Chapter 10
Defence Procurement, Innovation, and Value for Money

Robert Charles Wylie
University of New South Wales, Canberra

ABSTRACT
Governments may seek to obtain military advantage by procuring innovative solutions to requirements for military capability. Or they may seek to foster innovation by steering to that end what military equipment they procure and how they procure it. Both procurement of innovation and procurement for innovation require government actors to make subjective, contestable judgements about value for money with far reaching implications for innovation outcomes. This chapter uses case studies of military procurement in Sweden and Australia to demonstrate how different judgements about value for money can cause the outcomes of otherwise comparable innovations to diverge markedly.

INTRODUCTION
Governments throughout the world have long sought to achieve “Value for Money” (VFM) from the goods and services they acquire and provide - not least in response to the fiscal pressures consequent on the financial crisis of 2008. The VFM framework for public procurement typically requires government officials to look beyond price or cost in making purchase decisions and to compare alternative solutions in terms of “relevant financial and non-financial costs and benefits” (Department of Finance 2012). (Italics ours.). Almost inevitably, deciding whether VFM will be, or has been, achieved entails difficult and subjective judgements about, for example, fitness for purpose, potential suppliers’ past performance, flexibility (adaptability and innovation over the procurement cycle) and environmental sustainability (Department of Finance 2012).

The difficulties of applying the VFM framework in public procurement are outside the scope of this chapter. For present purposes we accept that procurement occurs in the VFM framework. Within this framework, we focus our analysis on the factors that make it more or less difficult to achieve best out-
comes where innovation is an element of the procurement, or where innovation is a broader, aspirational goal of the procurement exercise. The first of these may be described as procurement of innovation, the second as procurement for innovation (Lember et al, 2014). Either or both kinds of innovation goals often feature prominently in procurement conducted by or for national defence organisations and such defence procurement is the focus of this paper. Defence procurement within the VFM framework will, of course, encounter difficulties similar to those already mentioned in determining, either before or after the event, which alternative offered or achieved the best outcome. But the purpose of this paper is to explore how outcomes for innovation may be differentially shaped by:

1. The institutional framework set for a public procurement agency by government policy and
2. The incentives influencing the behaviour of procurement agency officials and managers within the agency.

The role of public procurement in stimulating, shaping and directing innovation continues to be debated (see, for example, Lember et al 2014, Edler & Georghiou 2007, Uyarra & Flanagan 2010, Rolfstam 2012). But consensus has yet to emerge about how procurement policy and process at the organisational level affects innovation and, if innovation contributes to VFM, how VFM is affected in such cases. Rolfstam (2012, 5) has noted that the innovation research community has yet to match policy-makers’ burgeoning interest in public procurement of innovation. The same might be said of the procurement research community.

This chapter seeks to help rectify these deficits in both innovation and procurement research by investigating when procurement may work well and when it will work less well in achieving VFM through innovation outcomes. To do this we begin by proposing a model of VFM to help structure our enquiry. We then draw on certain elements of the literature to prepare a procurement typology. This scaffolding is then used in our investigation of how institutional and organisational arrangements can affect the value for money generated through innovation-related procurement. We conclude our paper with a comparative case study from defence procurement of innovation.

VALUE FOR MONEY IN PUBLIC PROCUREMENT

We derive our concept of value for money from that used by the UK National Audit Office (see National Audit Office (no date) and the Australian Department of Finance (see Department of Finance 2012). As indicated in Figure 1, we argue that achieving value for money entails striking, on a case-by-case basis, a balance between:

- Economy (that is spending less on inputs);
- Efficiency (that is a measure of productivity or output relative to input);
- Effectiveness (that is a measure of the impact achieved).

In this paper we are primarily interested in how an individual public organisation, in particular a Department of Defence, may achieve VFM when it uses procurement in pursuit of innovation, or when innovation arises in the course of procurement. As Figure 1 suggests, a public organisation focussed on economising procurement inputs (regardless of the quality of outcomes promised or implied) will judge