



# Government policy, public value and IT outsourcing: The strategic case of ASPIRE<sup>☆</sup>

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## ABSTRACT

The paper examines government IT outsourcing policies. The paper critiques the concept of 'the Contract State', and suggests how more disciplined uses of outsourcing can assist the creation of public value, more broadly conceived. Within the context of international developments, we study the United Kingdom Inland Revenue (IR), Customs and Excise (HMRC) and Department of Social Security (DSS) and their IT outsourcing contracts. The evidence suggests that outsourcing and marketization initiatives have adverse public value impacts, and may need to be rethought. Major IT operations and innovations, for example e-government, National Health Service (NHS) and identity card IT policies in the UK, are managed and generate legacies that do not always make efficient and effective use of the market. Moreover, their objectives, implementation and management over time may truncate their value to the public at large. Applying a revised Public Value policy approach offers a richer perspective to guide central government decisions worldwide about future IT outsourcing.

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## 1. Introduction

In the private sector the major international trend towards Information Technology (IT) outsourcing from the early 1990s through to 2012 has been driven by a range of financial, business, technical and micro-political factors (Clark et al., 1995; Kern and Willcocks, 2001; Lacity and Hirschheim, 1993; Lacity et al., 2010; McLellan et al., 1995; Willcocks et al., 2006). The research suggests that three main drivers seem to have been operating (Lacity and Willcocks, 2009; Willcocks et al., 1995a,b). 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 has been a response to tough economic and competitive climates and the need to cut, or at least control costs. This has become a particularly pertinent issue in the 2008–2012 period, including for public sectors (Willcocks et al., 2011). Third, it can 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'.

Government IT policies have been intermittently informed by the assumption (often characterized as a New Public Management (NPM) assumption) that the digitalization of the public sector will allow reform of public administration (PA) along the lines of private sector business and organizational management techniques. E-Government, outsourcing and cloudsourcing projects are intrinsically embedded in ensembles of political reforms and organizational changes to enact, support, and push a transformation in how public sectors function. IT has, in fact, become one of the most common resources drawn upon

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to standardize work procedures and smooth information flows, and to make more efficient organizational procedures. Information technologies have also become a common solution for increasing transparency and accountability, and to underpin a move to a service (and self-service) approach, introduce market-like coordination mechanisms, and support outsourcing (Ciborra, 1993; Malone et al., 1987). What is interesting is the juxtaposition of IT – presented, rhetorically at least, as a vital strategic tool for government – and the degree to which it has been outsourced.

This paper questions how government IT outsourcing has been conceived and utilized, particularly in the UK public sector. It uses frameworks and findings from prior outsourcing research together with a public value perspective to assess longitudinally major central government IT initiatives in the Inland Revenue, the Customs and Excise (merged as Her Majesty's Revenue and Customs in 2005) and the Social Security (now Work and Pensions) departments.

The paper proceeds as follows. First, we provide a comparative international context. Then we focus on the UK government administrative structure and its history of IT and outsourcing use. IT has policy implications – a link all too neglected in the Information Systems literature (Jarvenpaa and Tiller, 1999). Therefore we introduce notions of public value and policy to frame the ASPIRE (Acquiring Strategic Partners For The Inland Revenue) case. We then detail the methodology used in the research process. There follows the in-depth case study of IT outsourcing, including ASPIRE, at Her Majesty's Revenue and Excise Department. A detailed assessment of the case follows. The final section provides concluding remarks and suggestions for future research.

## 2. The public sector and IT: International and UK developments

There have been all too few international comparative studies carried out on government IT outsourcing policies. Dunleavy et al. (2006) are a major source. They carried out a comparative study of government IT policies across the USA, Japan, the UK, Canada, Australia, Netherlands and New Zealand. They found sharply varied patterns of government-industry IT relations across the seven countries.

In Japan, the wholesale outsourcing of government IT to companies has prevailed since the 1960s. Here powerful departments maintain long-term contracting relationships exclusively with major Japanese hardware manufacturers. Interestingly, except for Fujitsu, these same companies have failed to penetrate foreign government markets. In UK, Australia and New Zealand, by 2000, it was common to find that the top five companies in those countries accounted for 90–95% of the government information and communication technology (ICT) work by value. In these countries generally, contracts got bigger, and longer in time length. In the USA, the huge scale of the civilian government ICT market, combined with a vigorous federal stance of maintaining strong competition, produced much lower industrial concentration (Dunleavy, 2007). Here the top five corporations have accounted for around a quarter of the total market.

Canada, on the other hand, has historically maintained a strong capacity to develop IT systems in-house, designed to create a competitive tension between government provision and outsourcing to contractors. The Netherlands achieved a similar effect by cutting up their IT projects into small parts, then tendering them in ways that established a strong diversity of suppliers. In Europe in general, government IT outsourcing has not reached anything like the levels seen in these seven countries. Indeed, privatization and outsourcing have not been key themes in Dutch government.

How does this play out in practice? One salutary finding (supporting our argument below) is that, using an aggregate measure of IT industry power: *'the greater the overall power of the IT industry in a country, the lower the performance of government IT systems'* (Dunleavy et al., 2006, p. 6). Performance here relates to the scrap rate of government IT projects, price comparability of IT work relative to the private sector, and the relative modernity of government IT systems. These examples also suggest that there are a range of options open to governments. Large-scale, long term outsourcing contracts are not the only, and may not even be the best, strategic choice.

One in-depth study in the USA context also supports the policy concerns of this paper. Freeman and Minow (2009) point to the pervasiveness of US government outsourcing. They concede that some, perhaps even much, of private government contracting works well. However, they wonder at what might be called the democratic deficit. Too often the nature and extent of government outsourcing is invisible or inaccessible to the public. Some of the most controversial contracts are literally off the books, or awarded hurriedly, and without competition. Many are underspecified, affording contractors almost unlimited discretion. There can be a *'stunning failure of government oversight – at times it seems as if no one in any branch of government... has the knowledge and capacity, not to mention the political will, to enforce contractual terms'* (Freeman and Minow, 2009, p. 3). They worry about fraud and waste, insufficient oversight, private conduct outside public sanction, undermining democratic norms of transparency, rationality and accountability, and diminished government capacity. In this they reveal a public value concern. We develop this public value perspective in what follows.

### 2.1. Government models and outsourcing

There has been considerable international interest in recent years in notions of 'the contract state' (Dunleavy et al., 2006; Lacity et al., 2009; Le Grand, 2007; Mintzberg, 1996; Osborne and Gaebler, 1992). 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 to produce better services to citizens. While these are

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