



Outsourcing, bureaucracy and public value: Reappraising the notion of the “contract state”

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ABSTRACT

Large-scale outsourcing of information technology in the U.K. public sector – the NHS, the Inland Revenue, and the Department of Social Security over the years – raises a number of critical issues not just for how outsourcing can be conducted in public sector contexts but also about the efficacy of such arrangements in terms of enforcement of democratic values. We argue that marketization’s target may well be bureaucracy, but the organizational form is a repository for democratic, civic, and public service values that can be eroded through how outsourcing has been conducted. The call for a reevaluation and the case for a distinctive public services management ethos are made if such values as equality, impartiality, communal good and public service are to be pursued and delivered. Selective outsourcing is revealed as effective – together with much needed rebuilding of internal capabilities – in keeping control of IT destiny, delivering on public service requirements, and managing external supply. The U.K. experience, we suggest, provides salutary learning for public services in other developed economies.

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1. Introduction

In the private sector, the major trend towards Information and Communication Technology (ICT) outsourcing from the early 1990s to the present has been driven by a range of financial, business, technical, and micro-political factors (Clark, Zmud, & McCray, 1997; Kern & Willcocks, 2001; Lacity & Hirschheim, 1993; 1995; McLellan, Marcolin, & Beamish, 1995; Willcocks & Lacity, 2006). The research from the 1990s and more recently suggests that three main drivers seem to be operating (Lacity & Willcocks, 2008; Willcocks, Lacity, & Fitzgerald, 1995). First, IT outsourcing is often a response to the hype and publicity surrounding the subject – a bandwagon effect leads to senior managers asking: ‘why don’t we outsource IT?’ Second, outsourcing may be a response to tough economic and competitive climates and the need to cut, or at least control, costs. Third, it may be conceived as part of a larger and longer term change in how organizations are structured and managed – part of what we would call a move towards the ‘contractual organization.’

These drivers translate into the market testing, compulsory competitive tendering, Private Finance Initiative (PFI) and privatization initiatives encouraged in the U.K. public services by the British government from the early 1990s, through successive Conservative and Labour governments to the present day. Market testing proposals made in November 1992, for example, saw ICT activities in thirteen

government departments cited as an essential part of the increased ‘businessization’ and competition desired by government (Willcocks, 1994). Contracting out could range from selective outsourcing as occurred in many parts of the NHS and local government in the 1990s through to large ‘total’ outsourcing deals (80% plus of the IT budget outsourced) as subsequently progressed through to 2008 in the then named HM Inland Revenue and Department of Social Security.

Alternatively, these proposals meant the privatization of in-house IT departments or the hiving-off of IT departments to agency status within the public sector. Subsequent governments continued the emphasis on outsourcing IT, as can be seen in major central government projects initiated in the last 5 years in the National Health Service, the renewal of the Inland Revenue arrangement (though with switched suppliers), and the letting of contracts for the National Identity Card scheme in 2007/2008.

In retrospect, these initiatives would seem to have been driven by two features inherent in government policy throughout the 1992–2008 period: a concern to lower costs dramatically in the public sector (or at least reduce the public sector borrowing requirement) and the political belief that private sector companies tend to be more efficient, and that competition will increase efficiency and effectiveness of management and operations in public services. These both support a more fundamental reappraisal of the core role of government that occurred in particular in both the United Kingdom and the United States from the mid-1990s (Dunleavy, Margetts, Bastou, & Tinkler, 2006; Margetts, 1999; Margetts & Willcocks, 1994; West, 2005). Moreover, there is little recognition of the very mixed record that long-term large-scale IT outsourcing deals have had in the private sector, let alone the public sector.

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Thus, using objective criteria based on cost savings, delivery against objectives, and stakeholder satisfaction levels, it has been noted in one research study of the private sector, only two long-term, large-scale IT outsourcing deals were successful and five, a failure, with marked deterioration in the satisfaction levels for contract terms and service levels after the initial 5 years (Lacity & Willcocks, 1996; see also Lacity & Willcocks, 2001). By comparison, selective IT outsourcing (typically 20–50% of the IT budget outsourced to multiple vendors) recorded 22 successes and four unsuccessful deals (Lacity & Willcocks, 1996). Finally, there is a very mixed record where significant contracting out of IT took place in the public services in the 1990s, with Wessex Regional Health Authority, the Child Support Agency and several local authorities being only high profile examples of the kind of difficulties that were experienced (Collins, 1996; Lacity & Willcocks, 2001; Willcocks, 1994). Unfortunately, this seems to have continued into the 2000–2009 period as recorded by a succession of National Audit Office and House of Commons Committee of Public Accounts reports and academic research studies alike covering NHS, Inland Revenue, National Identity Card and many other marketized initiatives (see for example only Davies & Hosein, 2007; Dunleavy et al., 2006; HCCA, 2007a,b,c,d; NAO, 2006).

In this paper we offer a critique of the concept of ‘the contract state’ and suggest how more disciplined uses of outsourcing can assist the performance of government agencies. This discussion will first focus on the managerial level but then moves to the level of central government strategic intentions, in terms of democracy, citizenship, and public service – focusing here primarily on the United Kingdom context. We suggest that erosion of the bureaucratic form inherent in outsourcing and marketization initiatives needs to be rethought, and a reevaluation be proposed as to how a distinctive public services management ethos can be developed to harness ICTs in support of democratic values and effective public services. In this paper, ‘outsourcing’ is defined as the contracting out of IT services/activities to third party management for required result. This can also be done on short or long term contracts.

2. The U.K. public sector: Towards the contract state?

There has been considerable interest in recent years in notions of ‘the contract state’ (Dunleavy et al., 2006; Hambleton, 1994; Le Grand, 2007; Mintzberg, 1996; Osborne & Gaebler, 1993; Sorabji, 1994). In the public sector, the contract state can refer to contracting between public service organizations and their users/members of the public; contracting with external providers; or contracting between different parts of the public service. While these are important distinctions, in recent years U.K. government policy has often seemed to collapse them into the notion that public service organizations are best managed as if they were ‘businesses’ (Hambleton, 1994). In particular, underlying a number of key government policy shifts has been the move, begun in the 1990s, to replace monolithic state services with numerous competing providers, with the role of the public service often portrayed as being ‘enabling, not providing,’ and the dominant focus being on extending markets and contracting with external providers (Stewart, 1995; Walsh, 1995). The fundamental driver of these reforms was the assumption that public services were better managed in the interest of efficiency through private sector economic drivers. The introduction of the contract state leads to a change in the nature of the services provided. Services are more specified and standardized and payment systems are precisely defined.

There is, therefore, an increasing need for resolution mechanisms for dealing with differences between clients and contractors (Deakin & Walsh, 1996). This shifts the focus of public administration action from service provision to the management of contractual relations. Critics of this approach have pointed to other ways of radically reforming the public services whereby service efficiencies can be improved, and public bodies can still deliver many services – some as

businesses, others operating in a more ‘businesslike’ manner, while all remaining publicly accountable (Hambleton, 1994; Mintzberg, 1996; Osborne & Gaebler, 1993; West, 2005).

Mintzberg (1996) put forward several models for managing government. He attacked the traditional, dominant Government-as-Machine model, where government is viewed as a machine dominated by rules, regulations, and standards. But Mintzberg also attacks its replacement by the managerialism of the Performance-Control model where the principles of ‘Isolate, Assign and Measure’ are applied within a conglomerate-like divisional structure. He further attacks the taking of this model to its natural limit, and the development of a Virtual-Government model – the assumption here being that the best government is, in fact, no or very little government. The latter two are cited as particularly underlying the U.K. government’s framework for the contract state in the 1990s (Mintzberg, 1996; Sorabji, 1994). In the 2000–2009 period one can discern strong elements of both the Performance-Control and Virtual-Government models in Labour government policy, enabled, in their view it would seem, by the virtuality made possible by ICTs – expressed in the e-Government initiatives of this period and also in the continuing outsourcing to private companies of major ICT operations and innovations.

As major resources in the public service, information and communication technologies (ICTs) are inevitably bound up in these debates and developments. Indeed, by 1996 IT privatizations and market tests had led to contracts worth more than £2 billion. By 2008 this figure regularly exceeded £15 billion annually. Such outsourcing represents operationalization of the Performance-Control model as applied to public services, with some contracts (for example, in the case of the Inland Revenue Customs and Excise) demonstrating the IT component of a further move toward the Virtual-Government model being applied to the centre of government.

3. Emerging issues and critique

One of the ironies observable in the adopting of private sector practices by the public sector has been the application of practices actually considered outmoded or indifferent by leading private sector corporations (Willcocks & Harrow, 1992; Willcocks & Lacity, 2009). A major example occurs in outsourcing. Lacity and Willcocks (2001) research on a range of IT sourcing practices in Europe, Asia Pacific and the United States in both private and public sector organizations endorses fairly strongly the prescriptions implied in the following analytical framework (see also Lacity, Khan, & Willcocks, 2009).

- Differentiator or Commodity. An IT activity/ service is a differentiator where it provides a basis for competitive advantage or, in the public sector, represents a leading competence advantage (Cronk & Sharp, 1997). A commodity activity does not distinguish the organization, and has to be done competently, but no more. A typical example would be payroll.
- Strategic or Useful. ‘Strategic’ activities are integral to the organization’s achievement of goals and critical to its existing and future business direction. ‘Useful’ activities make incremental contributions but do not affect strategic direction or competitive positioning.
- Degree of Uncertainty – about future business environment and business needs and, hence, longer term IT needs.
- Degree of Technology Maturity Associated with the IT Activity/ Service. Maturity is low when the technology is new and unstable; or where an existing technology is being used in a radically new application; and/or where the organization has little in-house experience in implementing the technology in the current application.

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