

**Going privately:
partnership and outsourcing in UK public services**

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Abstract

Public private partnerships are at the heart of current transformations in the traditional role of government as employer and service provider. While the language of change appeals to the benefits of collaboration through 'boundaryless' and 'network' organisational forms, it is private sector principles of efficiency, competition and entrepreneurialism, rather than public sector values, which are embraced. Drawing on two case studies of public private partnerships, this paper identifies several problems with the partnership approach. In practice, the intended performance gains are offset by costs associated both with non-functioning quasi-markets and the rigidities of managing services through complex inter-organisational contracts. Also, the private sector enjoys greater power in the partnership so that even where performance gains are achieved the public sector is likely to lose out.

Introduction

In many European countries, the debate around privatisation has shifted from one concerned with the sale of public enterprises to a broader consideration of private sector organisations involved in the delivery of public services (Bach 1999, Montanheiro et al. 1998, Osborne 2000). In policy and practice, this form of privatisation has been pursued most strongly in the UK (Ascher 1987, Bach et al. 1999, Colling 1999, Martin 1993, Walsh 1995). Here, the widespread use of contracting out and public private partnerships has challenged and transformed traditional notions of the government's role as employer and service provider (Corby and White 1999, Deakin and Walsh 1996, Ferner 1994). In particular, principles of employment and services delivery associated with the 'fiduciary responsibility' of the state (Stiglitz 1989) – that derive from the state's powers to raise revenue through compulsion – are undergoing radical change. The multi-faceted role of the state was traditionally associated with the requirement that governments establish principles of transparency and fairness. These principles are now being brought into question with the dismantling of the conditions of market shelter traditionally enjoyed by public services workers and the creation of new institutional linkages with private sector organisations within which the delivery of public services is being restructured (for

example, through the use of private finance) and reorganised (for example, through contracting out services to the private sector).

Partnership arrangements between public and private sectors represent an important example of how the traditional role of the government as employer and service provider is being transformed (Cm 4310 1999, IPPR 2001, Lowndes and Skelcher 1998, Kelly 2000, Robinson et al. 2000). The development of a partnership approach to the delivery of public services is, in part, a response to a growing belief that national economies increasingly face an in-built incapacity to finance the provision of public services. This is associated with the deteriorating macroeconomic conditions witnessed since the 1970s, as well as, perhaps, a failure to address the potentially contradictory roles of the state in regulating the economy, leading to what O'Connor (1973) famously called the 'fiscal crisis of the state'. However, many might argue that the new reforms are still couched in the 1980s ideological revival of laissez-faire economic thinking, which reflects a lack of confidence in the ability of the state to solve economic problems and, instead, proclaims the virtues of private ownership and market incentives as more cost-effective media of service delivery (Bowles and Gintis 1996, Cutler and Waine 1994). In place of the public-private dualism, a number of recent studies have explored how partnerships, or 'network' relationships, between the public and private sectors present new opportunities to shed the supposed inefficiencies and rigidities associated with the bureaucratic, hierarchical organisational structure (Huxham 1996, Kickert et al. 1997) while, at the same time, containing taxation increases. In principle, the antagonistic dualism of public versus private provision is replaced by the harmonious, synergistic duality of partnership. The notion is that 'boundaryless', or 'network' organisations strengthen opportunities for innovation through closer collaboration, improve career prospects for workers through establishing 'boundaryless' job ladders, and, crucially, reduce costs through the mutual achievement of business objectives based on cooperation around respective competitive strengths (see, for example, Arthur and Rousseau 1996, Ashkenas et al. 1995, Castells 1996, Miles and Snow 1996).

This paper explores these themes by drawing on two case studies of different forms of partnerships between public sector and private sector organisations. While it is necessary to resist any inclination to generalize from this sample of two partnership experiences, it is only by appreciating the detail of partnership operations that unanticipated and often unacknowledged shortcomings and costs come to light. In particular, we address two broad questions. First, what is the nature of the performance gains associated with new partnership arrangements in the delivery of public services? And, second, to what extent is the partnership arrangement characterised by a relative balance, or imbalance, in the exercise of power? The empirical evidence casts doubt on the potential for performance gains through partnership and suggests there is potential for new rigidities, despite the rhetoric that they represent more flexible and adaptable organisational structures. Also, evidence of an imbalance of power between public and private sector partners means that even in those areas of services delivery where 'efficiency gains' are achieved, there is not a balanced distribution of gains and losses.

1. From CCT to partnership: bringing the private sector in

For scholars of public administration, the last two decades of public services reform have offered much food for thought. The emergence of neo-liberal ideology and its critique of the supposed monopolistic and bureaucratic inefficiencies within the public sector culminated in the political project of the New-Right Conservative administration (1979-1997). There was widespread privatisation of provision of public services, guided by the public-choice model of services consumption (Buchanan 1975, Osborne and Gaebler 1992). These reforms are well documented and are identified as a shift towards 'quasi-markets' (Le Grand and Bartlett 1993), 'post-bureaucratic forms' (Heydebrand 1989) or 'government by contract' (Carnaghan and Bracewell-Milnes 1993, see, also, Kirkpatrick and Martínez Lucio 1996). Many accounts counterpose one organizing principle against another in their characterization of recent reforms. For example, the combination of direct privatisation of public services delivery, along with the insertion of new market-based principles of public sector management, has led to suggestions that contract-based relations have been substituted for direct authority structures as the main organizing principle (Deakin and Walsh 1996). Others, drawing loosely on a transaction costs

approach, suggest the reforms can be theorized in terms of a shift from hierarchical to (quasi-) market-based principles of managing services delivery (Bartlett and Le Grand 1993). An important contribution from these studies has been to show that while binary categories (markets vs. hierarchies, contract vs. authority, etc.) may provide a useful heuristic device, they do not provide a fully adequate way of explaining the hybrid character of public sector reform. For example, whether or not the implementation of 'quasi-markets' in the public services delivered efficiency savings (by reducing transaction costs, say) depends on the precise form of market structure and the accompanying nature of regulation (Bartlett et al. 1994, Challis et al. 1994). Similarly, contracts are not an abstract formalistic mechanism and, therefore, when deployed as a tool in administering public services their effectiveness depends upon the distribution of power between parties to the contract and the emphasis on trust (Deakin and Walsh 1996).

Other studies go further and suggest that reforms have not led to a clear paradigm shift, regardless of how we define 'markets' or 'contracts'. It is argued that we are witnessing the arrival of a hybrid model for co-ordinating service delivery characterized by 'the co-existence and interaction of hierarchical, market-based and collaborative frameworks' (Martin 2000: 209). Similarly, Hoggett contends that the contemporary restructuring of the public sector involves both markets and hierarchy, contracts and authority, 'in terms of paradox and contradiction rather than the either-or binary logic of the past' (1996: 24). This perspective separates out evidence of actual practice from the rhetoric of introducing markets and contracts, which was such an important part of the ideologically motivated project pursued during the 1980s and early 1990s by successive conservative administrators to erase residual traces of socialism as a political force in the UK (Gamble 1994). It also allows, perhaps, for a clearer understanding of more recent reforms under the new Labour government, which appear to embrace a somewhat contradictory ideological approach. For example, in the 1999 report 'Modernising Government', the unquestionable superiority of private sector market discipline is rejected in favour of a more open-minded approach:

In recent years, the application of CCT and market testing has led too dogmatically to the use of private sector suppliers. Although it delivered savings and efficiencies, this was sometimes at the expense of quality. This government will not make the mistake of rigidly preferring private sector delivery over public sector delivery, or

vice versa. Instead, we will develop an approach based on the straightforward idea of best supplier, retaining an open mind about which supplier, public, private or partnership, can offer the best deal (Cm 4310: 41).

New Labour's language of reform is less dogmatic than that of previous Conservative governments, yet they share the ambition of correcting the apparent failings of public sector organisation through applying private sector principles of efficiency, competition and entrepreneurialism, rather than embracing and developing some of the principles that, arguably, are distinctive to, and of critical importance for, public sector administration. This is problematic insofar as it has omitted to address some of the well-known lessons of the 1980s-1990s era of Compulsory Competitive Tendering (CCT), that, in some respects, are now being repeated through the experience of Best Value and, in particular, the Private Finance Initiative (PFI). One lesson was the finding that market testing and contracting out was leading towards a two-tier workforce. Under CCT, the process of market testing services provision generated cost savings: where in-house bids were successful costs were reduced by removing productivity bonus schemes, or renegotiating a new local pay structure (Kelliher 1996, Sheaff 1988); and where private contractors were successful, rates of pay were reduced and hours of work cut (Escott and Whitfield 1995).¹ Similar findings have re-emerged following more recent experience of staff transfers under a range of contracting out practices (UNISON 2001) and have only very recently prompted calls for the development of 'a robust evidence base on the impact of PPPs on the workforce' (IPPR 2001: 204) and the commissioning by the government of a review on the implications of Best Value for a two-tier workforce.

A second lesson was that while greater use of the market and contracts may bring about an apparent reduction in costs, these savings may be offset by less readily quantifiable costs such as damage to the quality of services provision, or an erosion of public services ethos among workers (Corby and White 1999, Grimshaw et al. 2000, Mailly 1986). Despite the great importance of this issue, it has received relatively little research attention (although see CIPD 2001), perhaps because it is ideologically challenging to the New

¹ During the 1990s, the degree of protection provided by the Transfer of Undertakings (Protection of Employment) Regulations (1981) was limited. Research shows that it is applied only in a minority of cases (Escott and Whitfield 1995, Hardy et al. 1997) and where applied it is no defence against subsequent changes to terms and conditions in the period after the tendering process (Colling 1999, Cooke et al. 2000).

Labour commitment to private public partnerships as the favoured means of improving public sector services provision. There is often an assumption that the public service ethos is strongly determined by the nature of work, rather than the nature of the employment relationship. Given the growing numbers of public services workers who are employed by a private sector employer, where the priority given to the quality of service is conditioned by calculations about its contribution to profit, the question of whether it is the work undertaken or the relationship of employment that most shapes the public service ethos merits detailed empirical exploration.

A third lesson of the early experimentation with CCT was that immediate cost savings at the micro-level for the government may reappear as areas of additional spending at the macro-level. Extrapolating from case-study local authority evidence, Escott and Whitfield (1995) demonstrated that the national savings from CCT due to job cuts were more than offset by additional costs in the form of loss of National Insurance contributions (including the impact of the reduction in the hours of part-time workers to levels below the earnings threshold), together with the additional costs of unemployment compensation caused by net job losses; the result is a net cost estimated at £126 million per year. Similarly, studies of more recent reforms, such as the PFI, argue that the cost savings identified in principle may fail to materialise in practice (Broadbent et al. 2000, Gaffney and Pollock 2001).

Overall, these lessons of previous research on the impact of CCT have not been heeded; and the language of reform under the Labour government reflects this inattention: 'competition' is the main driver for ensuring continuous improvements in public service delivery, and 'benchmarking' of services (borrowing from private sector methods) generates a measure of relative efficiency (Cm 4310 1999: 35-41, see, also, OECD 1997). For example, under the new Best Value policy in local government, whether work is completed in-house or outsourced, public sector managers must demonstrate that the choice of supplier follows a competitive process and that the result maximises efficiency. The focus is upon the immediate, local situation without regard for the wider implications and ramifications. In short, significant costs are externalised and unacknowledged.

More recent work also demonstrates that the design and implementation of market-based policies for reform are riddled with difficulties. There are difficulties in making reliable 'benchmark' comparisons between outsourcing arrangements and in-house supply (Boyne 1998a) - often because of the commercial sensitivity of information. Benchmarking processes that aim to evaluate the tangible and intangible costs and benefits of different arrangements may be strongly coloured by local norms and values (Deakin and Walsh 1996). Also, evaluation of whether the services have improved after the shift to a new arrangement may be plagued by difficulties of holding all other variables constant (op. cit.). Finally, it may be easier to benchmark for a range of bottom line costs than for less tangible phenomena such as organisational learning or degree of political responsibility.

A more radical and far-reaching critique argues that the resilience and dominance of private-sector based measures (whether used as measures of outcome or process) at the heart of the approach to public sector reform precludes an assessment of service delivery that properly reflects the distinctive political identity, and accompanying political limits, of the public sector.

. . . the function of officials cannot be exhaustively defined in terms of achieving results efficiently. There is also a duty to observe the varied limits imposed on action by public bodies and to satisfy the political imperatives of public service - loyalty to those who are politically responsible, responsiveness to parliamentary and public opinion, sensitivity to the complexity of the public interest, honesty in the formulation of advice, and so on ... a system of representative government does require officials to act as the custodians of the procedural values it embodies. The contemporary concern with efficient management, with performance, and with securing results, should not be allowed to obscure this fact (Johnson 1983 193-4, cited in Du Gay 1996).

Current policy reforms may have rejected an automatic preference for private sector delivery of public services. Yet they still appear to favour the injection of private sector values, responsibilities and actions into the management of public services delivery. As a result, the prospect is for continuing denigration of a public sector ethos that encourages honesty and integrity in public management (Doig 1995), as well as the erosion of 'goodwill' among workers which underpins the delivery of high quality services (Grimshaw et al. 2000). In a broader treatment on the need to recover notions of bureaucracy and ethics, Du Gay (2000) argues:

If bureaucracy [in the public sector] is to be reduced and an entrepreneurial style of management adopted, then it must be recognised that while 'economic efficiency' might be improved in the short term, the longer term costs associated with this apparent improvement may well include antipathy to corruption, fairness, probity and reliability in the treatment of cases and other forms of conduct that were taken somewhat for granted under traditional arrangements (op. cit.: 94-5).

Despite the potential for conflict between policy reform and the traditional ethos of public sector management,² the indications are that politicians and policy-makers are intent upon extending the present approach. The aim is to capture economies of scale by bundling together contracts, improve the skills of public sector managers in negotiating contracts and resolve issues concerning staff transfer (Kelly 2000). Instead of heeding the lessons of previous reforms, it seems that current efforts are focused on adapting the structures of the various quasi-markets through changing both the rules of the game played by purchasers and providers and the forms of regulation. As such, the objective appears to be to establish the proper conditions for the operation of quasi-markets as conventionally conceived (see, for example, Bartlett et al. 1994). Unfortunately this aspiration does not encompass an awareness of how markets in both the public and private sectors are socially and politically constructed in ways that are significantly different (on the public sector, see Ball et al. 1994; on the private sector, see Lazonick 1991). This makes the recognition of differences in the opportunities and constraints facing public sector organizations, compared to their private sector partners, all the more important in constructing policy reform.

The confusion and scope for unanticipated problems and costs is increased when notions of entrepreneurial government are embraced and linked to the recent advocacy of 'boundaryless', 'hybrid', and 'network' forms of organisation (Ashkenas et al. 1995, Castells 1996, Miles and Snow 1996). There are efficiencies to be gained, it is argued, by collapsing the boundaries between areas of public and private sector productive activity since these reinforce rigidity and hinder responsiveness to changing external conditions. Hence, improvements ought to be made, it is argued, not simply by shifting patterns of

² Not all studies support this view of conflict between private and public sector values. In particular, Brereton and Temple (1999) welcome what they see as a two-way 'synthesis' of values which has led to a new public service ethos more concerned with outcomes (eg. the optimum outcome for the consumer) than processes (eg. the motives of actors engaged in services provision).

ownership (from public to private) or by dismantling bureaucratic structures, per se, but through attempts to permeate organisational boundaries, 'to move ideas, information, decisions, talent, rewards, and actions where they are most needed' (Ashkenas et al. 1995: 2-3). Presumably, then, boundaryless organisational forms in the provision of public services encompass public-public linkages (eg. 'joined-up' government), public-private linkages, or private-private linkages, as well as more complex patterns involving several organisations.

It is in this context, that 'partnerships' are championed, in the name of increased 'speed', 'flexibility', 'integration' and 'innovation' (Ashkenas et al. 1995.: 7-9, 192). They are viewed as a means of reducing, if not eliminating, unnecessary sources of waste, inefficiency and ineffectiveness from the value chain by replacing arms-length and destructive forms of rivalry and competition with productive forms of collaboration and learning. In principle, there is a shift from a system of atomistic, short-term market-based contracts, which are designed to maximize the gain of each bounded entity, to the development of medium-to-long, 'relational contracts' where the emphasis is upon permeable organising practices that are intended to yield mutually beneficial outcomes. According to this view, notions of market structure and the organizing principles of the quasi-market are less important than the form of contractual relationship and the nature of organizational form.

Again, there are problems with this view. While new managerial accounts of partnership stress the overall net gains of 'boundaryless', or network forms of organisation, it is possible and indeed likely that there is not a balanced distribution of these gains among partner organisations and their respective employees and clients. Importantly, conventional analyses either ignore power relations between 'partners' and their connections to other interested parties (e.g. regulators, shareholders), or assume that such relations are neutralised or rendered irrelevant by the new model.³ Even when a collaborative and consultative approach to partnership is embraced, it is possible that tensions between partners persist. The price exacted for paying more attention to the demands of

³ Ashkenas et al. (1995) give dark hints of the presence of power relations in their discussion of 'the trust barrier', 'the control barrier', 'the skill barrier' and 'the complexity barrier' (ibid : 207-213). Nonetheless, it is taken for granted that these barriers can be removed, rather than (rhetorically) lowered, when each organisation appreciates that maximising its gain depends upon placing 'joint, value chain interest' before 'individual interest'.

customers, or the operations (e.g. reliability) of suppliers, may well be additional stress upon employees; pressures to develop new, collaborative or consensus-building skills; and/or an erosion in the terms and conditions of work.⁴

Indeed, a number of studies demonstrate that 'relational contracting' rarely occurs within contracts even where relations between the parties are symmetrical (Powell 1990, Thorelli 1986). Where 'contracting between unequals' is the norm (Dore 1996), a partnership approach that seeks to match 'business goals and needs', reconcile 'cultures' and develop 'the right chemistry' is likely to prove a challenging and frustrating mission. Considering subcontracting arrangements, for example. Even in the most supportive and open partnerships, small organisations that are dependent on the orders of one large firm for the bulk of their supplies are likely to be in a position of weak bargaining power. 'Matching' is likely to take the form of conceding; and 'reconciling' is more likely to involve cloning. Likewise, in the case of public-private partnerships, managers in the private sector partner are likely to have gained greater experience of market-based contracting that tends to place them in a stronger bargaining position when negotiating' with the public sector partner.

Questions of power relations raise not only the prospect of occasional opportunistic behaviour by one partner, but also systematic, institutionalised domination. Such concerns are neatly avoided by followers of the transactions cost approach (Williamson 1985) who assume that market and hierarchical forms of organisation are themselves solutions to the problem of opportunism; where there is a risk of opportunism by one of the partners, this problem is understood to be minimised by an over-riding concern with long-term reputation (see, for example, Krepps 1990). As Colling (2000) observes, a conventional explanation for the apparent shift to 'boundaryless', or market-based, organisational forms suggests both that improved flows of information have reduced the requirement for hierarchical structures within firms (that is, there are fewer problems of 'bounded rationality') and that

⁴ Again, there is some recognition of the scope for conflict and contradiction during efforts to create and develop partnerships. Ashkenas et al. (1995) argue that collaboration 'requires an on-going match between the business goals and needs of the partners, a fit between company cultures, and the right chemistry among key players who will be working together' (ibid : 211). But there is no sustained analysis of the obstacles that impede the fulfilment of such 'requirements'.

the increased transparency of reputation has lessened the risk of opportunistic behaviour (op. cit.: 71). However, unless it is assumed that 'contracting between unequals' is the exception rather than the norm, it is necessary to question the claimed reduction in risk. It is also relevant to contemplate the possibility that the burden of risk has shifted, with an associated displacement of the costs of opportunism.

One possibility worth exploring is the notion that long-term contractual agreements between partner organisations may meet perceived needs of what is required for competitiveness (or cost minimisation), but that the workforce of one, or more, of the contracting parties bears a substantial part of the cost - in terms of job insecurity, additional workloads, or erosion of conditions (Guy 2000). For example, public-private sector partnerships typically require the private sector partner to provide a similar or improved level of services at lower cost simultaneously ensuring that costs are further reduced in order to generate an acceptable level of profit. Cutting out waste and duplication of effort may yield some performance improvements, as may investment in new technologies and the more cost-effective use of existing assets. This, however, may be insufficient to provide *sustained* performance improvement and is therefore invariably accompanied by recurrent moves to reduce headcount and intensify work by removing porosities and introducing diverse controls that facilitate 'speed up'.

From this brief review of some of the issues concerning greater private sector involvement in public services provision, it is possible to identify four key themes. The first is the problem associated with implementing reform based on the construction of (quasi) markets. No market follows the textbook model of perfect competition. Market structure - the extent to which there is a diffuse or concentrated structure of organizations on the purchaser and provider sides - is thus an important characteristic. In addition, markets do not always provide for effective signalling mechanisms, leading to problems in constructing benchmarking measures. The second theme is the recognition that there are peculiarities associated with the administration and delivery of public services in the public sector. Consequently, efforts to import private sector management techniques and private sector models of economic organization are likely to challenge and potentially degrade

established ways of organizing public sector services. Thirdly, the precise nature of the partnership contract - in underpinning new organizational forms – requires empirical investigation. There may be problems in specifying contracts for public services. Also, it is not clear that all partnership models involve high trust (so-called ‘relational’) contracting which raises questions concerning the distributional outcomes of new arrangements. This brings us to our fourth theme, the relations of power between public and private sector partners. In addition to diversity in the ‘market’ environments faced by partner organizations, differences in expertise in operating in a market-based environment makes it possible that private sector organizations enjoy the upper hand in negotiating and managing contractual relationships with the public sector.

These themes provide a loose framework for the subsequent analysis of research data. Our discussion is organized around two central questions:

- are there performance gains associated with new partnership arrangements in the delivery of public services?;
- to what extent is the partnership arrangement characterised by a relative balance, or imbalance, of power?

2. Introducing the case studies

Our research findings are based on detailed investigation of two case studies, as part of a broader research project into changing organizational forms and the reshaping of work, funded by the ESRC *Future of Work* programme.⁵ One broader objective of this research is to assess the nature of the employment relationship associated with different kinds of inter-organisational contracts found in public-private partnerships, franchise arrangements, multi-employer sites and subcontracting arrangements (Rubery et al. 2002). The project involves eight case studies in total and all share the common criteria of being characterized by strong inter-organisational linkages. In our design of the research project, case studies of public private partnerships were included because these were seen as both an increasingly important organizational form in the delivery of UK public services

⁵ This is a three-year project coordinated by Professor Mick Marchington between 1999 and 2002. Other members of the research team include Marilyn Carroll, Fang-Lee Cooke, Jill Earnshaw, Irena Grugulis, Gail Hebson, John Hassard and Jill Rubery.

provision and an area where little empirical research of a qualitative nature had been conducted. In this paper, we focus our attention on the implications of our research into public private partnerships for current debate over public sector reform.

In the following, we introduce the two case studies from which our empirical data are drawn. Our findings derive from interviews with senior managers and from documentary sources collected over a period of approximately eighteen months. The data, as well as the names of the organisations, have been disguised to protect their identity.

The IT Partnership

This case study involves a large government department (referred to here as 'Govco'), which outsourced the development and maintenance of its computer facilities to a global software and IT systems development company (referred to as 'FutureTech'). The move to outsourcing was prompted, inter-alia, by the 1991 White Paper 'Competing for Quality' (Cmd 1730) which established the policy that, wherever possible, government work should be market tested, with the work going to the provider of best value for the taxpayer.

The outsourcing was undertaken in the mid-1990s and involved the transfer of several hundred staff. Key managers were transferred to a 'Business Services Office', set up to establish a contract partnership team within Govco. Existing IT systems were audited and various potential partners were courted for suitability. The aim, to develop a partnership with a world-class player based on strong relationship ties and commitments, was considered by Govco as essential in the selection of the private sector partner. The relationship developed within tight initial controls, within which the partners were to establish trust, respect and credibility, followed by the development of a partnership structure, within which Govco could 'loosen the noose later' (joint Business Services Office/ FutureTech presentation).

From the outset both sides had to set out explicit goals, which they expected to achieve through the arrangement. These were to be negotiated at a number of cross-organisational meetings. The main issues related to the resources required to meet

contractual deadlines. The relationship is made more complex due to the governmental funding and regulatory mechanisms, which add third party regulation to the 'relational' elements established within the partnership. For example, the Public Accounts Committee has undertaken a number of audits of the partnership on value for money and capability.

The NHS Trust PFI

The second case study involves a large NHS Trust and a consortium of three private sector organisations, which won a PFI (Private Finance Initiative) contract to construct new buildings and deliver the estates, maintenance, cleaning and catering services.⁶ Plans for the PFI project began in 1989-1990, with an initial costing of new buildings. In 1993-94, a building scheme was approved and then put out to tender. Half a dozen bids were whittled down to two, and then one consortium was selected. The selection process investigated the quality of design, and issues related to the transfer of risk and opportunities for innovation. The selected consortium involves: a building company; a design company; a consultancy (which also acts as the lead firm in the group); and a multinational hotel services company (which provides cleaning and catering services).

As with other PFI schemes in the NHS during the 1990s, 'PFI schemes are about buying services not assets or buildings. A new hospital is not a building contract but a contract for the direct provision of services' (PSPRU 1997). Consequently, a major feature of the PFI scheme at our case study is the transfer of ancillary staff to the private sector consortium. The process is complicated in this particular case by the simultaneous rationalisation of health services in the area, which involves staff redundancies. The argument for rationalisation, which apparently preceded the bid for the PFI was that the building stock was beyond its purposeful life, with a severe backlog of maintenance, and many of the health services provided duplicated those at a hospital less than five miles away (for

⁶ The PFI scheme operates throughout the public sector and involves private sector investment, rather than the traditional state-financed capital spending. Under PFI, a consortium of private sector companies (typically a construction firm, a bank and a cleaning firm and administered by a consultant firm) pays for the building or refurbishment of public assets and recoups the money through a charge on services it provides. For example, for roads and bridges the scheme is usually 'financially free standing' where costs are recouped through charges to individuals (eg. toll bridges). For hospitals and prisons the scheme involves 'services sold to the public sector'; for example, cleaning and maintenance services, or IT services, are provided, involving the transfer of public sector employees to the private sector (IPPR 2001; PSPRU 1997).

example, two accident and emergency units, two children's services, and two pathology units).

The negotiated PFI contract (signed in August 1998) is set to run for 35 years. The new building is costed at £66million. At the end of the 35-year period, ownership of the building transfers back to the Trust, under a scheme known as 'build, operate, transfer'. From August 2001, the building was fully operational with the opening of the inpatient division and the transfer of all teaching activities from the closed site to the case study Trust.

3. The price of partnership

Are there performance gains from partnership?

Conventional accounts of partnership and outsourcing of public services typically identify a relatively narrow range of strategic and material considerations which act as pressures for change (see, for example, Domberger 1998). First, contracting with an external provider of services is said to allow the public sector organisation to specialise in so-called 'core' activities and thus to maximise some measure of efficiency. Second, the process, rather than the outcome, of contracting is believed to be an important device in driving down the costs of services provision through the 'discipline' of the market. Third, the purchase of activities through a formally specified contract with a services provider, rather than through a traditional open-ended employment contract, is believed to offer greater scope for control and monitoring of the level and quality of output. In addition, periodic renewal of the contract is seen as a competitive incentive to induce higher motivation and productivity among management and workers providing the service. Finally, use of a service provider from the private sector is believed to be critical to enhancing the flexible capacity to adapt and respond to new pressures and conditions, as well as the potential for innovation in service provision.

Table 1. Pressures to outsource activities through public private partnership

IT Partnership

NHS Trust PFI

<i>Specialisation</i>	Development of IT services 'peripheral' to 'core' administrative activities	Estates and ancillary services 'peripheral' to 'core' health activities; outsourcing required by PFI legislation
<i>Market-cost discipline</i>	Cost reduction through market tender process and regular benchmarking	Labour cost reduction and redundancies secured through market competition
<i>Contract-performance discipline</i>	Unit cost reduction built into contract	Tightly specified contract with flexible tariff payment system
<i>Private sector expertise and flexibility</i>	More flexible job grading structure; more resources for re-training in line with IT developments; potential for more rapid innovation in IT	Potential for innovation in services delivery and work organization

Table 1 applies these considerations to our two cases. Regarding specialisation, senior management at Govco gave the impression that a decision on whether or not IT services were peripheral in nature was a decision that was forced under conditions of relative financial austerity and the peculiar organisational structure of the civil service. Managers argued that the cost constraints during the 1990s, coupled with an inflexible civil service job grading system, inhibited the development of an IT services work group that could be adapted or retrained following developments in new technologies. Consequently, the bulk of IT support services were defined as peripheral and outsourced to FutureTech, despite the fact that IT development remains key to the overall 'core' business plan of Govco. At the NHS Trust, the legislative pressure to outsource ancillary staff as part of the PFI acted as a more explicit pressure. As part of this process, estates and ancillary workers were redefined as 'peripheral' to the 'core' activity of providing healthcare services.⁷

Managers at both cases suggested that the market-based process of tendering services reduced costs compared to in-house provision. Indeed, at Govco, unit cost reduction of 50 per cent, to be achieved through 'market competition', was perhaps the most important

⁷ Under the initial legislation for PFI schemes in the NHS, the focus was on 'services sold to the public sector', such that the contract was more about the direct provision of services, than about a new building. Under the Labour government, this legislation has been adapted in order to remove the obligation for NHS Trusts to purchase ancillary services (portering, catering and cleaning staff) from the private sector (Agnew 1999).

consideration underpinning the decision to outsource IT provision to FutureTech. Govco also intended to build on the cost savings from the tendering process by requiring FutureTech to conduct regular benchmarking of costs and performance levels against competitor organizations. Govco managers believed that use of a competitive market-index would provide an incentive for improved productivity. In addition, retention of intellectual property rights by Govco facilitated the possibility of switching contracts to alternative suppliers, capturing the incentives of market competition by threatening to take the contract elsewhere at the end of the contract.

At the NHS Trust, the PFI contract with the private sector consortium was expected to deliver cost reductions. This is supported by some (but not all) national studies on the value for money of PFI deals; Robinson (2000), for example, estimates cost savings of between 10 and 20 per cent compared to the public sector spending option. At our case study Trust, it is difficult to disentangle PFI cost savings from savings associated with the simultaneous closure of one of the hospitals that forms part of the Trust. What is clear is that a large part of the savings comes from reductions in labour costs⁸ and that 'market competition' may have provided management with a practical route to securing staff redundancies. Indeed, while the private sector service providers are responsible for redundancy procedures, it is the Trust that is obliged to pay redundancy compensation. Both these examples indicate that saving money, through redrawing the organisation's boundaries to include a market interface, is an important factor underpinning outsourcing of services through partnership.

Managers at both cases acknowledged the pressures to change based on the supposed advantages of greater use of contractual arrangements rather than bureaucratic administration. In general, there appear to be two alternative institutional arrangements. The purchaser either negotiates a fixed price contract over the period of contract under the assumption that the one-off encounter with 'the market' is sufficient to benefit from the cost discipline of competition. Or, the purchaser can negotiate a flexible-price contract, which

Nevertheless, estates services are still obliged to transfer, creating the expectation among many commentators that, in practice, little will change in the defining of 'core'-'periphery' workforce groups.

⁸ At the case-study Trust, the number of maintenance staff is to reduce from 90 to 50 between 1998 and 2001, and the number of ancillary jobs will reduce from 700 to 500.

builds in options to increase or to reduce annual payments, under the assumption that it is difficult to predict with certainty future changes in demand for services provision, or the nature and related costs of services delivery. Both cases had institutionalized some form of flexible-price contract. At Govco, preparation for the contract required clear specification of IT services and the adoption of a standard method of defining performance levels per unit cost. The contract built in a contractual requirement for FutureTech to reduce these unit costs over the period for the services originally tendered. Moreover, the contract imposed financial penalties on FutureTech where performance was below standard. At the NHS Trust, a key benefit to management was the ability to build quality considerations and changing budget pressures into the contract for services provision. The contract between the Trust and the Consortium has involved a payment mechanism, where the tariff can be changed if the Consortium does not meet performance standards, and built-in improvements in costs to meet changing budget pressures imposed on the Trust from the government.

Finally, at Govco and the NHS Trust, management were quick to identify the rigidities and inflexibilities of the traditional, bureaucratic public sector structure, compared to the apparent expertise and flexibility of the private sector. While the bureaucratic organisation of work was acknowledged to provide for stability and security among staff, the managers we interviewed were rather more concerned that it did not provide the appropriate environment for flexible restructuring of work and employment practices. At Govco, managers faced difficulties in retaining staff who were highly skilled in IT, or in providing new training provision in IT, due to budget restrictions and an inflexible job grading structure. Short of wholesale transformation in the traditional civil service structure, contracting out IT services to the private sector was believed to be the most attractive option for delivering a 'high road' approach to IT services provision. At the NHS Trust, managers argued that the private sector option offered scope to operate with fewer multi-skilled staff. As one NHS manager explained to us:

There's a lot of room for improvement....there is a lot of fat to be trimmed off the public sector for the private sector to make a good profit.

In this view, the move from in-house provision to outsourcing of ancillary services was seen as a way of opening the door to renegotiating traditional work practices in previously heavily demarcated territory.

... Or new rigidities?

While the pressures discussed above were clearly instrumental in driving the complex process of change, nevertheless further empirical exploration reveals a number of areas where potential gains in flexibility and efficiencies appears to be offset, in practice, by new forms of rigidity. We explore these rigidities across the same four dimensions in Table 2.

At both cases, there are new areas of tension and contradictions associated with outsourcing so-called 'periphery' activities to a private sector provider. In principle, the decision to outsource is accompanied by some loss of control over the processes of managing those activities. In some cases, tighter contractual management of output performance may provide an alternative source of control. However, where the skills and knowledge underpinning work practices are rapidly changing, it may be difficult to judge the quality of output due to a diminishing knowledge of new areas of innovation. Such a case is evident at Govco, where outsourcing of IT services carries with it the potential hazard of failing to keep pace with new developments in information systems and thus an inability to judge the cost-effectiveness of output delivered. In the extreme, Govco may find itself 'locked in' to the contracting arrangement due to its inability to assess competing bids when the contract is due for renewal. These dangers are less apparent at the NHS Trust. Instead, the potential hazard arises from reliance on a fragmented network of organisations managing the delivery of a unified service to patients. In particular, while the new private sector provider of estates and maintenance services has a relatively long history of working in the NHS, the catering/cleaning firm is new to the sector; it has very little understanding about traditional working practices and the division of labour in hospitals.

Table 2. Obstacles to performance gains from partnership

<i>IT Partnership</i>	<i>NHS Trust PFI</i>
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<i>Specialisation</i>	Danger of losing expertise and becoming 'locked in' to contracting arrangement with provider	Fragmented services provision
<i>Market-cost discipline</i>	Difficulties of market-based cost comparisons (benchmarking) may fuel price increase during period of contract	High costs of bidding deter large number of competitors for contract
<i>Contract-performance discipline</i>	Difficulties of contract specification due to fast-changing IT	Contract-performance verification involves high commitment of time and resources
<i>Private sector expertise and flexibility</i>	Over-flexible redeployment of staff diminishes basis for trust; development of new software restricted by tight contract and long-term disincentives	Limited expertise in HR policy and practice is a threat to tradition of cooperative employment relations

Second, the apparent benefits to be gained from 'market-cost discipline' are limited in practice by the impossibility of enforcing spot market contracting. At Govco, the price of the contract with FutureTech was not fixed. While the unit cost of producing software code was set to reduce by 50 per cent over the first five years of the contract, orders for additional work carried a flexible price tag, reflecting the belief that frequent benchmarking would relay market signals on costs as well as the difficulty of fixing prices in the context of fast changing technologies. Evidence from the first six years of the contract demonstrates that changes in the projected value of the project are not minor variations reflecting swings in demand or cost-savings from IT developments as might be expected. In fact, over this initial period the projected value of the contract more than doubled (details withheld to maintain confidentiality). While a large proportion of the additional costs arose from the award of new work, it would appear that the public sector partner has incurred most of the risks associated with the contract, rather than benefiting, as supposed, from the downward cost pressures of market competition. But these market pressures could not be exploited because it is extraordinarily difficult to 'benchmark' the costs of IT services. Documents reveal that Govco only expected to be able to 'benchmark' around half of all outsourced activities, due to both the difficulties of obtaining cost/quality information from competitor IT

firms and the non-comparability of some areas of IT provision. It is impossible, therefore, to judge how competitive the costs of outsourced services are. These difficulties suggest that talk of a shift to a more transparent market-led system of cost competition is misleading.

The problem at the NHS Trust PFI case is the excessive costs involved in the initial bidding stage. This is true of many PFI deals:

The maintenance of competition in the processes of bidding can be difficult to achieve as the costs of bidding for PFI projects by private firms are considerable and at the later stages of the process a firm may not want to commit more resources without some assurance of success. ... It is always possible that in large and complex schemes the costs to a contractor of pursuing a bid may mean there is difficulty in maintaining the level of competition that is desired. It follows that the reliance on competition as a basis for achieving value-for-money is somewhat optimistic (Broadbent et al. 2000: 33).

At the case study Trust, bidding organisations were forced to submit highly detailed design plans, as well as financial and legal arrangements, involving costs to designers, lawyers and consultants. This meant that the Trust also had to spend large sums of money to verify and compare competing bids. As the Project Director told us:

I can't think of any kind of advisor we didn't have ... A lot of duplication, I am sure, is carrying on with the PFI.

For the managers from the private sector partner consortium, the large barriers to entry were identified as a bonus to them, once the bid had been accepted.

There is a payoff in the long run because no-one else will be able to penetrate the market (SPV General Manager).

An understanding of market structure would identify this case as concentrated purchaser meets concentrated provider (Challiss et al. 1994). If this is the case, then there is increased importance attached to the role of the contract as an instrument of regulation (op. cit.). However, this brings us to problems of contract-performance discipline.

One of the paradoxes of utilising an external organisation to improve the efficiency and general standards of services provision is that the purchaser of these services (in this case the public sector organisation) must invest additional resources in the specification, monitoring and measurement of contracted services. Hence, while 'contract-performance

discipline' is claimed to be a critical variable in whittling down the total costs of services provision (Domberger 1998), in fact the separating out of particular services for tender, the specification of tasks to be included, and the design of monitoring and measurement methods all present an institutional problem (as well as imposing additional transactions costs), which places a number of practical demands on management in the areas of accounting systems, HRM and operations.

Both case studies experienced difficulties in ensuring equivalence between the specification of tasks in the formal contract and the actual tasks undertaken as part of services provided. At Govco, the absence of prior measures of productivity or performance was believed to underpin many of the subsequent difficulties associated with managing the contract. For example, mis-specification of one contract for IT services carried a penalty of £0.9million payable to FutureTech, due, in part, to the 'very sketchy' nature of an outline of initial business requirements (Govco Document). Specification and pricing of work is no easy matter. IT services outsourced to FutureTech are subdivided into 30 work types, based on productivity and volume characteristics of work done; each type is priced separately. If the nature of an individual job task changes, then there is negotiation around whether this has changed the work type, and thus the unit price. Similarly, at the NHS Trust payment for work done involved the matching of detailed invoices from providers with details specified in relevant contract documents, where the costing of each job task is detailed through time and motion studies. Assimilation of all the required information to process claims takes time. For example, during one interview at the NHS Trust, the Director of Estates and Hotel Services directed our attention to a pile of 50 to a 100 invoices and told us:

They'll stay there until I receive all the necessary information. They haven't given information on times and other things.

Retention of intellectual property rights (IPR) appeared to be one area where Govco covered itself against adverse contractual risks. Where FutureTech developed new IT systems on behalf of Govco, rights to these systems were in the hands of Govco. This raised the possibility of generating additional revenue by charging FutureTech when it used these IT systems in projects with other clients. In practice, FutureTech has not lost

under this arrangement since it has been able to include the costs of this charge in bids for alternative projects. However, given that many of these alternative projects are undertaken for the UK government, charging for intellectual property rights has simply generated intra-governmental transfers. As one Govco manager explained, FutureTech were also able to profit from this situation:

If you looked at that from the outside world you would just think that it was insane. You've got some money from [FutureTech] for your IPR and then another [government] department comes along and they pay the same costs plus a mark-up to [FutureTech]. So, [FutureTech] make a return on your IPR. Why don't you just let the other department have your IPR?

The final area of potential problems concerns the apparent scope for efficiency gains through exploiting private sector expertise. The IT partnership demonstrates that while, on the one hand, it is difficult to measure whether there have been efficiency gains from outsourcing services to the private sector, on the other, the contracting arrangement may act as a disincentive to developing expertise in services provision over the long-term. Govco management were keen to develop innovative software systems (such as internet services, for example), both to meet the objectives of 'joined-up-government' initiatives, and, in the long term, to reduce administrative/ labour costs. Thus, the contract does include a clause on 'access to new technology'. However, any new development that brings down labour costs is unlikely to be seen as attractive by the services provider since this may allow the purchaser to bargain down the projected costs of the contract. In this case, the new contracting regime may actually be an obstacle to innovation in service delivery.

Managers at the NHS Trust complained of the lack of HR expertise among private sector management, which presented potential problems for sustaining co-operative employment relations and thus in delivering high standard services:

[the private sector firms] were pretty efficient in other areas but not in HR. You would have thought that they were good at that but they aren't. Their industrial relations is one of suspicion and hard bargaining. But the hospital has a consensus culture as a result of long co-operation with established trade unions. ... We dragged the private sector providers into our style of industrial relations; they really were light years behind (HR Director).

Overall, the two cases demonstrate evidence of costs, or 'rigidities', from outsourcing public services through partnership arrangements. The above discussion has focused on how stylised interpretations of the benefits from contracting with the private sector, such as those contained within the literature on market-led reform or on the 'boundaryless' organisation, may be mistaken. The possibility of costly, and often unintended, problems raises the question as to who bears the burden of these costs. In the next section, we examine more closely how the relative costs and benefits are distributed between partners to the contract.

Is there an imbalance of power?

As noted in the first section, questions of power relations between partners to a contract⁹ are neatly avoided by studies adopting a purely transaction costs approach to inter-organisational contracting and largely absent in accounts of the boundaryless organization. In fact, there may be a number of dimensions to partnership arrangements that generate an imbalance of power. Thus, despite the gloss of co-operative relations associated with partnership deals, the possibility of 'relational contracting between unequals' (Dore 1996) means that there may be winners and losers, either in the short or the long term, to partnership.

Table 3 specifies how three broad factors contribute to the relative balance of bargaining strength in the context of public private sector partnerships. The first factor draws attention to an implicit contradiction at the heart of outsourcing/ partnership arrangements. On the one hand, outsourcing of service provision requires the surrender by the purchaser of a significant level of expertise, to exploit the benefits from greater specialisation. On the other hand, without strong expertise in the area of service delivery it is difficult for the purchaser to manage effectively the monitoring of services delivery and specification of new work. The problems associated with the cost of monitoring the contract and work duplication in the NHS Trust are mentioned above. At Govco, in contrast, this problem was recognised from the outset and a decision was made to retain 'in-house' a core of staff with specialist skills to co-ordinate management of the contract. In interviews, managers

⁹ We use the term power loosely in this context to include broadly conceived notions of relative bargaining strength and control over contractual arrangements.

were clear that this strategy was critical to maintaining relatively strong bargaining leverage:

We retained expertise, loosely under the heading ‘Intelligent Customer’ - our front-end people assessing new developments, architects, service management and a high calibre contract management team who are responsible for administrating the contract and the relationship with [FutureTech]... These people came from experience within [Govco] and were in a strong position to provide some sort of reality check on any ideas that were coming from [FutureTech].

Over time, however, it might be expected that this source of bargaining strength will diminish as the partner firm develops new IT systems in areas where incumbent staff at Govco have little experience. Moreover, there is apparently little they can do to prevent highly skilled staff from leaving to seek better prospects elsewhere; staff turnover in the key area of contract management presents a significant problem in replacing expertise.

Table 3. Factors contributing to ‘power imbalance’ in public-private sector partnerships

	<i>Public sector purchaser</i>	<i>Private sector provider</i>
<i>Expertise in outsourced activity</i>	Medium-high, but declining	Medium-high, and rising
<i>Expertise in negotiating and working to contract</i>	Low-Medium	Medium-High
<i>Sensitivity to reputation in area of services delivery</i>	High	Medium

Regarding the second factor, a shift to market-based contracting arrangements may be expected to deliver a comparative advantage to private sector partner organisations, relative to the public sector, since the private sector is likely to have greater experience in managing services delivery to meet contractual requirements. Interviews with senior managers from the private sector consortium in partnership with the NHS Trust provide support for this view. From the early stages of the partnership, there was a major difference in available resources and expertise committed to negotiating, and fine-tuning, the contract. The private sector partner enjoyed the benefits of a very large bid team during the early stages, and could draw on past experience of negotiating contracts. The NHS

Trust employed a group of just three staff that was subsequently withdrawn. Moreover, while the private sector partner financed a 'special purpose vehicle' (with two full-time senior managers) to oversee the management of the contract, the NHS Trust had to draw on existing management staff, who were charged with managing the contract alongside all their other areas of responsibility. Lack of expertise and resources within the Trust meant that the private sector consortium had a relatively free hand in setting and interpreting details of the contract. This was clarified to us in a number of instances in conversations with the General Manager of the 'special purpose vehicle' during a workshop involving other senior managers from members of the consortium:

But now the NHS aren't putting in the resources. They [NHS management staff] are completely overwhelmed by the work they have to do . . . There are very different strengths across [the consortium members]. It is important to use these as complementary. . . . The Trust management staff are very stretched. We could screw them every day of the week if we wanted to. We educate them about the Concession Agreement [the main contract] because the Trust bid team has moved on [i.e. quit]. . . . [The senior manager] found that the Trust managing team didn't understand the Concession Agreement. . . . It is good to work with the monitoring team [from the Trust side]. We train them to see things how we see them.

Evidence of the greater ability of the private sector side to negotiate a better deal is also demonstrated in the details of risk sharing. A major loss for the Trust was the inability to factor in the then annually imposed cost savings (so-called 'cash-release efficiency scheme') of three per cent. Once the PFI contract had been agreed, the Trust found itself with around 20 percent of its expenditures effectively ring-fenced - to meet the terms of the PFI contract. As a result, the Trust had to find disproportionately high cost savings from a much reduced annual budget to meet the annual cost savings targets imposed by central government.

Such a stark division in the expertise in contracting between the two sides is less evident at Govco. From the outset, resources were committed by both sides to define and negotiate the contract, and regular inter-organisational meetings were held to improve the co-operative nature of the agreement. In part, the greater investment in preparatory work reflects the very high profile nature of the partnership, involving a high cost, high skilled activity seen as vital to the national economy. Several documents on 'Partnership' were

published to emphasise the collaborative spirit of the agreement. These include passages such as the following:

Joint projects between the public and private sectors are not unique. But [FutureTech] and [Govco] are justifiably proud of developing what they both believe to be a model of teamwork and co-operation in public private sector partnership.

Importantly, the signing of Govco's contract required commitment from parties on both sides to attend regular 'Joint Partnership Meetings', organised as Board-level management meetings, designed to act as a 'policing mechanism'. At lower levels of operational management, the 'ethos of partnership' is instituted through regular review meetings, which feed through into the higher level Joint Partnership Meetings. In addition, FutureTech assists Govco in bidding for additional funds for IT services from central government and Govco teams participate in FutureTech decisions regarding strategic planning of operations and expected profit margins. Of course, agreement on the potential virtues of co-operation do not preclude conflicts of interest or contradictions in business objectives, as one of the senior managers from FutureTech explained:

The core of it was that [Govco] didn't think that [FutureTech] would do anything unless they got paid ... and [FutureTech] thought that [Govco] were being unrealistic, asking for everything but not really willing to put the sums of money in. ... It is around here that you start to get people seriously asking what it means to be in a partnership, and how are we going to do things differently, and how are we going to avoid getting into that again (FutureTech manager).

It may be difficult to reconcile conflicting interests through collaborative exercises of building co-operation. Moreover, forging a co-operative relationship establishes a fundamental tension with the need to retain an element of competition (Broadbent et al. 2000), which is required to avoid the type of comfortable, 'soft budget' problems often said to be associated with the traditional bureaucratic organisational form.

The third factor which shapes the degree of 'power balance' between partners is sensitivity to reputation. In conventional transactions cost analyses of vertical integration, this factor is often claimed to limit the possibility of one partner acting opportunistically. However, a closer reading demonstrates that a number of conditions have to be met before this holds true. These include the extent to which 'defections' from co-operative behaviour are made public knowledge, and the extent to which contrived, as opposed to real, claims of

defection can be verified (Williamson 1985: 395-396).¹⁰ The case study partnerships demonstrate that these conditions are by no means easily achievable. Perhaps more importantly, however, the evidence shows that there may be an imbalance between public and private partners with regard to how sensitive each is to reputation. Unlike the NHS Trust or Govco, the private sector partners have operations across a variety of sectors and therefore are not bound to win or lose future contracts on the basis of reputation in either health services or government administration. In addition, public sector purchasers typically face a limited choice of providers during the bidding stage, resulting, in effect, in the forced selection of a provider. At Govco, despite publicised evidence of the private sector partner's poor performance in other partnership arrangements with public sector organisations during the operation of the contract, management did not investigate such claims. This suggests either that the partnership had become over-sheltered from external competition and reputation effects, or that there was simply no other realistic alternative (due to high costs of entry, or the specificity of technical know-how). NHS Trust managers were suspicious that the private sector partners were less concerned with delivering '100% performance' than with maximising the number of extra-contractual claims for maintenance work (Director, Estates and Hotel Services). Where falling standards of services provision generated concern among patients, it is likely that the problems of generating a poor reputation fall squarely on the shoulders of the Trust management, since they are still vested with controlling and monitoring quality standards.

In practice, there is a great deal of potential, therefore, for imbalance of bargaining strength and an inequitable distribution of the gains and losses between the public and private sector partners to new outsourcing arrangements. Moreover, our analysis here may only answer one part of the question concerning who gains and who loses from public-private sector partnerships. It is entirely feasible that the bulk of the costs of 'irresponsible behaviour', or opportunism, by one or both of the partners falls on the shoulders of the workers, particularly those transferring from the public to the private sector partner. Issues

¹⁰ Williamson also acknowledges the limits of reputation effects in deterring 'irresponsible' behaviour:

Additionally, reputation effects can deter managers from behaving irresponsibly. These, however, are imperfect. Some managers may shrug them off if the immediate gains are large enough and if they cannot be required to disgorge their ill-gotten gains. (Swiss bank accounts have attractive features in that respect) (1985; 138).

of relative bargaining power may again be relevant. Highly skilled and experienced staff outsourced from Govco wield relatively high bargaining power by virtue of ownership of sought after skills and experience. Consequently, these workers may benefit materially from the transfer operation, especially where they are able to capitalise on the greater number of specialist career tracks within FutureTech. However, at the NHS Trust, ancillary staff transferring over to the private sector partner would undoubtedly lose their long-term protection enjoyed within the framework of a highly unionised and regulated NHS. TUPE would provide cover in the short term only; thereafter, ancillary workers would enjoy little defense against employer opportunism.

Conclusion

The case study evidence presented in this paper suggests there are serious limits to the longstanding policy model, continued under the present Labour government, of applying private sector principles to the process of public sector reform. Much of the current debate couches the process of reform in an apparently non-ideological language and this is supported by recent literature on the network, or boundaryless organisation, which draws attention away from the implications of the controversial split over whether the public or the private sector ought to be in control of delivering public services. But the emphasis on developing a new model of public services delivery that builds on the principles of market-cost discipline and contract-performance discipline brings with it a number of unintended problems.

Of course, markets can not operate in a vacuum. In all areas of society, markets are a political and social construct, and this is nowhere more true than in the case of public services quasi-markets, where well-known studies have warned of the need for effective regulation to protect against differences in market structure (Barlett et al. 1994). But quasi-markets are not working. Arguments that the public sector benefited from the downward cost pressures of market competition over the duration of the contract were seen to be seriously flawed in the two cases reviewed here. In addition, attempts to construct proxies for market-based pricing signals through benchmarking practices were unsuccessful. The model of reform also relies on the language and practice of contracting. Here, we found

that the public sector partner tended to underestimate the time and resources needed to negotiate and manage the terms and conditions of the partnership contract. This put the private sector partner in the driving seat and enabled it to exploit its greater experience in working to contract and to secure favourable terms; at the minimum these involve securing long-term funding against declines in public spending (the NHS Trust PFI case) or substantial rises in the long term value of services provision (the IT partnership case).

The problem is not simply that the public sector faces a steep learning curve to survive in the world of markets and contracts; simply providing specialist education and training for senior civil servants is not sufficient. Instead, recognition of the distinctive qualities of services provision in the public sector is needed. These include characteristics of the public service ethos – fairness, antipathy to corruption, reliability, etc. – as well as the distinctive nature of the producer market, which involves a monopsony government purchaser and the political management of ‘prices’ for non-paying ‘customers’ (such as pupils, patients, etc.). In other words, the answer to effective reform is more likely to be found within the public sector – although this might involve comparison with experiences in other industrialized countries. By building on these qualities as central components of a more radical process of reform it may be that Britain would not only improve the quality of public services, but also provide a model of ‘best practice’ to private sector contractors interested in improving their services provision and employment policies.

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