



# Public procurement for stimulating innovation in the economy

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# *Industry generates half of exports*



- Industry employs 20% of the population
- Constitutes 25% of the economy
- Federation of Icelandic Industries
  - 1.000 companies
  - 5 main sectors
    - Contractors and civil engineering
    - Food industry
    - Intellectual assets / hi-tech
    - Manufacturing / services
    - Energy intensive industries
  - Most sectors provide some services / products / solutions to the public sector

# *Size matters...*



- Huge relative activities of governmental bodies
  - make up 35-50% of Western economies
- How is this purchasing powers used?
  - determines the fate and development of numerous businesses and solutions
  - government acts as a commercial entity in its daily operations
  - crucial that government officials are trained in using focused and effective methods in its purchasing activities

# *Government is not going away*



- Long term buyer of goods and service
- Should act in its self interest in procurement
  - Public purchases not a source of favors, perks or business protection
- Enlightened self interest of government
  - As little spot market approach as possible
  - Long-term thinking
  - View to a sustained eco-system of solution providers

# *Equal ≠ mechanical...*



- Requirements for equality are the basis of all public procurement
  - To avoid home market bias (country/municipality)
  - To restrict unfair competition from government enterprises
  - To avoid cronyism and corruption
- But procurement is not a excel sheet

# *Equal ≠ automatic*



- Deeper procurement policy required...
  - ...than solely being based on equality
  - Norway: promote value creation in the society with effective utilization of resources based on competitiveness and equality
- Iceland often leaning to the puritan side
- Main underlying aims sound simple:
  - Fair and objective
  - Transparent
  - Effective
  - Clear explanations for choices made

# *The most economic solution...*



- Procurement science offers numerous methods
  - Goals to obtain must be clearly defined
  - Not always an apples to apples comparison
  - Participants may be pre-selected under certain circumstances
- Promote longevity in business operations
  - Procurement based on strict rules when clear-cut comparisons can and should be made
  - Simple home market bias not allowed
  - Pre-screening of participants, avoid fly by night operators

# *Avoid unnecessary restrictions*



- European Economic Area precludes home market bias
  - Both with respect to country and area
  - Fair and open competition while minimizing exposure to fraud and collusion
- Best practices  $\neq$  copy/paste
- Case: Harpa
  - Good: effective pre-selection
  - Bad: copy/paste of text in some examples, which almost precluded all local participants



- Allows relevant negotiation and adjustment
  - Example: Risk sharing between the purchaser and the solution provider
- Promote and respect the creation of intellectual property rights and repetitive assets
  - It should be viewed as a plus if the service provider can market the solution wider
- Use iterative and interactive communication with the service provider

# *Iterative – interactive procurement*

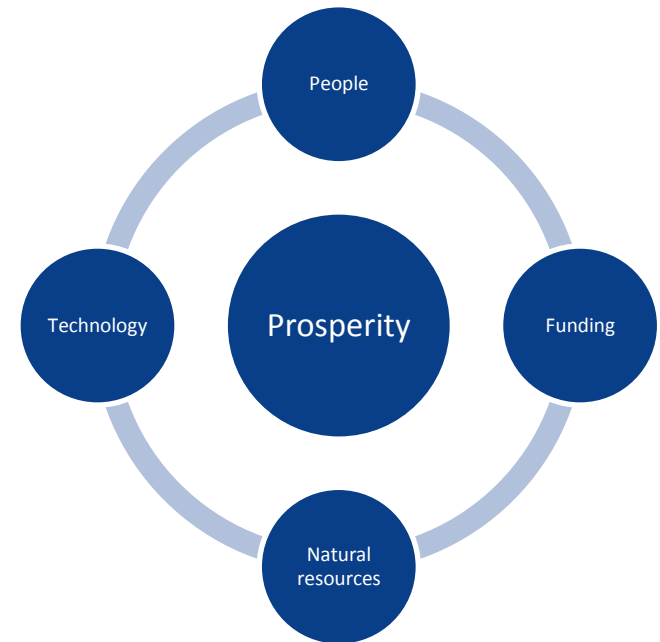


- Define the common EU-wide methodology framework for procurement
  - Techniques for variable governmental needs
  - Competitive / cooperative methods to stimulate development and innovation in the economy
  - Government to provide info on its long-term needs
- Coach and train its purchasing and procurement departments
  - Promote governmental understanding of where the local business life is heading

# Intellectual asset growth



- Economic growth is a result of the resources used
- All of the resources have some limitations
- How to grow
  - One way is to produce products and services based human-capital-intensive methods
  - Low marginal cost
  - Intellectual assets for repetitive sales



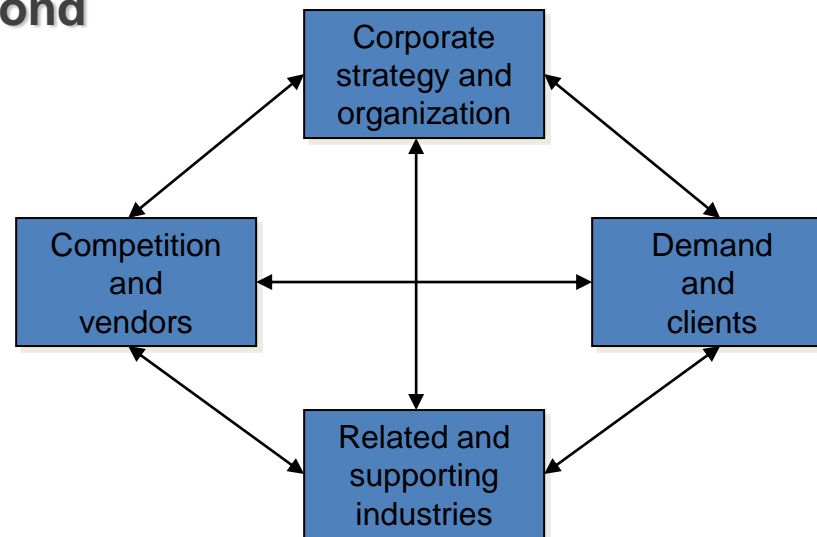
# Cluster thinking promotes cooperation



## Cluster

Companies, institutions and other organizational entities that affect a given industry and comparative advantage (usually of a nation)

## The Porter Diamond



**Clusters are formed spontaneously – government cannot create a cluster – but government can either be of help or get in the way**

# ***"Better service for less"***



- Federation of Icelandic Industries
  - offered the remains of the “industrial fee”
  - a given cluster program
  - One krona becomes kronas in three clusters:
    1. Health tech
    2. Education
    3. Energy and environment
    - Competitive channel: Tækniþróunarsjóður
- Investment in long-term governmental saving
  - While promoting solution / intellectual assets that can be developed, exported and profited from

# *Let's curb our enthusiasm...*



- Healthy skepticism necessary
- Government is not equipped to solve all human problems
  - Economic management?
  - Monetary policy?
  - Smoothing out of the business cycle?
- So let's not get overly excited on innovation and the magic role of public procurement
- But... delightful room for further improvement

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***Thank you!***