfstam, 2012). Innovation is a meaningful issue for both the public and private sectors (Hartley, 2005). Innovativeness in public procurement aims both at the development of new technologies and services as well as at process innovations that develop the management and work procedures in use (Aschhoff & Sofka, 2009; Uyarra & Flanagan, 2010). Our study emphasizes inter-organizational, multilevel, and cross-sector collaboration between a range of stakeholders from the public, for-profit, and non-profit sectors, as well as users and citizens (Hartley, Sørensen, & Torfing, 2013). This logic of collaborative innovation is very similar to networked business settings, where innovation is conceptualized as interactional, networked and systematic (Håkansson & Olsen, 2012).

Georghiou, Edler, Uyarra, and Yeow (2014) see that harnessing this innovation potential requires a systemic approach, extending public procurement policies longer, wider and deeper. The first step in extending the scope of public procurement policies lies in enhanced communication between the focal actors. Thus, it is the inter-organizational interfaces, such as end-user engagement in innovative public procurement procedures, that are instrumental to innovations materializing. Rolfstam (2012: 303) defines public procurement of innovation (PPI)

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as “purchasing activities carried out by public agencies that lead to innovation”. Even though our view on innovative public procurement follows the same objective of creating new innovative solutions, our definition emphasizes also the innovative practices that restructure the interaction between all focal actors within the procurement process. That is, innovative public procurement practices change the way suppliers are being invited to supply pre-existing solutions in an improved way (Knutsson & Thomasson, 2014) and open up practices for new actors to be engaged in the purchasing process.

Existing research as well as the practice of public procurement has for long acknowledged the importance of the interaction with the service user (Bryntse, 1996). Even though the end-user involvement has been acknowledged as impacting positively on the innovativeness of the public service, more research on the means of end-user involvement in public procurement is needed (Kallio, Lappalainen, & Tammela, 2013). According to Bovaird (2007), public procurement practitioners do not always have a clear understanding of who the client actually is and, therefore, do not know whose needs they are supposed to satisfy. As a result, neither the procurer nor the suppliers are able to properly estimate the possible cost savings from systemic innovations. The systematic process of activating end-users in the public procurement process has not been consistently explored in the former literature and the terminology on the phenomenon can be seen as heavily fragmented into different fields of study, from innovation policies (e.g. Edler, Rigby, Hommen, & Tshipouri, 2005) to property management (e.g. Majamaa, 2008).

The purpose of the present paper is to describe the end-user engagement process within innovative public procurement practices. To accomplish this, we employ the theoretical concepts of value co-creation, as developed within research on private sector buyer–seller relationships, and apply them to the empirical context of PPP-based school procurement project. While in traditional public procurement bidding practices, the role of the end-user has to a large extent been regarded as more a recipient of the value delivered, by employing the concepts of value co-creation, we will examine the end-user of a public service as an active participant in the value creation process. This is in line with the existing theoretical understanding of value creation generated in business relationships (e.g. Vargo, Maglio, & Akaka, 2008). The present study focuses on the viewpoints of procurer and supplier directing the engagement activities towards procurement end-users. More case studies on innovative procurement projects are needed to better understand public authorities' opportunities to influence society through their own purchasing decisions (Knutsson & Thomasson, 2014).

Co-creation of value represents one of the core processes through which to achieve sustainable performance in the marketplace (Vargo et al., 2008). It can be seen as joint creation of value by allowing the customer to co-construct a personalized service experience to suit his/her own context (Pralhad & Ramaswamy, 2004b). The end-customer's value experience is generated in all processes that increase the well-being of the customer and form value-in-use at some level (Grönroos & Voima, 2013). In the present paper, we employ the value co-creation approaches of Prahalad and Ramaswamy (2004a, 2004b), Grönroos (2008, 2011) and Grönroos and Voima (2013), as these suit the context of public procurement particularly well in terms of involving both the supplier and end-user partners in the procurement actions formerly managed single-handedly by the procurer.

By employing the term end-user engagement in the study, the process is emphasized as a set of active value co-creation activities. We regard the end-user engagement in public procurement is not simply a sequential process of solving and fulfilling the users' needs, but a continuous set of actions that aim to expand the role of service end-users by binding them into the value-adding process as co-creators of value. The definition is to an extent on a par with the terms *user participation*, *user involvement* and *co-production of public services*, which however focus more on the intention of end-user co-creation rather than the

deeper knowledge of its means. To describe the end-user engagement process, we address the following research questions:

QR1: *What is the main objective for the end-user engagement process in innovative public procurement projects?*

QR2: *What are the value co-creating activities out of which the end-user engagement process is formed?*

To find answers to the research questions, we will first examine the existing theoretical knowledge related to new public procurement practices from an end-user oriented perspective and form a preliminary understanding of the structure of focal relationships within innovative public procurement practices. To identify the value creating activities within the procurement process, we then discuss the theoretical notions of value co-creation adapted from the private-sector setting. Next, the case method used in the empirical research is explained and the data gathering processes are described. Third, we will present the key findings of the case analysis organized according to the tentative research model. Fourth, the paper introduces the end-user engagement model thus formed. Finally, we will present conclusions regarding the study's theoretical and practical contribution as well as the implications for further research.

2. Theoretical foundation

2.1. Towards innovative public procurement practices

Public procurement is not a static or standard activity and its context is constantly redefined and impacted by surrounding social, economic and political trends. One of the current paradigms of public procurement is encouragement to abandon its traditional practices of doing business and to move closer to relationship contracting, partnerships, networks and strategic alliances (Lawther & Martin, 2005). A widely shared opinion by public procurement experts is that traditional procurement methods and strict control of practices can be harmful, as they have the potential to smother both innovativeness and the cost-effectiveness of the procurement projects (Baily, 2008: 87). The lead idea behind closer collaboration in public procurement is that no single actor has all the knowledge, overview, information or resources to solve the complex and diversified problems encountered (Lawther & Martin, 2005). A market-based approach to public procurement opens opportunities both for mobilizing innovation and at the same time better achieving public policy goals and delivering a better service to citizens. The strict national and EU-level regulation aims to ensure equality and transparency in the procurement process, but can also work as barrier in the implementation of innovative public procurement procedures. A good example of this is the effect of complicated legislation that is seen to inhibit smaller suppliers from participating in more complex tendering processes and larger procurement projects, thus reducing the competition and innovation in the specific market (Karjalainen & Kempainen, 2008).

The significant interest for innovation policy writers in developing public procurement practices can be rationalized in public procurement's immense resources and unused potential for creating innovative solutions (Aho et al., 2006; Edler & Georghiou, 2007). Innovations are necessary for improved public sector productivity and new more cost-effective operations (Lee, Olson, & Trimi, 2012). Van de Ven (1986) defines innovation as the development and implementation of new ideas by people who over time engage in transactions with others within an institutional context. The innovations are determinant on interaction with others, which requires always being exposed to suggestions for change and therefore to problems with different priorities (Håkansson & Waluszewski, 2007). In networked innovation, developing the relationships with customers is just as important as the relationships with suppliers (La Rocca & Snehota, 2014). The view is also

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