

Good people, good systems

Former public servants speak about
delivering public services in the private sector

Emma Reddington

Good people, good systems

Former public servants speak about
delivering public services in the private sector

Emma Reddington

The Serco Institute

© 2004, The Serco Institute
22 Hand Court
London WC1V 6JF
T: (0)20 7421 6475
F: (0)20 7421 6471
E: institute@serco.com
www.serco.com/institute

Design and Print by Serco Media & Design

Contents

| | |
|---|------------|
| Introducing the Serco Institute | ii |
| Foreword | iii |
| Executive Summary | iv |
| 1. Introduction | 1 |
| 1.1. Objectives | 1 |
| 1.2. Approach | 2 |
| 2. A Sense of Public Service | 5 |
| 3. Managerial Autonomy | 11 |
| 3.1. Devolved responsibility | 11 |
| 3.2. The contractual shield | 17 |
| 3.3. 'A clearer focus on outcomes' | 18 |
| 4. Managing People | 21 |
| 4.1. 'To build my own team' | 21 |
| 4.2. 'Hiring people is much easier and quicker' | 23 |
| 4.3. 'Managing our staff is different' | 24 |
| 5. Personal Accountability | 27 |
| 5.1 The focus is on the contract manager | 28 |
| 5.2. 'What has been your impact on outcomes?' | 31 |
| 5.3. 'You have to make sure there are no surprises' | 33 |
| 5.4. 'It means that you really know your business' | 34 |
| 6. Challenges for Managers | 37 |
| 6.1. Isolation from former colleagues | 37 |
| 6.2. 'Them and us' | 39 |
| 6.3. The winning formula | 41 |
| 6.4. 'The goldfish bowl' | 42 |
| 7. People and Systems | 45 |
| 7.1. Some questions | 45 |
| 7.2. Some answers | 47 |
| 7.3. Building better systems | 48 |

Introducing the Serco Institute

Serco has been delivering public services for more than forty years, adapting and developing our business model as governments around the world have invited us to work with them in ensuring better value for money and turning around the performance of failing services. Over that time, we have assumed responsibility for more than twenty thousand former public servants who have had a huge impact on the development of our organisational culture.

It is unsurprising, then, that we sometimes speak of ourselves as a public service company. And for those who know the company, it will come as no surprise that the Institute has dedicated its first publication to a group of managers who started their careers in the public sector.

The Serco Institute was created in 1994 to research worldwide trends in competition and contracting, to develop new models and methods and to capture and share best practice across the company. Since 2003, it has been focused more specifically on the public sector, engaging with governments around the world in the design of high quality markets for the delivery of public services.

Of course, this is not the Institute's first research report. But it is the first time that research has been undertaken with the intention of releasing it for public debate and discussion. The publication of 'Good People, Good Systems' thus marks a new stage in the Institute's development as a think-tank.

The company has made this commitment to research in the field of competition and contracting, because we believe that the public will benefit from the introduction of greater contestability into service delivery. We also believe that Serco's employees and shareholders will benefit from the development of high quality markets, focused on delivering better value for money, but also on the improvement of services to the end-user.

Kevin Beeston,
Executive Chairman,
Serco Group plc

Foreword

This project had its origins seven or eight years ago, when a former colleague from the New South Wales Public Service asked me to explain what was different about the private provision of public services: 'You are delivering the same services, mostly with the same people. Why can you do what we can't?'

At the time I was still living in Australia, and on my periodic visits to the United Kingdom, I would ask this question of Serco's contract managers who had previously worked inside government: 'What is different about delivering public services in the private sector?' The answers that they gave were much the same as those provided by the respondents to this survey – a combination of increased autonomy and increased accountability.

The problem with modern government is not the people but the systems. Competition and contracting create a different decision-making environment that enables these people to get on with the business of delivering efficient and effective public services. This phenomenon is by no means confined to the English-speaking world. In his recently-published account of the highly-successful privatisation of Japanese National Railways, Yoshiyuki Kasai, now the President of JR Central, comments that:

Reduced political and bureaucratic interference in the management was an important prerequisite for success. People, however, do not change overnight. What you see is what the workers have always been. In the process of privatization, they were just able to express themselves more freely.¹

'Good People, Good Systems' is a pilot study based on a small but significant sample of Serco's contracts. It provides insights rather than answers. And it is published in the hope that it will stimulate government, industry and academic institutions to undertake further research in this area, drawing on the experiences of a much wider range of companies and public services.

Gary L. Sturgess,
Executive Director,
The Serco Institute

Executive Summary

If, as Al Gore concluded, the problem with modern government is ‘good people trapped in bad systems’, what can we learn from managers who have delivered public services in both the public and the private sectors? In this pilot study, we interviewed 13 of Serco’s contract managers engaged in delivering front-line services, who used to manage similar services in the public sector. Between them, these men and women had accumulated more than two hundred years of public service prior to joining the private sector.

One of the first things we learned was that some things do not change. Service managers do not surrender their commitment to public service when they make the transition from the public to the private sector. One of the contract managers commented that while he was no longer a public servant, he still saw himself as delivering a public service. These men and women retain their strong sense of vocation when they take up the management of public services under contract.

When it came to the differences, contract managers mentioned three significant factors: managerial autonomy, closer management of staff and a personal accountability for service outcomes.

Managerial autonomy: Almost universally, respondents commented on the relative lack of bureaucracy in the private sector. Whether it was in the recruitment and management of people, budgeting and financial accountability, introducing new ideas or responding to service failings, managers consistently reported that they had much greater freedom in a contractual environment and that they were able to implement change more quickly.

Closer management of staff: One of the consequences of increased autonomy was that they had greater freedom to build their own management teams, tailored to the particular challenges facing them in the service in question. But almost all of the contract managers told us that they were also closer to their staff than they had been in the public sector. They communicated with them directly. They met them whilst walking around the site. They knew their staff by name.

Personal accountability: Service managers also told us that they felt much more accountable. In part, this was because they felt personally responsible for the performance of the contract: as one of the contract managers explained, 'This contract is my baby'. But another part of the explanation seems to be that these men and women are being held responsible for outcomes rather than just processes, and this requires them to have an intimate knowledge of the service in question.

Whilst recognising the need for further research, this study suggests a number of ways in which government might design better contracts: by using the shield of the contract to protect managers from inappropriate interventions, placing a greater emphasis on improving service quality, and ensuring that service managers have a greater say in service design.

But there may also be lessons for the design of government's own internal systems. Has there been sufficient devolution of decision-making authority to the managers of individual service units? Could service managers be given greater freedom in the recruitment of their own management teams? Is it possible to adopt the culture of personal responsibility for service improvement which seems to exist in the contract sector? Might the government benefit by adopting a more modular system of service delivery, drawing on some of the strengths of the contractual model?

This is not an argument that government should pursue greater outsourcing of public services. Rather, we question whether government might not benefit by adapting the systems it uses for managing one set of service providers (the contract management companies), and applying them in reforming the systems elsewhere in the public sector.

1. Introduction

The problem is not lazy or incompetent people; it is red tape and regulation so suffocating that they stifle every ounce of creativity. The federal government is filled with good people trapped in bad systems: budget systems, personnel systems, procurement systems, financial management systems, information systems. When we blame the people and impose more controls, we make the systems worse.

Al Gore, former US Vice President²

1.1 Objectives

In 1993, the then US Vice President, Al Gore, was instructed by President Bill Clinton to undertake a performance review of the federal government. In doing this work, Gore was disappointed to discover that many public servants had given up trying to be innovative and were doing their jobs 'by the book', because it was safer and easier that way. He concluded that organisations (public and private) that are steeped in bureaucratic systems are unable to keep up in a world of fast-paced development, global competition and demanding customers.

This brief paper explores the experiences of 13 of Serco's contract managers who used to occupy similar positions inside the public sector, delivering core public services such as science management, health and education services, prisons management, public transportation and local government leisure facilities and housing administration.

The British experience with competition and contracting in public services over the past 20 years provides us with a unique opportunity to explore Al Gore's thesis about people and systems. In the UK, a significant number of public servants have crossed over to the private sector and are now delivering the same kind of services in a contractual environment.

The contract model is profoundly different from the bureaucratic model through which most core public services have traditionally been delivered. Services managed under contract are modular in nature: they are delivered by discrete service units with distinct borders and clear accountabilities. Contracting implies a strong separation of commissioning and delivery, with much greater clarity of organisational objectives, agreed performance measures and external monitoring.

On the other hand, bureaucratic organisations tend to be structured in layers, with less clearly defined allocation of responsibility between different tiers of management. In the public sector, organisational objectives are often more ambiguous due to the complexity of the political environment and, until recently, greater significance has been attached to compliance with due process than to the delivery of measurable performance outcomes.

In general, competition and contracting has been a positive experience in the UK public sector, delivering significant value-for-money savings and, where government has sought to address the qualitative issues, noticeable service improvements. What has made the difference?

In the public services addressed in this study, the people were the same. While they may not have managed the same service in their previous career, they had been engaged by a public sector organisation in managing a very similar one. So the core question we asked these 13 contract managers was, 'What's different about doing this job in the private sector?'

The answers broadly confirm Gore's thesis. The respondents to this survey told us that in a contractual environment they had greater freedom to employ their management skills and recruit a team tailored to the challenges in hand. At the same time, they also felt that they were more personally accountable. The insights from this brief pilot study seem to suggest that increased autonomy and accountability have made the greatest difference.

This is not to say that the quality of senior management is unimportant: Serco invests a great deal of effort in recruiting and retaining high quality staff, and the people interviewed for this paper are some of the best operational managers in the company. But the public sector also employs high quality service managers, and the objective of this particular research was to explore systems rather than people.

1.2 Approach

Serco Group plc is a UK-based service company, with the vast majority of its business in the public sector. It has more than six hundred contracts in 36 countries around the world, in science and defence, security and corrections, health and education, environment and leisure, public transportation and traffic management. Contracts cover technical support and facilities management as well as front-line services, and range in size from a handful of staff to several thousand.

In commissioning this project, we decided to start with a small number of in-depth qualitative interviews rather than launch a major piece of quantitative research. We selected 13 contract managers drawn from a number of Serco's contracts that are at the front-end of public service delivery. Our objective was to obtain a deeper insight into the contract managers' experience in crossing over from the public to the private sector and from this to identify issues for further study.

It followed that unless responses were shared by almost all of the participants, the conclusions that we might draw must be tentative. In some cases, a majority of the contract managers gave very similar answers, with a similar strength of feeling: here it seems reasonable to conclude that there are lessons to be learned. But in other places, one or two contract managers made insightful comments which raised further questions: in these cases, we thought that it was useful to capture their remarks and raise them as areas for later exploration.

The contracts addressed in this study are at or close to the front line of service delivery. In prisons, hospitals and leisure centres, contract managers and their staff are interacting directly with end-users. Even in the science and education contracts, senior managers have a significant role in working with community stakeholders, so that they are directly concerned with the impact on the public at large.

We drew our respondents from this sample because we knew that a significant proportion of these contract managers had crossed over from the public sector. For the purposes of this particular study, we were not seeking a sample that was representative of Serco's contracts overall, but a sample of former public sector managers.

Serco is engaged in the delivery of complex multi-task contracts and, for the most part, these are managed as relatively self-contained service units. Typically, Serco is not managing large, bureaucratic organisations under contract, nor does it combine the services provided to a number of different customers into a single business centre. For this reason, the managers interviewed for this study are describing their experience with a particular kind of contractual model.

One of the consequences of this is that the respondents to this survey are describing their transition to a contractual model with a significant level of management autonomy. We recognise that there are other contracting models, where the insights from this study may not apply. For example, government might choose to contract out a large, bureaucratic organisation in its entirety, and unless the contractor restructured the service so that management authority was devolved, service managers might well describe the transition to the private sector in very different terms.

We interviewed 13 managers from 12 different contracts across a range of sectors. Between them, these people had more than two hundred years of experience in working for government, so they were well-grounded in the public service culture and ethos. Three of the participants were female.

On average, these contract managers had been out of government for five years, but experiences varied. Two of them left government more than 10 years ago, and three had joined the private sector in the last two years. There were also two former Serco employees among the participants, one of whom has gone on to manage a similar public service (under public employment) in another country.

Interviews were structured, but respondents were given significant scope to expand upon their answers. Interviews lasted in excess of one hour, and in some cases, much longer.

We have chosen not to identify the respondents or the specific contracts which they manage, and in most cases we have not even revealed the sector in which the respondent works. We adopted this approach to encourage participants to speak freely about their experiences. It has also avoided the need to consult with client organisations to obtain their approval, which would have been time-consuming and might have compromised the contract managers' relationships with their customers.

In general, we have allowed the contract managers to speak for themselves. This has resulted in us publishing long extracts from the interviews; but we felt that in a qualitative study of this kind, this was preferable to obliging the reader to rely heavily on our interpretations, as is often the case with qualitative research.

2. A Sense of Public Service

We started this project by asking contract managers, *'What's different about doing your job in the private sector?'* The responses were clear: *'I'm scrutinised much more.'* *'I can change things quickly.'* *'There is a clearer focus on outcomes.'* There are important insights here – for private companies delivering public services under contract, for public officials designing and managing procurement processes and for public sector managers charged with improving the quality of public services – and we examine these issues in the rest of the report.

But early in the research something came through that we had not pursued – what was similar about managing public services in the public and private sectors. The answer to the question that was never actually asked was 'people' – the people are the same. In transferring from public to private employment, professional managers do not abandon their public service ethos, nor do they surrender the strong sense of vocation that attracted them to public service in the first place.

Listening to the language that contract managers used, it is clear that they find themselves in an anomalous situation. Even though they are employed by a private company, a number still think of themselves as working in the public sector. One contract manager who has been with the company for several years stated, *'Mentally, I haven't made it to the private sector yet.'*

But others see their position as partly public and partly private. They believe that they are still delivering public services, even though they no longer think of themselves as being public servants. One respondent who has been out of the public sector for 12 years could still say, *'I think I am a bit of both.'* Another who has worked for Serco for three years said:

'I always enjoyed working in the public service, and I still feel very much like I am delivering a public service. Of course, what I am not any more is a public servant. I am actually freed up from the bureaucratic restraints of being a public servant... So I see myself as someone who works in the private sector, delivering a public service.'

One way of testing how they perceived themselves was by asking whether they would consider returning to public sector employment. For some, this was not an option. The

most common explanation was their distaste for the bureaucracy that they associated with delivering public services within a public sector environment, and the greater freedom that the contractual environment gave them to deliver results.

'In the public sector, I had a lot of responsibility, but I was just part of the sausage machine. In the private sector, you have greater ownership. The rewards are better. You are treated better. And they are less petty.'

'I wouldn't like to go back into the public sector at this moment in time because of the constraints there, over money, the lack of freedom to make decisions, the control-freakery.'

Another contract manager expressed a reluctance to return to public sector employment because of the greater level of personal engagement that he encountered in working for a private firm:

'They expect much more of you, but they are much more interested in what you are doing and much more supportive in times of need, so I always want to do more for them. My bosses in the public sector were clearly well-meaning people, but they were a bit remote.'

Yet other contract managers could imagine the next step in their career lying inside government rather than elsewhere in the private sector. In general, this was because their job was so specialised that the public sector had more to offer in terms of personal development.

'Really we've only got one of these establishments and there is a shelf life. To a certain extent in terms of my personal development, I don't know where else in the business I could go.'

Two of the respondents had returned to public sector employment. The career path of one of these managers was so specialised that he is now providing the same management skills for an overseas government agency. Perhaps this will be more of an issue for a company (such as Serco) delivering highly specialised services across a wide range of sectors, than for one providing more generic corporate support. And yet the manager of one of the company's education contracts said that they felt that their management skills were transferable to other sectors.

The movement of senior public service managers into and out of the private sector is becoming increasingly commonplace; this has been most evident in the custodial sector,

where the private sector has been delivering front line services for more than a decade, and a number of senior managers have returned to public employment. Public service professionals are using the revolving door to take the lessons they have learned in the private sector back inside government.

One of the issues that has concerned public sector unions and media sceptics about involving private firms in the delivery of public services is the potential for the profit motive to conflict with the public service ethos. How do public service managers accommodate the company's need to make a profit? This research suggests that it is important to these people that they are able to deliver high quality public services.

'My bottom line is that I work for the private sector, but I would never erode the quality of the contract in order to maximise profit. This is the most important thing to remember when operating a public service in the private sector.'

But not one of the respondents mentioned that in practice the tension between commerciality and service quality had caused them difficulty. Some of the contract managers spoke of themselves as professionals delivering a specialised public service; this meant that they rarely had to grapple with the more aggressive commercial issues that some associate with the world of business. And while they were obliged to manage to budget, they do not see this as compromising their sense of professionalism, nor do they see it as being fundamentally different from the financial discipline that they had faced in the public sector.

'In the public sector, I had to manage a budget and if I went over I'd be in trouble. I'm not here to make money. I am here to run my [contract] and run it on budget, just as I've always had to.'

It must be stressed that the participants in this survey are the managers of front-line public services, so it is unsurprising that this group see themselves as delivering a professional service to their customers and clients, rather than as being there to deliver a profit. As a result, one of the keys to reconciling the shareholders' need for a return on their investment and the contract managers' sense of public service appears to lie in improvements in service quality:

'I have no qualms about delivering a profit to shareholders from a public service. I see no conflict in this, because what I deliver is better value for money for the taxpayer and higher standards for the people who use the service. So it is a win-win-win situation.'

The contract managers that we interviewed seemed to understand that it is the company's culture and reputation that enable it to bridge the (sometimes) competing demands of cost and quality. If the future business prospects of the company are dependent on a reputation for delivering quality services, then the interests of shareholders and public service managers will be closely aligned. As one of the respondents expressed it:

'My biggest fear about coming into the private sector was that people would put profit before everything else. But there is a clear recognition within Serco that if we do this right, we can open up future business opportunities and secure this contract for a longer term. If we were to put profit first and pull everything out of it, we wouldn't go anywhere.'

It would be surprising if former public sector managers did not also wonder about alternative business models that might help to address the tensions between service quality and profit-making. And from the following response, it would appear that they do:

'If you bid in competition for something and you win it and later on you're making 25% profit, well, you won it in competition, and you're entitled to it, aren't you? Other people had a chance, so there's an entitlement there. However, if a company was wise, it would find a way of sharing with the client. There should be a mechanism that enables you to have a sensible discussion with your client and (say) in exchange for extending the business for several more years, you might give up some of the profit.'

Contract managers also found themselves having to reconcile their desire for high quality public services with the customer's 'savings imperative' (which might be thought of as the public sector's equivalent of the 'profit motive'). And some of them appear to be unhappy when contracts are competed and awarded on the lowest price without taking proper account of service quality.

'I don't think there actually are any drawbacks [from delivering public services under contract] except for one caveat really and that is, as long as government gets the bid process right. If you lose a few bids because you stick by your principles then so be it.'

Once again, it appears that the drive for greater cost savings is easier to accommodate where contract managers are also able to deliver better services. But where the public sector customer specified that it wanted lower costs, even at the expense of lower quality services, one of the contract managers coped with this by arguing that he was doing more than could have been done in a public sector environment.

'We're not providing a superior service, but we are providing better value for money. They took a lot of money out of these services when we took over, so they reduced the specification in terms of the level of service that we were providing. The service probably is not as good as it used to be, but in terms of what they get for their money it's far better. If we were given the same amount of money that they previously had to manage it, then we would be providing a better service.'

There is an interesting question here for those charged with commissioning the procurement of public services from the private sector. If the contract managers' sense of public service is intimately associated with service improvement, can this same sense of commitment exist in a contract where service levels are reduced in return for an even greater reduction in the cost of delivery? In the design of successful public service contracts, particularly for front-line services, do commissioning agents need to build in an element of quality improvement?

The participants in this survey did not feel that their sense of public duty had diminished in any way by joining the private sector, but it had allowed them to develop the qualities they already had. In talking about leadership skills and the ability to make difficult decisions, one manager commented:

'If you've got them [leadership skills], the private sector allows you to use them and develop them, but it doesn't create them. And if somebody who hasn't got that ability were pushed into a contract manager's role, it would be disastrous. They wouldn't last very long and they would have a miserable time.'

The most important insight from this body of evidence is that, while their capabilities may have changed, their fundamental values remain the same. They have served the public too long for their commitment to public service to disappear overnight. Their objectives are still the same – to deliver a service to the best of their ability – and while they are faced with challenges along the way, their strong sense of vocation remains unscathed.



3. Managerial Autonomy

If the people themselves haven't changed, what has happened that they feel they are now able to deliver better public services? When we asked the contract managers what was different, their strongest response was managerial autonomy. Contracting clarifies the space for which service managers will be held responsible and within which they are free to take their own decisions. Respondents told us that they now had greater clarity of mission, more freedom to introduce new ideas, greater flexibility to respond to emerging problems, and an increased ability to build and personally manage their own teams.

Above all else, this arises from the modularity of the contracting model. In the case studies addressed in this survey, each contracted service is relatively self-contained, with a distinct organisational boundary and a clear mission statement. This is to be distinguished from the bureaucratic model, where the unit of service functions as one of the tiers in a layered system of management. This modularity has significant implications for both of the parties to the agreement – the public sector customer and the private sector contractor.

3.1 Devolved responsibility

At its simplest, this is an issue of devolution – under the contractual model used in these examples, both the customer and the contractor are obliged to devolve a great deal of authority down to the service manager. The result is that contract managers are able to respond more flexibly to the customer's requirements, with less need for approvals from higher-level managers who do not understand local conditions and have other priorities competing for their time and attention. Their familiarity with the service means that local managers are also able to delegate responsibility further down the internal chain of command.

One of the consequences is that there is more freedom to experiment and innovate. This seemed to be particularly important in contracts where the primary challenge is to improve the quality of service delivery: contract managers feel that in order to meet demanding targets for performance improvement, they need to take risks, and the contract creates space for them to exercise their creativity:

'So from our point of view, the ability to respond so quickly is brilliant. The key is really that we have the freedom to innovate – this is what it comes down to. As a group we mustn't be allowed to sit here and say, "It's great here, isn't it? This is how it will stay for the next 10 years". If we're going to drive it forward, then we have to have people who want to innovate the whole time.'

'I have much greater scope for innovation – I can use my professional judgement to actually say "Let's try something this way". If we do the same as everyone else, we'll just make the same progress as other [public sector organisations] and we'll never catch up. So we have to try different things and take calculated risks. There is much more freedom to do that because we don't have day-to-day political interference.'

For the same reasons, contract managers also feel that they have a better ability to respond when issues arise throughout the life of the contract. It is not that contract managers never make mistakes, but that they have the freedom to respond more quickly when problems emerge:

'It's interesting this, because we initially made some mistakes. But there is no doubt in my mind that in the private sector you have far greater flexibility to correct mistakes if you make them.'

'I'd been away from the contract for four years, and I came back and I walked into a café-bar area and it looked tatty. I spoke to the catering manager and said "Gosh, this is just horrendous. We need to do something about it. Let's think of something quickly." And within about six weeks we'd had it refurbished – we probably spent about £5,000 doing that and it was done. In the [public sector organisation] would have taken six to eight months to do that. The manager just did it: "How much?", "About five grand", "Off you go" and that was it. And next thing, he says "I've done it, what do you think?" and that was my whole involvement. So yeah, that's the sort of thing that you can do a lot quicker.'

Unsurprisingly, the most commonly-mentioned difference between the public and private sectors was the amount of bureaucracy that they had encountered in government. This is consistent with the findings of the National Performance Review initiated by the US federal government during the Clinton Administration, which reported that:

Innovation, by its nature, requires deviation. Unfortunately, faced with so many controls, many employees have simply given up. They do everything by the book – whether it makes sense or not. In the name of controlling waste, we have created paralysing inefficiency.³

The contract managers we interviewed spoke of a constant battle against red tape and regulation in government, using language that made it clear just how frustrating and demoralising it had been:

'I decided to come over to the private sector because of the bureaucracy that existed within the [public sector organisation] and the level of freedom that I could enjoy by joining a company like Serco, so I would be able to make decisions better and ultimately to improve the service more quickly.'

'In the public sector, they tend to have very rigid systems. Politicians and unions would probably say that having robust processes and agreed pay scales are important in terms of fairness and equity. My argument would be that those sorts of things can lead to bureaucracy and inflexibility in responding to problems.'

One particular area of inflexibility that was addressed by most of the contract managers was in the recruitment and management of staff (which are dealt with in the next chapter). Several of the respondents also mentioned the rules associated with budgeting and financial accountability:

'I think one of the advantages in the private sector is you can manage your budget much more easily. In the public sector it is much more difficult to move money from one budget code to another, partly because of external scrutiny over public spending.'

Another reminded us that the private sector was not itself free of red tape; it was just that there was less of it.

'That is not to say that the private sector does not have any bureaucracy! I still have greater commercial freedom now than when I was in the public sector, and overall I would say that the bureaucracy is less but there are more restrictions on what I can do as a [contract manager] than there were two years ago. I had more flexibility then.'

This suggests that – as contract managers see it – the increased flexibility of the contractual model arises from its inherent devolution. Contract managers are closer to the customer and are thus better able to recognise changing expectations. Since more of the decision-making power is located at the contract level, those with local knowledge are able to make their own decisions about which issues deserve greater priority. Unsurprisingly, contract managers are inclined to view the demands of the corporation's head office as a bureaucratic overlay.

'Implementing change is much quicker. In the private sector, you have the capacity to change quickly and to react almost instantaneously. But it is left to individual [contract units] to react to the changing pace of the [customer] – head office is behind on these developments most of the time.'

In government, public officials are often obliged to engage in exhaustive consultation processes before they are able to implement change. This is not to say that private sector managers did not consult with stakeholders (in particular the workforce and their union representatives). But the responses suggest that there is much less consultation in the private sector and that it is managed more closely.

In part, this may be because of the devolution and modularity associated with contract management: contract managers are entrusted to take decisions within their area of competence and they do not need to seek approval from senior managers, other departments and/or external stakeholders. This enables them to respond more quickly to the unique circumstances facing their services.

But there may well be differences between management cultures in the public and private sectors: government is more inclined to make decisions by committee, whereas the private sector tends to leave more of the key issues to be resolved by individual managers. This may reflect the more political environment within which public officials operate, but it may also arise out of a different tradition of organisational management:

'In the public sector if you wanted to change something, you would have to put forward a business case, which would then go to [the public sector organisation] board level and then be negotiated with the union. It would take a long time.'

'In making decisions [in the private sector], the path is clearer and there isn't the same kind of bureaucracy. . . In my previous job, it would have

ended up having to go to [a higher level in the public sector organisation] and various papers would have to be written and various directorates would have to be consulted and there would be lots of approvals along the way. Here it's in our hands and if we decide it's a good idea and consult with the staff appropriately, then we can do these things.'

'I left [government] because of a degree of frustration in [public sector organisation], because the speed of progress was limited to the speed of the slowest . . . The movement was very slow and frustrating – I could never get anything done. Initiatives always had to be examined by everyone – to the nth degree.'

For some of these managers, shifting from a bureaucratic regime to a contractual one was very challenging and it took some time for them to adjust to the greater freedom which they enjoyed in the private sector:

'The speed of making decisions and making things happen is much quicker, because effectively I am a committee of one. In my very early days I know I phoned up [the managing director], because I was used to going and talking to a [senior public official]. And I'd tell him what was happening and he'd say 'Well, what are we going to do about it?' So he gave me the freedom to make my own decisions, but he also made it known if I did need support then he would be there.'

'I can think of a specific example where I asked the MD for some money for something – £35,000 – and I saw him two weeks later and I got a big 'ticking off' because I hadn't spent it . . . I was not used to people telling me I could do something and going off and just doing it. The decision-making process contracted from something that might take nine months to something that really was almost an instant answer.'

This is not to say that in seeking to resolve problems quickly, private sector managers look for makeshift solutions. Indeed, several of the contract managers suggested that there were strong commercial incentives to avoid a short-term approach, particularly in relation to staffing issues:

'In the private sector you can't use a quick fix, which I think is a really good thing because it forces you to think strategically about recruitment and retention and all those sorts of things.'

Nevertheless, several of the respondents recognised that there was a trade-off between the ability to make quick decisions and the responsibility to think through the consequences. There were risks associated with introducing changes quickly, and some wondered whether the private sector might benefit from some of the checks and balances that had been developed in the public sector. On the other hand, they also recognised that this might have an adverse impact on the private sector's flexibility:

'The challenge of having that autonomy is the responsibility of deciding when reflection is required. . . I suppose it doesn't build in the safety net that you would have if you had to go through six different boards in the [public sector organisation], by which time you might have changed your mind. In the past we've sometimes implemented things too quickly here, because of the autonomy we've got, and haven't really thought them through completely.'

'[The public sector organisation] had some very good systems – our delegated authority systems in [the public sector organisation] were better than Serco's – there was more consistency. It doesn't mean that the actual level of delegation was better, but the way it was issued and signed off and briefed and understood was better. But it made the whole thing slower. In [the public sector organisation], it was harder to be an individual and think of an idea. In many ways innovation was stifled.'

However, there was one area where reform was perhaps more difficult in the contractual environment – where the proposed changes were expected to have an impact across the contractual boundary. In this case, approvals would be required from the government customer and this could result in significant delay.

'Although I can make most changes quickly, there are some things that take forever, like if I wanted to move a sink, which is ridiculous! This is because there is the issue that in 25 years' time you have to hand the building back to public sector in its original state.'

'If you can't get your customer on board to bring about some innovation, it's quite likely that you will fail in terms of going forward. Changes to the restaurant were easy because that's our department and we can just do it; whereas if we want to bring some innovation into [part of the facility that was central to the customer], if we haven't got the customer's backing to bring that about, then it's very difficult to achieve. So I think anything that's within our own department, we can do it quickly, but if it involves the customer it takes a lot longer to achieve, still.'

3.2 The contractual shield

One of the implications of creating a service module that is defined by a formal contract is that the process of competitive tendering and contractual negotiation creates a shield which protects the service manager from inappropriate external intervention. A large number of official inquiries over the years have commented on the inefficiencies caused by ongoing political intervention and a continuous stream of detailed instructions and demands from officials in head office. For example, the Chief Inspector of Prisons for England and Wales commented several years ago:

Sitting in the office of a Head of Management Services, as I have done in a number of prisons, and observing the amount and content of the paperwork that descends from headquarters every day, is a sobering experience. Numerous requests for information, from many different branches, asking for the same facts to be presented in a slightly different form, on a different day. Many requests for instant information, or views on proposals, carrying the comment that they involve 'nil' resource requirements. That may be so in terms of money, but it ignores the fact that time is a resource, and time spent in an office, or distracted from normal routine duties, is time spent away from prisoners. Any operational leader knows that time spent in the front line is crucial if command is to be properly exercised.⁴

In central government, this intervention usually comes from senior departmental officials and executives engaged in corporate support. One of the respondents, formerly the Deputy Director at the United Kingdom's national metrology institute, the National Physical Laboratory (NPL), included among the successes of contractorisation *'an overall greater sense of mission, in the sense that NPL is much more in control of its range and pattern of activities... Among other things, this arose from the Department of Trade and Industry letting go 'of many of the detailed operational aspects of the Laboratory to the extent that this is consistent with proper public sector responsibility as "owner".'*⁵

In local government, the personal involvement of elected representatives in the delivery of public services means that this intervention often has a political dimension. What was compelling about the responses provided by the managers was how much this had changed following contract award – the contractual shield gave managers a measure of protection from inappropriate intervention. Managers felt that the formality of the contracting process improved the incentives for elected members to concentrate on those roles of policymaking, service definition and public accountability that were essential to a well-functioning local public service.

'By and large we now have a degree of distance from the politicians and that allows us to get on with the job. I will try to put it more positively than that, because if you said that to a local politician, they would say, "Well, responsiveness to the public is what local democracy is about." For me it has more to do with, "What is their appropriate role?" And what I think happens in these situations is that their roles become more clearly defined to dealing with overall policy decisions and holding us to account, rather than getting involved in the details of management and things that involve professional judgements. That's where we can actually get on with the job and do it.'

One manager acknowledged that this was a difficult concept for some local representatives to accept, and while it was necessary to maintain the distinction between the commissioning and delivery of public services, it was also important to keep politicians engaged, so that they retained a sense of ownership.

'The policy and the direction and the strategy must still be theirs, and I need to keep going back and giving them that ownership. But I think part of the difference is that they hired us to deliver something, and the detailed, day-to-day management has got nothing to do with them. Politicians find that very hard. Everywhere I've ever worked, they interfere in the day-to-day management and here they can't.'

It was not just that the contractual shield protected managers from intervention by individual politicians; it also provided some insulation against the uncertainty and the controversy associated with the political process itself. Even then, contract managers were pragmatic about the intimate relationship between politics and public services:

'What we are protected from is the volatility of politics: because this council is a troubled one, there are a lot of political games going on. We're slightly distant from them. It is not as if we don't ever get involved, but it is difficult when you are in the middle of trying to manage a problem with staff or services.'

3.3 'A clearer focus on outcomes'

It has been observed that one of the benefits of competition and contracting is that it focuses the attention of both commissioners and service providers on the desired outcomes. The Institute for Public Policy Research recognised this in its 2001 report on public private partnerships (PPPs):

A major potential benefit of PPPs is that they can help government to focus more clearly on the services people want, rather than simply managing existing forms of service delivery... public managers often comment that attempting to specify the nature of a planned service formally is a challenging experience – forcing out into the open issues which otherwise remain hidden. This is an indication that the commissioning process can prove a highly effective way of concentrating minds on how to shape services to improve outcomes.⁶

Competition and contracting can contribute to the clarification of an organisation's mission in a number of ways. Before it can issue a tender, the government customer must write a 'statement of requirement', which clearly defines the service that the contractor will be obliged to deliver. In order to sign a contract with the successful bidder, government must also specify performance measures – the outcomes against which the contractor's behaviour will be assessed and rewarded. As a result, line managers understand clearly what must be done, contract supervisors are able to see clearly whether these outcomes are being delivered, and there is less need for repeated intervention. This does not mean the organisation's mission cannot be adjusted over time, but it will be done following deliberate consideration and negotiation with the contractor. This came through in the contributions of several of the respondents. One spoke of the organisation developing a greater sense of mission as a result of contractorisation. Another commented:

'It does give a clearer focus on results because the contract is based on outcomes, it is based on us achieving certain targets, and it gives a greater clarity and focus on those. This is quite a stark difference from [public sector organisations] because even though they would say they were focused on outcomes, actually they are not. [In the public sector], lots of other things get in the way – like short-term politics which tends to dominate and get in the way of that focus on delivering outcomes.'



4. Managing People

One of the outcomes of having greater managerial autonomy is the freedom that contract managers gain in the management of people. The evidence suggests that service managers place a great deal of importance on the freedom which they enjoy in the private sector to recruit their own senior management teams. They also enjoy greater flexibility in the recruitment of staff, which makes it easier for them to find the right people for the job. And the evidence suggests that contract managers manage their staff more directly, both in having a closer relationship with them and in dealing with productivity and performance issues when they arise.

4.1 'To build my own team'

Employment law protects the terms and conditions of the workforce when it is transferred under the contract, but it is not unusual for incoming managers to replace senior members of the management team following contract award. This gives contract managers the ability to hand-pick a team that will enable them to achieve their objectives consistent with their own style of management. By contrast, in the public sector, service managers often lack this kind of authority:

'In the public sector when I arrived [at a new assignment], I had a management team already in place, and when I left I had the same one. I learned that you have to work with what you've got. I had to use lots of team-building initiatives to try and get the best out of them, but they were all very near retirement and they didn't appear to be very interested in their jobs.'

The responses to this survey suggest that the management culture in the private sector is more personal, and this same manager described what it was like when she was able to build her own team for the first time on joining the private sector.

'I was told by [a senior manager] to build my own team, which was terrifying. You can build a team much more quickly and easily, but what I found was that initially, I didn't have many people coming to apply. Ultimately I employed people who I felt not only had the skills, but were team players and I could get along with. You could pick your own team and that was a joy and a delight.'

Of course, in mature contracts, senior managers have less freedom to design and build their own management team from a zero-base, but it would appear that they still have a greater say in the selection of their senior managers when vacancies do arise.

'To a degree you do inherit a management team. It's when you get the chance to change your team, when somebody leaves, that the difference lies. In the public sector, you might just end up with someone on your management team that you didn't choose. Here if I do have the opportunity to recruit management, then it is likely that I will have the greatest say in the situation. I can recruit people who complement my skills.'

Several of the managers said that this freedom to select individuals with skills that complemented their own and reinforced the rest of the team was crucial in enabling them to address the challenges associated with contractual performance. And more flexible recruitment and remuneration practices in the private sector made it easier to attract the right kind of people:

'You can offer people a variety of salaries and packages and use more flexible processes – for example, head hunting is far more acceptable in the private sector (although it is being used more often in the public sector now). The result is that you have increased capacity. In the end there are a small number of people who are actually critical in making a project like this work and getting those people right is crucial. The ability to pay higher salaries, and use different recruitment processes, makes it easier to find the right people.'

There is also some evidence to suggest that the fact that the contract manager has hand-picked his/her own senior team helps them to create a closer and less formal set of relationships. And one of the managers thought that this team spirit also arose out of a shared sense of challenge:

'I can move my team around much more easily here and the relationship with the senior team is much more informal. In the public sector they would always call me [by my formal title] they would never call me [by my first name]. It is a much easier style here – people knock on the door and tell me something. In the public sector, I would just get memos about everything.'

'I am probably closer to my team here than I would be in the public sector because the stakes are higher. The risks are higher here, because if you messed up big time you'd be on your way. It's not that we are

paranoid here, but we have to work more closely as a team because of the consequences if something goes wrong.'

4.2 'Hiring people is much easier and quicker'

Service managers also found it easier to recruit management and staff than when they were in the public sector. Those constraints on hiring new staff were caused by a number of factors – government-wide policies on staff ceilings, limitations on the recruitment channels that could be used, and restrictions on the employment of highly-qualified former public sector employees.

'Well in [the public sector organisation], either there was a ban on recruitment or if you did recruit, you knew you could only take fifteen people on this year. It was mechanical. Even though I was fairly senior, the decisions were all made above me – somebody would make a decision and say "We need to take on more people to do this or that." For many years we didn't take on any staff – we only got rid of staff – so there was a lot of restructuring, constant negotiations with trade unions and consulting. In Serco it is much easier. . .'

'Hiring is easier and quicker and much more streamlined. I can use local newspapers and be innovative about using local radio. In the public sector I would have to get permission to try that.'

'I could recruit people who had retired from local government, and there was a vast pool at that time, a lot of whom are still working [in the contract]. There was one guy who had been a borough housing manager before CCT [compulsory competitive tendering]. He'd taken early retirement at 50 – the same age as me – so he was only about 53 or 54 at that time that I'm talking about. Because he'd taken early retirement he was getting a pension, so he couldn't come back and work for local government. But he could work for me, and he did.'

This flexibility means that service managers working in the private sector have a greater freedom to locate and to recruit the best management and staff to deliver the service in question. But contract managers were also acutely aware of the responsibility that accompanied this increased flexibility:

'It's easier, but taking people on comes with a responsibility – it doesn't mean that you can do it willy-nilly. So there's a responsibility to check that

your finances will cover it, that you're making the decision based on a well-thought-through business case that says I'm going to take this person on and I think I'm going to be able to use him to improve services or make money. It comes with a responsibility.'

4.3 'Managing our staff is different'

According to the contract managers, the approach to managing employees is also very different in the private sector: *'In terms of being able to manage people successfully, it is a lot easier in the private sector.'* There were a number of dimensions to this, but one of the most consistent messages was that they felt closer to their staff. They knew them by name. They interacted with them personally by walking around the site. They had some idea how well they were doing their jobs. This was such a strong message, that it is worth quoting a number of the responses:

'In the public sector, the [senior public official] wouldn't even know about individual performance of an [employee] because they would be insulated from it.'

'My management style would be frowned upon in the public sector because I am too close to prisoners and staff. Governors in the public sector are meant to be quite aloof.'

'I think there's a lot about the way that we treat our people. We removed things like clocking in and clocking out the day that we arrived. We have greater focus in terms of our managers being out there and communicating with staff. If I had this position in the [public sector organisation], the staff would never see me. Here I probably know 80% of them by their first names and they know me, so we're a lot more accessible.'

'I was close to my staff in the [public sector organisation] but that was my style. I would say that the staff here feel that we're a lot closer to them than they used to be under the [public sector organisation]. I think that's probably because we don't get caught up in the paperwork. We're not involved in the bureaucracy, so we've got a lot more time to spend with our staff.'

Several of the contract managers felt that communication with the workforce was fundamental to this relationship, reporting that this was significantly different than in the public sector:

'Here it is much more about partnership – all parties working together rather than against each other. Consequently it means I am lot closer to my staff – in the public sector they would talk to me via the union.'

'The management of our staff is different, the way that we engage with them. The [public sector organisation] probably had a meeting once a year with groups of their staff and that was it, and the staff were just told how things were going. Here we have regular meetings with our staff. There are definitive training plans, there's an ability for them to provide feedback and become part of decision-making processes.'

Another significant difference was that there seemed to be a great deal more delegation of responsibility from the contract manager down to individual employees: several of them used the word 'trust'. One of the respondents felt that employees with particular competencies were trusted to get on with the job, where he or she would have been reluctant to devolve responsibility in that way in the public sector:

'In this specific contract, it's more participative and you're using more of the skills of the people around you. For example, in [the public sector organisation], the manager knew all – he was the answer to everyone's aches and pains, he knew the answer to every question. Whereas at [this contract], I had to learn that we have people working for us who have real competencies and skills. You need to use them. You don't need to overlay what you know on top of them. So that's the way that we manage and the way that we do business with our people and our customer. It's very, very different. We trust our people, so we can devolve more and we can get them to do more. In the public sector it's risky to trust somebody to go and do a job for you, so you take the view that it's better to do it yourself.'

An aspect of public sector employment which receives very little public discussion is the difficulty public sector managers have in managing misconduct, absenteeism and under-performing employees. This was raised by most of the contract managers, suggesting that the differences between the public and private sectors are quite stark. The evidence seems to suggest that private sector managers supervise employees with serious performance problems more closely than they did when they were in the public sector:

'Difficult employees are not tackled in the public sector. They're avoided. Quite often, they're moved to a different [service area] or a different department, and the issues are never tackled.'

'You can exit people on the basis of poor performance in the private sector. We take our six-month probation period here very seriously indeed. In the [public sector organisation] you've got to be really, really offside for anyone to notice during your probationary period that you've not done well – perhaps with high levels of sickness and even then it is very difficult . . . If the problems occur after that six-month period then it becomes a little bit more difficult, but we can still do it and we have done it. We can't afford not to.'

Closer management of employees represents real value in the delivery of public services by ensuring that the workforce is efficient and directed to delivering services to end-users. Sick leave is one of the areas where the private sector manages its workforce much more effectively than government. This came through strongly in our survey, confirming the recent report of the Chartered Institute of Personnel and Development that public sector workers take 40% more days off than some of their private sector counterparts.⁷

Of course, there is also good practice in the public sector. One of the contract managers said that when they were employed in the public sector, they had adopted a flexible style of management similar to that which they had since employed in the private sector. But they felt that this was unusual:

'When I worked for the [public sector organisation], I had a leadership style that was probably more akin to private sector than public sector. The way that I talk to the leadership team here is exactly the same as I talked to the leadership team when I was in the [public sector organisation]. But I think that is uncommon. The [public sector organisation] is more about formal correspondence rather than sitting down and having a conversation and agreeing the way forward. So my management style was a lot more informal than a traditional person who works in the [public sector organisation].'

5. Personal Accountability

Whilst all of the contract managers expressed their delight at the increased autonomy they enjoyed while managing public services under contract – it meant they could ‘*get on with the job*’, ‘*focus on the service*’ and ‘*try new things*’ – they also said that they had never felt more accountable. Of course, this is not to say that they had not been held accountable when they were in the public sector, but from what the participants told us, it would appear that with contracted services, the sense of responsibility is more acute: ‘I’ve been held accountable before, but here there is a much sharper edge.’

There seems to be a paradox here – greater freedom and greater accountability – but contract managers see enhanced personal accountability as the trade-off for greater devolution of decision-making authority:

‘I have much greater managerial autonomy, but the consequences are that I can’t blame anyone else.’

‘I am free to manage with greater autonomy, most certainly. But that freedom comes with a price. If you get it wrong – I’ve always accepted that if I’ve made a mess of my job I will be called to account at some stage. It doesn’t have to be a nasty falling out; it’s just that if I run this contract and it doesn’t go well – either because we lose a lot of money, or the client is permanently unhappy with us, or we have a terrible safety record – it’s quite right that I should be called to account.’

For some readers, this may come as a surprise, and while there is no doubt as to the strength of the contract managers’ perceptions, this is an insight that demands closer analysis. As we will see, there appear to be several explanations for this sense of sharper accountability. On the one hand, contract managers reported that they were being held more accountable for outcomes rather than processes; at the same time, they appeared to be describing a form of accountability that was much more personal than it had been in the public sector.

Contract managers report that, under a contractual regime, the spotlight is on them to deliver, and if the performance of the contract is not in line with the agreed measures, the company will incur hefty fines. They will also be responsible to a wider range of stakeholders, including not only the commissioning customer, end-users and a range of

public sector inspectors and auditors, but also the parent company and the financial institutions and shareholders that provide its capital. This demands much greater financial accountability than was required of them in the public sector.

5.1 'The focus is on the contract manager'

One of the most consistent observations made by respondents in the course of our interviews was the much greater sense of individual responsibility which they felt in a contractual environment. Contract managers believed that they would be personally held to account for failure to deliver:

'There's far greater pressure [in the private sector] and, that dreaded word, stress. It is a very demanding job compared to the public sector. It is not for the faint-hearted. You don't come into the private sector [service] management business if you are a shrinking violet. Stay in the public sector where you are protected by masses of people around you and the reassurance that if you are going at an average pace then you are doing okay. Here you are on your own.'

'If you make a mistake in the public sector it is not always seen as important and it is very rarely identified as your mistake. Here the focus is entirely on the contract director and you are responsible for every part of the contract delivery whether it goes well or badly. In the public sector if things go badly, it can be accepted as the norm.'

By contrast, when they had been responsible for delivering similar services in the public sector, these managers had not felt that they would be personally held to account in the same way. There were several explanations for this. At its simplest, this was because, under the bureaucratic model, the accountability lines were much less distinct, and the manager of the service in question was not regarded as being ultimately responsible for its success or failure:

'In the public sector you can hive off that accountability. More often you can't find out who is responsible, so you can't blame anyone at all. In the private sector the director takes the responsibility. Whereas if you make a mistake in the public sector, often nothing happens – you can cover it up. In the private sector you find out very quickly whether you are good at your job or not.'

One of the reasons for this is that contracting drives a relatively simple organisational structure. Compared with a large-scale bureaucratic organisation, with its multiple layers

and the lack of a crisp delineation of responsibility between the various tiers, a contracted service is relatively self-contained, with distinct borders and obvious accountability lines upwards from the contract manager to the commissioning client:

'Yeah, it's significantly more challenging in the private sector, and you can't hide behind anything. "You're paid to do it and we expect you to do it." What we're here to do has been made very clear both by the company and by the client, and so both of those are challenging – whereas I think in the [public sector], you're just one of the many layers and it's very easy to blame the layer above you or the layer below.'

Contract managers accepted personal responsibility for the quality of the services being delivered, in part because they had nowhere else to turn:

'It is a good thing having to be more accountable because you are being judged and your job depends on you doing well, so you go to the limits to make sure you achieve as highly as possible.'

Several of the respondents spoke of having a personal sense of ownership of the contract: it had become much more than just a job. Indeed, their language is suggestive of a small business proprietor rather than an executive in a multinational corporation.

'In the private sector, the stresses and strains on the director are far greater – because my job here is seven days a week. Even though people say it shouldn't be, it is – seven days a week, 24 hours a day. My pager is by the bed. If you work for a local authority, whatever time you finish your shift, you go home and that's it for the day. So these things are all very different, the concept of budget, staffing and personal ownership – this contract is my baby. You don't get that in local authorities. I did a job in the local authority – it was a job and I enjoyed it, but it was just a job.'

'I think it increases the responsibility on you as an individual because it makes you more responsible for decisions that you make on-site. There are some issues around that, but it creates far more ownership. You do it because you believe in it rather than somebody suggested it and you "sort of" checked it out. You've got to have the courage of your convictions, I suppose.'

One of the things that reinforces this sense of personal ownership is a process that is peculiar to Serco's management culture. As one of the respondents explained:

'In Serco, we have a management process based on commitments, which is a phrase I'd never heard before. Maybe that's because I haven't been around private industry very much, but when I was in [another company], they might impose a management challenge, but it wasn't thought of as you giving a commitment to them. So there's a process here which makes you feel as though you've given a personal commitment. People respond to that naturally, don't they? I feel that I have an obligation to Serco as a body and I look for ways to deliver it. You go through the year feeling that you've got a commitment to it, and if things change, it isn't easy, but if you've managed in the right way, you don't feel like you're going to be automatically nailed to a post.'

Another thought that some of the difference lay in the fact that the company (and thus the contract manager) was responsible for the management systems it had established under the contract, whereas in a large organisation with a bureaucratic structure, managers could excuse themselves by arguing that they had inherited the management systems and did not have the authority to change them: 'In [the public sector], I always had the defence that I was just living within a system that people had imposed on me.'

Others seemed to be saying that the disaggregation of responsibility for service delivery into a range of specific performance measures and multiple lines of accountability had increased the level of responsibility:

'I am more challenged in working in the private sector because I have a different range of accountabilities. I am challenged by Serco in way I haven't been challenged before, with the sort of questions like: how much money we're spending on what types of support for what outcomes in a range of areas. That very direct set of questions is something that I had never been asked before.'

In spite of this strong sense of personal accountability, most of the contract managers said that they felt supported by the rest of the business:

'In Serco I've never gone to our own support office or Group with a problem where they've just bounced it back at me. They always try to help.'

'I had the freedom to make my own decisions, but it was also made known if I did need support then they would be there. And that extended

not just to [service delivery] issues, it included human resources, it included dealing with the media.'

And yet managers reported that they had been placed under significant pressure to perform, and the question might be asked whether these stress levels were excessive. We were not able to provide a definitive answer within the limited scope of this study and yet listening to them talk passionately about what they had been able to achieve, the stresses and strains of the job seemed less important. Managerial autonomy comes at a price, but the contract managers we interviewed seem to think it is a fair price to pay.

5.2 'What has been your impact on outcomes?'

As already mentioned, one of the principal reasons for this increased sense of accountability seems to be that it is concerned with measurable performance objectives, rather than compliance with officially-sanctioned processes. This meant that performance (and non-performance) was highly visible and it was much more difficult to gloss over inadequacies:

'I could wing a few things in the public sector. Here I have to be a lot more transparent – which is nothing to be scared of, but I could wing it a lot more in the public sector.'

Of course, there are performance regimes in the public sector, but the contract managers we interviewed described them as being limited in their scale and scope and much less prescriptive. Indeed, in some sectors, government was adapting its performance regime to embrace some of the lessons that had been learned from contracting:

'Here you are so much more accountable – you have a very detailed contract. In the public sector the output expectations are limited to a small amount of crude KPIs [key performance indicators]. In fact, we have seventy-two contract measures plus the KPIs to deliver, and the level of pressure to deliver those is immense.'

'Performance measurement in the public sector is minimal. In fact, I think what they're doing now is they're looking at what we've been doing and they're taking elements of that and using it. They're starting to come out with benchmarking and things like that, although it's not as robust as what we do.'

And contrary to what might have been expected, some of the contract managers reported that they were now accountable to a range of different stakeholders and they

felt that they were subject to much closer scrutiny than they had been in the public sector. In the prisons sector, not only were there more external monitors, but they were more intrusive than anything that respondents had experienced in public sector prisons:

'I've got three full-time contract monitors on this site – one has 30 years experience, one has 20 years and the other has 15 years – and they're permanently here monitoring what I do. There is no other Governor in [the prison system] who has that number of people sitting in and watching them permanently.'

Other contract managers reported that the actual performance measures differed little between the public and private sectors. What did differ were the consequences of failure to deliver. Stiff financial penalties focused the mind on delivery:

'The measures are almost identical to those that you would get in the public sector; the only difference is that they have penalties and bonuses attached to them.'

'If you don't achieve your KPIs in the public sector, you can trot out a load of excuses... Here you get heavily fined. So it does focus the mind. So there is a lot of incentivisation to keep the level of performance up... [Public sector managers] don't have the clarity of focus on what's actually expected of them and they haven't got the rewards and incentives when they do deliver.'

Contract managers were not unhappy about having more detailed performance measures. For one thing, it helped them to document the linkages between actions and outcomes. Internal management decisions were taken with an eye to its impact on the performance outcomes:

'In the private sector it is really about being able to demonstrate what you are doing is leading to the outcome. Whereas in the local authority people looked at the outcomes but they didn't very often relate them back, i.e. "What has been your impact on these outcomes? Could it be better?"'

'On balance I think, particularly for local authorities that are struggling in relation to performance, that focus [on performance outcomes] is important. It doesn't mean you can ignore the other things, such as good processes and customer relationships because without those you couldn't achieve your targets anyway. But that is the point – you do things

always thinking in the back of your mind “What impact is this going to have on the outcomes?”.’

External scrutiny also makes it easier for contract managers to drive through change; in this sense, performance accountability strengthens the mandate of senior management to persist with organisational reform:

‘Because of this level of audit and inspection, things had to change for the better. I couldn’t not drive through the changes. Because of the scrutiny and because of the accountability the improvement did come much quicker. So there is a plus side to it.’

5.3 ‘You have to make sure there are no surprises’

Another significant difference that respondents spoke about was the strict financial discipline imposed as a result of contractual management. *‘If we go over budget in the private sector, we have to bring it back in the next month and there is an expectation that that will happen.’* This was a strong message and it came through in a number of the interviews, sometimes in powerful terms:

‘My impression is that in the public sector it wasn’t that serious if you went over budget – nothing would happen to you, it was no big deal. Colleagues of mine were running [services] that were losing £2m and they never got the sack. However in the private sector, a lot of importance is placed upon it.’

‘In the public sector, you could fail and you’d get away with it. I mean if I overspent by ten grand on my maintenance budget . . . they would ask why and you would write up a case and tell them why and that was it. Whereas if you’d done that [in the private sector] you would have needed to ensure that it wasn’t a surprise. If it happened all of a sudden, it would mean that maybe you weren’t in control, that you didn’t know what your budget was doing, that you were not monitoring performance – there’s greater accountability here.’

Of course, this was not true in all parts of the public sector, as one manager reminded us:

‘In the public sector, if you went over budget, some places you’d get your knuckles rapped; in other places you could get sacked for it. In local government you do a monthly review on spend, so it is just as accountable in that respect.’

Another thought that the consequences of over-spending were not that severe in the public sector, as long as the manager had a reasonable explanation. In the private sector, the consequences of failing to deliver to budget were much more serious, although this contract manager knew from personal experience that it was possible to survive a budget breach as long as it was accepted that there had not been a management failure:

'In the public sector if you didn't come in on budget, then it wouldn't really matter. As long as you've got a semi-legitimate reason you'll probably be okay. If you went seriously wrong then you probably wouldn't get the sack, you'd just get moved, whereas here I have to deliver to budget and the concentration and attention on it is far greater. Last year we went significantly over budget, but it was accepted that as a contract director and management team we'd done everything possible. So one can be above budget in the private sector without having to necessarily jump off a bridge or get sacked!'

One of the ironclad rules in the private sector, however, was that there should be no surprises:

'There's a greater accountability. You have to make sure that you're managing correctly to ensure that there are no surprises, so the consequence of failure can be serious if you're not in control.'

5.4 'It means that you really know your business'

This kind of intense performance accountability changes the way in which managers approach the delivery of a service. From the responses we received, the fact that they expect to be held personally accountable for delivering service outcomes and measured against specific contractual performance targets, means that they are obliged to develop an intimate understanding of the service:

'Because of the contract, we have to report a lot of information. But that information is also useful for me: not only does it drive the performance measurement of the contract, it also drives me to take managerial action and provide management focus.'

'Because the management information systems are far superior in this [contract] than any other [comparable service] in the public sector, I have far more information about the performance of what is going on, so if I do want to put some time and energy into focusing on one specific area I know exactly where to look.'

This was not just the responsibility of the contract manager. The entire senior management team was focused on ensuring that services were delivered in accordance with the contractual performance regime and that it was meeting the fundamental commercial criteria. What's more, the management systems of the service in question were reconstructed to ensure that senior management had timely feedback and that they were capable of remedying defects as soon as they were identified:

'I have a better knowledge of my business now because I am more in control, there are more checking processes and my business plan is built from the bottom up. This means there is a greater obligation on me to perform, but it is easier, because now I have the information at my fingertips.'

Detailed local knowledge of this kind enables managers to make quick decisions when something goes wrong and to intervene to ensure that the service delivers in accordance with the contractual performance regime:

'The drive to succeed has to be overriding in the private sector. The ability to focus on key issues and move them forward rapidly. You haven't got time to contemplate your navel while something is going wrong – it is just too costly and too damaging to [the company's] reputation, so you've got to be fairly quick in moving things on.'

The underlying message from this body of evidence is that contract managers feel much more challenged and that in order to cope with those challenges, they are obliged to develop a much more intimate understanding of their business:

'Oh yeah, I feel more challenged – because of the commercial aspects, because of the scrutiny, because we've got more measures. The balance between [caring for end-users] and finance, the balance between [caring for end-users] and recruitment, the balance between [caring for end-users] and getting acceptance from the customer about what we're doing, the 24 hour monitoring. It's the whole board game really. So it means that you really know your business.'



6. Challenges for Managers

The transition from public to private employment has not been without its challenges. Contract managers have found themselves isolated from former associates and in some cases they have experienced animosity from people they had regarded as close colleagues. Although they are still delivering public services as part of a wider governmental network, they have sometimes felt excluded from their peers and cut off from policymakers. They have also wished for a closer connection to some of their colleagues in the private sector, in particular those involved in the design of the services that they are called upon to manage.

Previous chapters have commented on some of the advantages of the contractual model – its modularity and accountability. This chapter highlights some of the risks associated with the separation of policymaker and provider, the ongoing ambivalence (and even animosity) of some parts of the public sector towards private provision and the difficulty of reconciling the competitive spirit that dominates throughout the tendering phase with the collaboration demanded of those involved in delivering public services over the long term.

6.1 Isolation from former colleagues

'It was as though I was a lesser person because I was private sector, and I thought that was very disrespectful, it would never happen in the public sector.'

'Since being in the private sector I have felt ostracised by my peers and totally isolated.'

These statements were not exceptional and reflect the experience of a number of the contract managers we interviewed. After leaving the public sector to deliver public services under contract, several managers reported that they had been cut off by their former colleagues in the public sector. In part this exclusion was institutional – some of the contract managers reported that they no longer felt welcome at regional meetings: *'We are not as well linked in to the networks we used to be part of.'* This was in spite of the obvious benefits to both sides from cooperation between neighbouring services and a sharing of best practice:

'I would like to go to the regional meetings because it would mean I could get access to [a public sector organisation] more easily and talk about

those issues, which are relevant to [this particular public service]. But they won't let me go – apparently because they think I'm going to steal all their good ideas. I feel like saying, "For 19 years I sat at the table with you and now all of a sudden, I am going to pinch all your good ideas?".'

'I was excluded from my local board – I would bring as much to the table as I would take away – but they won't let me join. I think part of that has to do with a fear of the private sector that stemmed from the old days of CCT [compulsory competitive tendering] and particularly the compulsory element – the fear of the private sector taking over their jobs.'

This explanation – that some of the animosity to private providers of public services arose out of the concerns about compulsory competitive tendering – found some support elsewhere among the respondents. One participant spoke of an early Serco contract, where the customer had been required to market test the service in question:

'I was ringing people and not getting a reply, not getting a call-back – because I was seen as a threat. I know that was the case because I tracked one woman down who was in a similar position in another district who'd been at college with me 25 years earlier. I rang her up and said let's go for a coffee and just chew the fat. And she turned up and said "I can't talk to you, because the feeling is that Serco are after our bacon".'

Two of the contract managers reported that public and charitable agencies were reluctant to cooperate with them out of a belief that financial assistance provided for service improvement might be creamed off and used to subsidise corporate profitability.

'People have perceptions – politics and personal dogma about the private sector – and they decide that because they don't like the private sector, they are not going to interface with them. For example, [a named public programme] – an initiative that provides public funds to improve outcomes for service users in disadvantaged areas – said they wouldn't interact with us because they were terrified that we would use the money to enhance shareholder profits. That money would go straight into schools but as a result of all the dogma, the children are losing out.'

In the other example, the outcome was more positive and provides an illustration of the opportunities that are available to private providers of public services and some of the difficulties that these companies face in interacting with the rest of the social support system.

'We set up a Throughcare Centre last year using lottery funding, which, if I had been in the public sector, I wouldn't have even thought about pursuing. We formed a partnership with the voluntary sector and I was able to approach the Lottery's "Better Off Fund" and obtain a grant for the Centre. Initially they weren't keen on giving us the money because we were private sector, but we overcame their concerns by working with a very credible voluntary organisation. The Throughcare Centre is part of the prison, but the manager and his staff are from the charity. It provides a fantastic interface – we get input from the health board and the local authority (in terms of a housing officer) and Jobcentre Plus have given us a full-time benefits officer to work there.'

But some contract managers reported a personal dimension to this exclusion. They felt as though they were being shunned by former associates because they had joined the private sector:

'The animosity of former colleagues, and the perception by the wider profession that you're a threat - now this is a real downer, so I am treated as a nobody in my own profession.'

'My boss, who happened to be quite close – I was close to his family, he was close to mine – bang! that was dropped, that was just cut off when I joined the private sector. And a chap that I worked closely with [in the public sector] who's still with them, again the communication link was gone, unless they wanted something, and it was really only business then. So yeah, to be honest, it's a bit disappointing.'

This isolation of private providers developed in spite of the fact that the contract managers had spent all of their previous careers working in the public sector. It would seem that if public and private providers of front-line services are going to work together, then a great deal more effort will need to be invested in bridging the gap between traditional and contract provision. Apparently, the common cultural background of the respective service managers is not enough.

6.2 'Them and us'

Some of the managers also spoke of a 'them-and-us' relationship with their customers. To a considerable degree, this gap has arisen out of the deliberate separation of the roles into 'commissioner' and 'provider' (or 'purchaser' and 'supplier') which is an inherent feature of the contractual model. While this separation provides much greater clarity over

the organisational mission, it can also create new challenges in the delivery of an integrated service:

'We've been here for eight years, and there's still not an acceptance by a lot of people out there that a private company should be providing this service, and that can make life difficult for us. Ultimately it has a direct impact on the staff that we employ. Very often they are treated as second-class citizens rather than as professionals working on the same problems. I think it stops team-work to a certain extent. It's like, "No well, we can't do that because you work for Serco".'

Getting the customer relationship right is paramount to the success of a contract. One manager spoke of a situation where the staff on the customer's side saw no reason to work in partnership with the contractor to improve the contribution of the front-line service provider.

'They've specified what they want and they won't budge from it, even though we've told them time after time after time that it's an absolute waste of our resources (for which they're ultimately paying). The way they see it, "Serco are paid to do that." They don't see it as coming out of their pockets. Now if our people were employed in the public sector, then we would look at enhancing their role so they could do more. It is a total waste of resources.'

Some of these differences may arise because of a different management culture in the public and private sectors. Based on some of the comments we received, it is possible that misunderstandings sometimes arise because the two sectors experience the world in very different ways:

'[The customer] doesn't like the fact that we send bunches of flowers to our employees and their partners and wives when they have babies, because they don't do it. They say we spend too much money on staff jollies for example. They never have a buffet at lunchtime meetings. They never pay for alcohol at somebody's leaving do. We do things like that. They think it's a bad thing. But when they say to me "You spend too much money on frivolous things", I say "Yeah, but whenever I'm in a pickle, I put a lot of pressure on my people".'

One interesting question which arose in this research was the potential for contractors to make a contribution to policy, based on their front-line experience in actually delivering public services. Of course, there is often some distance between policy

development and policy implementation in the public sector, but the respondents to this survey claimed that the gulf is even wider when services are delivered under contract. Competition and contracting have brought a great deal of innovation and diversity into public service delivery, but very little thought appears to have been given to aggregating the lessons that have been learned and disseminating them across the system as a whole:

'I think we have a really good personal officers scheme and anti-bullying strategy here, and the Chief Inspector [of Prisons] has said that they are "best practice". But nobody has phoned me up and said "Can we come and see your personal officers scheme?". I think it is because they are too proud. They are happy to come over and have a look at our technology, but they won't ask about anything else because that might involve an admission that the private sector might do something better [in service delivery]. I go to [regional] meetings and they sit around and rave about initiatives in the public sector. And I say. "Well I've got a scheme that's working really well", and they don't want to know. Perhaps it is because they see me as a threat; perhaps they don't believe me. I don't know. So I don't say anything anymore because nobody listens.'

And yet there are also examples of collaboration, where government has limited expertise, or where individual contract managers are respected as experts in their fields and are consulted by policymakers in the design of new systems and solutions. One contract manager told us:

'I do much more policy work now than I did in the public sector. I am constantly meeting with the [customer agency] and writing policy with them. I have far greater contact with senior civil servants because in the [public sector] there were always people above me in the chain of command who dealt with that. The operational people who had actual experience in running the show were rarely consulted.'

6.3 The winning formula

In a similar way, some contract managers report that they are concerned about the 'disconnect' which may arise between service design and service delivery. In a contractual environment, much of the service design is undertaken by the customer in developing the tender, by the bid teams in developing their proposals and by legal and commercial specialists in negotiating the final terms of the contract.

Even with new contracts, it is often the case that contract managers arrive on site without having been closely involved at any of these stages. If the customer's statement of requirement was designed by a procurement team (or external advisers) without any real understanding of the service in question, if the competition has been focused overwhelmingly on price, if the bid solution has been dominated by commercial considerations or if the performance criteria have been designed without reference to the operation of the service in question, then the management team may inherit a most difficult challenge.

Several contract managers spoke of the very restrictive nature of the performance conditions in the contract they were required to manage:

'The contract can be a bit of a straitjacket. . . It was negotiated in the early days when [competition and contracting] was new and controversial, so the government, for a whole range of reasons, wanted the best of both worlds. So what we've got is a contract that is quite difficult to manage because it ties us down in a whole range of areas and it also has a set of outcomes which were unrealistic in the first place.'

Another highlighted the difficulties that a highly competitive contract price could create:

'Both the nature of the contract, and the price that it was bid at, may make delivering that really high standard of service difficult. What contract managers are reflecting here is the inherent tension between the competitive and collaborative phases of contract provision. It is unsurprising that those charged with actually delivering the service, day in and day out, place a higher premium on the qualitative issues. They would prefer their colleagues who manage the bid phase to resist the temptation to cut the price too much in order to win the bid.'

It is in the nature of the competitive process that companies do need to take risks in pricing their bids, but what contract managers are saying is that they would like those engaged on the customer's side in the design of the statement of requirement, and those involved on the contractor's side in the development of the contractual solution, to have greater regard to the issues that they will have to take into account as the service is delivered.

6.4 'The goldfish bowl'

Contract managers also reported feeling much more vulnerable in delivering public services in a contracting environment. In part this arose from the political uncertainty

around contracting and the greater scrutiny to which they had been exposed as a result. One manager described how the combination of increased monitoring and intense media scrutiny left him with the feeling that he was operating in a 'goldfish bowl'. He was disappointed that any external interest tended to be negative and that their successes were only rarely acknowledged in the public debate.

The fact that the media were largely interested in the failings and not in the successes meant that contract managers found it difficult to communicate with the public about the things that they and their teams had accomplished. As a result, *'People believe that there is no real proof that the private sector is actually delivering any improvement.'*

One of the managers observed that while their relationships with staff and local representatives were quite positive, union leaders at some distance from the contract sometimes adopted a critical stance for political reasons:

'There has been such a transformation locally and the local unions have worked together with us for the greater good of their members as they have witnessed the turn-around. However, on several occasions the regional union rep has spoken to the local press and demanded Serco's withdrawal.'

But contract managers who had come from the public sector also found that they were subject to scrutiny from an entirely new direction. Controversy over the performance of a contract raised issues for investors and analysts and this was a new source of volatility totally unfamiliar to the people we interviewed:

'The area I have noticed the most – because this contract is a difficult one – is what I call "volatility", which is what the reaction of the City will be. I have to jump through a different set of hoops because of people's concerns about this contract and its public profile, and at some points that has inhibited me from doing things I would have liked to have done. And I'm not sure there is anything we can do about it, it's just a reality. If there is a negative headline in a national newspaper share prices can go down, but it also means that we as a team have decided not to do some things because the risks could have produced negative publicity.'

These managers also recognised that no matter how strong they were financially, private companies enjoy less security than government. Since the people we interviewed had all come out of the public sector, this was a new source of uncertainty to some of them:

'Councils are often criticised by the media and that is why politicians get shaky – because they can be voted out. As a professional officer, I was relatively safe; obviously at a very senior level you are held to account. In a sense the impact is less catastrophic in the public sector. There has been the odd case where local authorities have teetered on the edge of going bankrupt, but by and large local authorities are pretty safe and secure; whereas private companies can pull out of contracts or crash on the stock exchange. Those things can happen to private companies in a way that they don't happen to government.'

7. People and Systems

7.1 Some questions

This research reflects the views of 13 contract managers engaged in the delivery of front-line public services within one public service company. It was designed as a small pilot study in order to draw out some of the issues, and while it provides some fascinating insights, it cries out for additional work.

On the one hand, there are some methodological issues that need to be considered in any future research. How typical are these views of the private sector? Are these views shared by contract managers delivering similar services in other companies? And what of contract managers who deliver back-office services and are less directly engaged with the end-user?

It would be interesting to ascertain the views of front-line staff – those involved in delivering services directly to public – to see what their experience has been. One possible area for future research might lie in extending the range of participants beyond management to include other members of staff.

Given some of the responses, we also wondered whether the men and women who participated in this study would have been regarded as typical public servants when they were still in the employ of government. Does it take a particular kind of public service manager to leave the public sector and take up the challenges of contract management? Obviously this will be difficult to ascertain in retrospect, but there may be value in starting future interviews with questions about the respondents' experiences while they were in the public sector.

Future research might include senior managers who joined the private sector and have since returned to public sector employment, in order to determine their reasons for doing so. Are there some public service managers for whom contract management was not a happy experience, and if so, why? How different are the views of contract managers engaged in delivering similar services who have never belonged to the public sector?

This kind of research cannot be undertaken by a single company, with a small number of case studies working, within the limits of a particular business model. Additional research, if

it is to be done, must address a much wider sample and for that reason would need to be undertaken by an independent organisation such as an agency of government, an industry association (such as the Confederation of British Industry) or an academic institution.

There are also a number of tantalising issues raised by the responses to this survey which suggest areas for further exploration. For example, we obtained some insight into the way in which contract managers delivering front-line public services cope with the company's 'profit motive' and the customers' 'savings imperative'. The answer appears to lie in their ability to deliver high quality services.

When the company's need to protect its investment or the customer's pursuit of savings results in a reduction of service quality, then front-line service managers seem to feel much more challenged. The importance of this for contract design is obvious, and suggests that further research would be of great benefit to government and industry.

As we probed the reasons why contract managers enjoyed greater managerial autonomy, a number of possible explanations emerged, although these require additional work before confident conclusions can be reached. A large part of the answer seems to lie in the modular nature of the contracting models examined in this study. In these examples, contracting has driven devolution. The contract also appears to create a shield against inappropriate intervention by outside parties, both managerial and political, and a much clearer mission statement for those charged with managing service delivery. But a great deal more research would need to be done to determine the extent to which this is true of other contracting models, and whether there are lessons here that might be applied in the public sector.

Several of the contract managers indicated that the freedom to build their own management team was important to them: this needs to be explored more closely. It would also be valuable to test their comments about closeness to staff. Is there a significant difference in the management cultures of public and private sectors, and what difference does this make in terms of service delivery?

We were also interested in the comments of contract managers which suggested a much more personal kind of accountability in a contractual environment. We are unaware of any other research into this aspect of service contracting and it raises a number of challenging questions for those charged with improving the delivery of public services. To what extent is this a product of the contractual model used in these particular examples? Is it capable of being reproduced in the public sector without the use of contractual structures? Given the volatility of the political environment, would it be desirable to implement a system of personal accountability for senior management in the public sector?

Significant efforts have been made in recent years to introduce a performance management culture in the public sector, and in some parts of government, this has been influenced by the experience with contracting. This research provides some interesting insights into the way in which performance outcomes might be used to improve performance. In a culture which places a high premium on performance outcomes and on not delivering unhappy surprises, service managers are obliged to develop a much more intimate understanding of the connections between inputs and outcomes.

Finally, there are some warnings about the potential for fragmentation under a contracting model – the isolation of public service professionals from their peers, an unhealthy separation of customer and provider, and the potential for an even greater gulf to develop between service design and service delivery. To our knowledge, this is the first time in which contract managers' views on these issues have been recorded. But once again, we acknowledge that a great deal more work needs to be done to understand these issues properly.

7.2 Some answers

While it would be unwise to draw strong conclusions from a sample of 13 participants, some of the observations were consistent across almost all of the respondents, suggesting that these are areas worthy of much closer attention. Foremost among these was the contract managers' protest that in making the transition to the private sector, they had not abandoned their sense of commitment to public service. Typical of these responses was the comment: *'I always enjoyed working in the public service, and I still feel very much like I am delivering a public service'*.

When they spoke about the differences between the two environments, service managers consistently mentioned three areas: greater managerial autonomy, closer management of their staff and a personal sense of responsibility for service outcomes.

Managerial autonomy: Unsurprisingly, one of the most commonly-mentioned differences was the relative lack of bureaucracy in the private sector. Whether it was in the recruitment and management of staff, budgeting and financial accountability, introducing new ideas or responding to service failings, managers consistently reported that they had much greater freedom in a contractual environment and that they were able to implement change more quickly.

Closer management of staff: One of the consequences of greater autonomy was that they had greater freedom to build their own management teams, tailored to the particular challenges facing them in the service in question. But almost all of the contract managers told us that they were also closer to their staff.

Personal accountability: Service managers were consistent in telling us that they felt much more accountable. In part, this was because they felt personally responsible for the performance of the contract: as one of the contract managers explained, 'This contract is my baby'. But another part of the explanation seems to be that these men and women are being held accountable for outcomes rather than just processes, and this requires them to have an intimate knowledge of the service in question.

7.3 Building better systems

If, as Al Gore argued, the problem with modern government is good people trapped in bad systems, then what might be learned from this research about the design of better systems?

Most obviously, we can learn something about the contracting model and where it is capable of improving service delivery. Additional research might enable us to get beyond the claims and counter-claims associated with public-private partnerships and come to a shared understanding as to how competition and contracting deliver better outcomes.

On the one hand, this might enable government to design better contracts. One of the issues that emerged in this research was the importance of service improvement to those actually engaged in front-line service delivery. Some of the comments made in this study suggest that customers and contractors would have greater success in motivating those charged with service delivery if these people felt that they were delivering the public a better service.

If devolution is central to the improvements that are delivered, then this might have a significant impact on the scale of organisation or service that is put to contract; and if the contractual shield is important to ensuring managerial autonomy, then UK government needs to be careful in the design of the new generation of contracts which leave contractors more open to the demands of conflicting stakeholders.

There are also some important caveats about excessive fragmentation in service delivery under a contractual model. To take only one example, procurement agencies need to think about what might be done to ensure that service delivery is properly considered in service design.

But this research also raises important questions about the shape of public services in general. Are there lessons that government could learn in the design of its own internal systems? Of course, there is nothing new about the argument for increased autonomy and accountability, but the insights gained from these contract managers suggest the need for a more finely-grained analysis.

These responses seem to suggest that the devolution of management responsibility needs to be taken down to the level of the individual service unit if it is going to make a significant difference. And there may be some areas where the public sector has made much less progress in the devolution agenda, such as allowing managers to have a greater say in recruiting their own teams.

There also appears to be a striking difference in accountability for service delivery under traditional and contractual models. As noted earlier, contract managers report that they feel personally accountable to a much greater degree in the private sector. We recognise that this is profoundly at odds with the civil service culture that has prevailed in the past, but the question deserves to be asked whether service delivery inside the public sector might not benefit from adopting more of a small business culture in front line service delivery.

Among other things, it might be asked whether the public sector would not benefit from introducing a quasi-contractual model into its own service delivery. While the introduction of performance management has driven the adoption of targets and service level agreements, this study suggests that many of the strengths of the contractual model have not yet been embraced within the public sector's own internal administration.

Lest there be any misunderstanding, this is not an argument that government should engage in greater outsourcing of public services. What we are suggesting is that government might benefit from adapting the systems it has used for managing one group of service providers (the public service companies), and applying them in the management of another group of providers which remain under direct control.

Endnotes

1. Yoshiyuki Kasai, *Japanese National Railways: Its Break-up and Privatization*, Folkestone: Global Oriental, 2003, p.172.
2. Al Gore, *Creating a Government that Works Better & Costs Less*, Report of the National Performance Review, New York: Times Books, 1993, p.2.
3. Al Gore, *Creating a Government that Works Better & Costs Less*, Report of the National Performance Review, New York: Times Books, 1993, p.2.
4. H.M. Chief Inspector of Prisons for England and Wales, *Annual Report, 1998-99*.
5. Andrew Wallard, 'Successful Contractorisation – The Experience of the National Physical Laboratory', in D. Cox et al. (eds), *Government Laboratories: Transition and Transformation*, Amsterdam: IOS Press, 2001, p.202ff.
6. Commission on Public Private Partnerships, *Building Better Partnerships*, London: Institute for Public Policy Research, 2001, p.42.
7. The Chartered Institute of Personnel and Development, *Employee Absence 2004: A Survey of Management Policy and Practice*, London: CIPD, July 2004.



'Good People, Good Systems'

What's different about delivering public services in the private sector? In this groundbreaking study, Emma Reddington speaks with former public servants who are now managing the delivery of front-line public services in the private sector. For the first time, the people actually engaged in delivering contracted services speak for themselves.

They tell us that they are the same people that they were when they were employed by government, with the same sense of vocation and the same public service ethos. They provide us with insights into how they cope with the tensions between commerciality and service quality.

And what are the outstanding differences between delivering public services in the traditional way and delivering them under contract? Increased managerial freedom and greater personal accountability. Echoing Al Gore's famous quote, contract managers tell us that one of the most serious problems with modern government is 'good people trapped in bad systems'.

'Good People, Good Systems' will be of interest to politicians, civil servants, union officials and company executives who want to develop a deeper understanding of competition and contracting. But it will also provide insights for those charged with improving the quality of service delivery inside the public sector.

Serco Group plc

Serco Group plc is a UK-based international service company, with more than 600 contracts in 36 countries around the world, overwhelmingly in the public sector. From its first public service contract 40 years ago, providing technical support for the ballistic missile early warning system at RAF Fylingdales in the United Kingdom, Serco has expanded into science and defence, security and corrections, health and education, environment and leisure, public transportation and traffic management. Contracts cover back-office support as well as front-line services and range in size from a handful of staff to several thousand.

The Serco Institute

The Institute is Serco's research and policy unit. It monitors developments in public sector markets around the world, analysing and sharing best practice in competition and contracting. It serves as a source of ideas and information derived from a continuing dialogue with practitioners engaged in service design and service delivery, and with public officials, think-tanks and academic researchers. The Institute's approach is pragmatic, drawing on Serco's extensive experience in managing fundamental change in the delivery of public services.

The Serco Institute | 22 Hand Court | London | WC1V 6JF

T: +44 (0)20 7421 6475 | E: institute@serco.com | www.serco.com/institute



The Serco Institute