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How innovation intermediaries support public procurement of innovation

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In 2024, public procurement expenditure in the UK accounted for approximately 14% of GDP. Arguably, this power of the public purse can be used strategically to stimulate innovation addressing unmet public sector needs and contemporary societal challenges such as accessible and affordable healthcare, climate change and Net Zero, and national security.

But while the potential of innovation-oriented public procurement has long been touted in policy and practitioner circles alike, its implementation on the ground remains challenging. Consider the National Health Service (NHS), for instance – emerging technologies like Artificial Intelligence (AI), big data analytics, robotics, and 3D-printing hold high promise for innovating service delivery and improving resource productivity and healthcare quality amid the staff shortages and capacity constraints the NHS is facing. But NHS procurement practices including an emphasis on annual cost savings and the pervasive use of framework contracts are a barrier to innovative suppliers and impede the rapid uptake of new technological solutions. Likewise, a culture of organised scepticism, multi-layered decision-making processes, and incentive systems that penalise NHS hospitals when treatment activity is transferred to primary care, slow down adoption.

Evidence about these and other implementation challenges abounds. We also know that most of these difficulties originate in two distinct, yet interrelated, problems. First, there is a shortfall in the capabilities that public buying organisations and suppliers must have to co-define problems and co-produce novel solutions and put them into use. Second, there are institutional rigidities which discourage innovation. These challenges pertain to deficiencies in rules, regulations, and professional norms of conduct that militate against technological and organisational innovations.

What is less known is how a class of third-party specialists, collectively termed as innovation intermediaries, support public buying organisations and suppliers to collaborate and contract for innovation. Our extensive empirical research in the UK defence and healthcare contexts offers insights into what these intermediary organisations do, and how the capabilities they possess and exercise enables them to contribute to innovation-oriented procurement processes and outcomes. We studied in detail a for-profit intermediary supporting the UK Ministry of Defence (MoD) to source novel technologies, and one of the fifteen Health Innovation Networks – regional health innovation agencies tasked with promoting innovation into the NHS at pace and scale. Both intermediaries were the result of UK Government policies to foster collaborative innovation to improve the delivery of public services.

Intermediaries make a positive contribution towards addressing both capability shortfalls and institutional deficiencies. They tackle capability limitations of buyers and suppliers by carving out workspaces for collaborative R&D and experimentation. The intermediaries we studied initiate and execute R&D, demonstration and evaluation projects triggered by questions such as: “how much sensitivity is required in flight simulators to provide sufficient sensory experience to effectively train helicopter pilots?”; and “what are the benefits of using 3D-printing to inform heart surgery decisions and what can block adoption of this technology by NHS hospitals?”. Importantly, these projects generate robust evidence regarding the technical, commercial, and organisational viability of novel solutions. This evidence is used to refine buyers’ requirements and assess and de-risk novel solutions. In concrete terms, intermediaries provide significant knowledge input into writing specifications, designing tenders and contracts, and integrating new solutions into existing public service delivery systems.

Intermediaries help build capacity for innovation-oriented procurement by educating and mentoring both buyers and suppliers. Intermediaries also serve as advocates and architects of changes in rules and procedures, for instance promoting the use of agile contracting methods which enable buyers to revisit solutions in line with evolving needs and technological change. Intermediaries even devise 'workarounds' to overcome institutional rigidities, for example in relation to the use of NHS framework contracts.

Innovation intermediaries such as the ones we studied can help improve procurement performance in terms of developing more intelligent specifications informed by technological trends and industry expertise, speeding up procurement decisions, accelerating the pull-through and adoption of innovations, and generating cost reduction or cost avoidance benefits.

While our research has focused on defence and healthcare settings, the generated insights regarding the role of innovation intermediaries are potentially transferable to other UK public sector contexts. A notable example close to home is Innovate UK's Catapults – these are intermediary organisations founded by the UK Government to foster collaborative R&D in several sectors and technology domains. Catapults also help public buying authorities and suppliers to discover what the "art of the possible" maybe for multiple technological solutions and market application areas.

The Innovation Procurement Empowerment Centre (IPEC), a Connected Places Catapult initiative, serves many of the intermediation functions we uncovered such as educating

and supporting buying organisations, lending innovation-oriented procurement expertise, and promoting cultural change in the UK public sector, including at local authority level.

Despite the positive outcomes of intermediation, many institutional constraints and capability gaps in the UK public sector appear to persist. Our research has shown that the effectiveness of intermediation can be limited by factors pertaining, among other things, to the perceived legitimacy of intermediaries, their resource and capacity constraints, and, in some cases, their weak authority to realise the large-scale institutional changes required.

Hence while intermediation policies work, more could be done to empower intermediaries and support them in their mission to improve innovation-oriented procurement processes and outcomes. For example, policymakers can take initiatives to increase awareness about what intermediaries do and grant them more powers to reform public procurement practice on the ground, in line with the ambitions set out in the recently enacted Procurement Act.

Equally critical is that public buying organisations build the capabilities they need to be able to work effectively with intermediaries and reap benefits. The jury is still out there whether public contracting authorities have the capacity to take in and exploit intermediaries' knowledge and to learn from them; and under what conditions it might be beneficial for public buying organisations to rely on intermediaries vis-à-vis investing in developing innovation-oriented procurement expertise internally. These are open questions that merit further study.

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