Government policy, public value and IT outsourcing: The strategic case of ASPIRE

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1. Introduction

In the private sector the major international trend towards Information Technology (IT) outsourcing from the early 1990s through to 2012 has been driven by a range of financial, business, technical and micro-political factors (Clark et al., 1995; Kern and Willcocks, 2001; Lacity and Hirschheim, 1993; Lacity et al., 2010; McLellan et al., 1995; Willcocks et al., 2006). The research suggests that three main drivers seem to have been operating (Lacity and Willcocks, 2009; Willcocks et al., 1995a,b). First, IT outsourcing is often a response to the hype and publicity surrounding the subject. A bandwagon effect leads to senior managers asking: 'why don’t we outsource IT?' Second, outsourcing has been a response to tough economic and competitive climates and the need to cut, or at least control costs. This has become a particularly pertinent issue in the 2008–2012 period, including for public sectors (Willcocks et al., 2011). Third, it can be conceived as part of a larger and longer term change in how organizations are structured and managed – part of what we would call a move towards the ‘contractual organization’.

Government IT policies have been intermittently informed by the assumption (often characterized as a New Public Management (NPM) assumption) that the digitalization of the public sector will allow reform of public administration (PA) along the lines of private sector business and organizational management techniques. E-Government, outsourcing and cloud-sourcing projects are intrinsically embedded in ensembles of political reforms and organizational changes to enact, support, and push a transformation in how public sectors function. IT has, in fact, become one of the most common resources drawn upon...
to standardize work procedures and smooth information flows, and to make more efficient organizational procedures. Information technologies have also become a common solution for increasing transparency and accountability, and to underpin a move to a service (and self-service) approach, introduce market-like coordination mechanisms, and support outsourcing (Ci-borra, 1993; Malone et al., 1987). What is interesting is the juxtaposition of IT – presented, rhetorically at least, as a vital strategic tool for government – and the degree to which it has been outsourced.

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

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

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

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

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

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

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

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

2.1. Government models and outsourcing

There has been considerable international interest in recent years in notions of ‘the contract state’ (Dunleavy et al., 2006; Lacity et al., 2009; Le Grand, 2007; Mintzberg, 1996; Osborne and Gaebler, 1992). In the public sector, the contract state can refer to contracting between public service organizations and their users/members of the public; contracting with external providers; or contracting between different parts of the public service to produce better services to citizens. While these are
important distinctions, in recent years government policy in the United Kingdom (UK) has often seemed to collapse them into the notion that public service organizations are best managed as if they were ‘businesses’ (Willcocks et al., 2011).

Critics of this approach have pointed to other ways of radically reforming the public services whereby service efficiencies can be improved (Mintzberg, 1996; Osborne and Gaebler, 1992; West, 2005), Thus Mintzberg (1996) advanced several models for managing governments internationally, each conceiving public value in a different way. Mintzberg attacked the traditional, dominant Government-as-Machine model, where government is viewed as a machine dominated by rules, regulations and standards. But he also attacked its replacement by the managerialism of the Performance-Control model embodying the principles of ‘Isolate, Assign and Measure’. He further attacked taking this model to its natural limit. He called this a Virtual-Government model – the assumption here being that the best government is very little government. This model is perhaps more accurately defined as a Hollowed-Out government model and that is the terminology we will use here.1

The Performance-Control and Hollowed-Out models are cited for underlying the UK government’s framework for the contract state in the 1990s (Mintzberg, 1996). Indeed in the 2000–2008 period one can discern strong elements of the Performance-Control, and Virtual (i.e. Internet-based) Government models in Labour government policy, and also of the Hollowed-Out model in the continuing outsourcing to private companies of major IT operations and innovations.

2.2. The UK public sector: Sourcing developments

As at 2012 the UK central government consisted of 15 major departments each with a government minister responsible. Other government agencies included the HM Treasury and the Cabinet Office. Each central department was staffed by a civil service with senior executives and boards, together with operational staff. Total UK central government spending in 2010/2011 was £691.67 billion.

In recent years major reforms in central and local government have seen IT and outsourcing at their heart – for example in the United Kingdom the National Identity Card scheme and National Health Service Programme for IT (NPfIT). Recent attempts to reduce public expenditure, for example the October 2010 government spending cuts, are only examples of long-established policies aimed at reducing public sector expenditure. For example, the government introduced market testing proposals in November 1992, to manage IT activities as part of the increased ‘businessization’ and competition desired by government (Willcocks, 1994). Contracting out ranged from selective outsourcing (as occurred in many parts of the NHS and local government in the 1990s) through to large ‘total’ outsourcing deals. Alternatively, these proposals saw the privatization of in-house IT departments or the hiving-off of IT departments to agency status within the public sector. Subsequent governments continued the drive on outsourcing IT. See, for example, major central government projects such as the ASPIRE renewal itself, and the letting of contracts for the National Identity Card scheme in 2007/2008.

In retrospect, these initiatives would seem to have been informed by two strategies to create public value inherent in government policy throughout the 1992–2012 period. One was a concern to lower costs dramatically in the public sector (or at least reduce the public sector borrowing requirement). A second was the political belief that private sector companies tend to be more efficient. Competition would increase efficiency and effectiveness of public services – and therefore the value they deliver to citizens. These underlay the more fundamental reappraisal of the core role of government that occurred in particular in both the UK and the USA from the mid-1990s (Dunleavy et al., 2006; Margetts, 1999; Margetts and Willcocks, 1994; West, 2005). As major resources in the public service, information technologies are inevitably bound up in these developments. Indeed, in the UK, by 1996, IT privatizations and market tests had led to contracts worth more than £2 billion. From 2008 this figure has exceeded £12 billion annually (Willcocks et al., 2011). Such outsourcing represents government operationalization of Mintzberg’s Performance-Control model. In practice, some contracts – as in the case of the Inland Revenue Customs and Excise – demonstrate the IT component of a further move toward the Virtual (Internet-based) and Hollowed-Out Government models.

These governmental predilections, however, tend to ignore a largely private sector debate about the ways in which information-based assets embodied in assemblies of technologies and skills can themselves increase organizational efficiencies and the value of the services offerings to customers (Quinn, 1992; Willcocks et al., 2002). Moreover, there is little recognition of the very mixed record, even from a value for money, as opposed to just a cost efficiency, perspective, that long-term, large-scale IT outsourcing deals have had in the private sector, let alone in the public sector. (Lacity et al., 2009; Lacity and Willcocks, 1996, 2001). By comparison, selective IT outsourcing seems to lead to more successful outcomes (Lacity et al., 2009; Lacity and Willcocks, 1996). Similarly, there is a very mixed record where significant contracting out of IT took place in the public services in the 1990s (Collins, 1996; Willcocks, 1994). Unfortunately, these results seem to have continued into the 2000–2011 period as recorded by a succession of National Audit Office and House of Commons Committee of Public Accounts reports and academic research studies alike. These cover NHS, Inland Revenue National Identity Card and many other marketized initiatives. In most of these cases IT outsourcing has failed to reduce administrative and organizational inefficiencies and the cost of running the services.

HMRC emerges as a case in point. The evidence for the HMRC case is that wider public value has atrophied during the course of the 1992–2012 outsourcing period. Recent House of Commons reports identified this in detail. But the reports

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1 This change in terminology is to avoid confusion with Internet-based models of government that appeared after Mintzberg wrote his article. Our thanks to an anonymous reviewer for pointing out this possible confusion, and directing us to a better title for the model.
do not attribute it to outsourcing, its essential vehicle, but to HMRC management (HCTC, 2011). We will pursue the evidence on this below, when analyzing the case.

3. Policy and IT: Refining the public value perspective

A public value perspective sees IT outsourcing policies and practices as decisions determined by policy makers and managers to fulfill notions of economy, efficiency, effectiveness, equity and the collective aspiration of the citizens. What happens if IT outsourcing policies are assessed not just by their economic impact on the cost of running the public apparatus but also on the medium- to long-term raising aspirations of the citizens who consume (and benefit from) these policies? According to a major advocate of the Public Value view (Benington, 2009), in democratic states the fundamental collective values of fairness, equity and equality cannot be evaluated in terms of: “the economic market place of individual consumers, but (only) in the political market place of citizens and the collective decisions of representative democratic institutions” (p. 35).

On this view, public value is not defined solely by who produces it – government organization, private firms, non-profit or other organizations – but rather by the citizens who collectively consume it. Citizens value things “because they personally benefit. But in many cases, they also value them, and indeed value other things, for reasons that go beyond their individual self-interest. They have goals or aspirations for the society as a whole, founded in social or normative commitments or purposes such as fairness, national pride, care for the environment, or concern for the weak and vulnerable.” (Alford and Hughes, 2008, p. 132). Thus public value can consist of multiple objectives that may need to be traded off (O’Flynn, 2007).

However, while Moore (1995) and others have engaged in an important and rich policy debate on public value, they have neglected the central and increasing role of IT, outsourcing and digitalization in contemporary public sectors (Bonina and Cordella, 2008; Cordella and Bonina, 2012). Let us look at this in more detail.

Benington and Moore (2010) point to the strategic triangle of public value consisting of the Authorizing Environment, Operational Capacity and Public Value Outcomes. The Authorizing Environment consists of multiple stakeholders pursuing their own interests but also communal interests from short, medium and long-term perspectives. For HMRC, interested stakeholders are multiple. They include taxpayers, companies, their advisers, the government of the day, local government, and those receiving tax credits. Because of the way IT is structured in HMRC, stakeholders include also the interests groups affected by Department of Social Security and Customs and Excise performances. Recent parliamentary reports suggest that these voices are asymmetrically represented, with government cost savings criteria and the interests of big companies particularly over-represented (House of Commons Public Accounts Committee, 2011; House of Commons Treasury Committee, 2011).

But what may truncate the ability to achieve flexibility and negotiation over what is pursued in terms of public value is the overlooked area of Operational Capacity. Historically, IT, outsourcing and digitalization reform have been pursued to strengthen public administration and produce increased public value. But what happens if they have been, and are, implemented in ways that actually do not have these effects? And what happens if the Authorizing Environment is restricted in what can be authorized where too few stakeholders, ideologies and interests push Operational Capacity to restricted modes of operation, thus circumscribing Public Value Outcomes? What happens if the public value roles of public managers are truncated by the ways in which Operational Capacity is set up and applied? What happens if contracting is undertaken in ways that create de facto monopoly positions?

The case of HMRC suggests that these are more than just possibilities, and all too often realities. A public value perspective questions the potential over-dependency the contracting out of the management and design of IT can create. It points to subsequent inhibiting effects, narrowing options precisely where wider public interests need to be pursued. These outcomes, we will argue, have already materialized in the HMRC and the UK public sector more broadly. Public value has been hijacked along the way. How IT is shaped, implemented and supported in the future needs serious re-thinking.

4. Methodology

We used an exploratory case study approach (Willcocks et al., 1999; Yin, 2003). The HMRC case is clearly relevant for the study of public sector outsourcing contracts and their impact on public value creation. The outsourcing of the HMRC infrastructure has impact on a very broad group of stakeholders indeed – all UK taxpayers and those in receipt of social security benefit, and their multiplicity of interests. The authors were given longitudinal access to study the deployment of large-scale outsourcing at the UK Inland Revenue (from 1992) and subsequently HMRC (from 2006). Therefore this unit of analysis has, since the beginning, defined the object of the case study (Yin, 2003).

We adopted the explanatory case study approach. Fieldwork, and data collection were undertaken to identify the main aspects of the case prior to definition of the research questions and hypotheses. On the basis of qualitative data analysis and collection we formulated our research interest as: the explanation of why and how outsourcing in the public sector can lead to government lock-in and reduce the ability of government to create public value, here defined as the collective expectation citizens and other stakeholders have regarding government deliverables (Benington and Moore, 2010). To pursue this line of inquiry we have built on our own studies, the existing outsourcing literature, and lessons learned from private sector experiences (Lacity et al., 2009; Lacity and Willcocks, 2009; Willcocks and Lacity, 2009). We also built on a public administration literature on new organization structures in government (for example New Public Management, the Contract
State) and the importance of public value creation in government action (Benington and Moore, 2010; Dunleavy et al., 2006; Iestyn and Shearer, 2011).

To analyze the effects of public sector IT outsourcing arrangements, and the challenges for their management, we needed to gain an in-depth understanding of implicit and explicit impacts, as well as of the roles of socio-political forces and technologies on government action. Case study research is the most suitable approach for examining a phenomenon in its natural settings (Benbasat et al., 1987), and therefore an appropriate vehicle for gaining a deeper understanding of the political, social, and technical factors which shape outsourcing policies.

Data collection across the history of HMRC’s outsourcing has been carried out using direct observation, open-ended interviews, restricted internal HMRC documentation, and analysis of secondary sources. Interview research into the Inland Revenue was undertaken from 1992 and continued into 2012. We carried out 58 interviews with senior executives within the Inland Revenue and its major suppliers across the 1992–2006 period, returning at approximately three yearly intervals to monitor events and progress. We interviewed 10 respondents three times, 8 two times, and 16 once each in this period. Between 2008 and 2012 we carried out a further 26 interviews amongst senior business and IT executives in the HMRC (5) and suppliers (8), amongst lower level IT operational staff in HMRC (4) and suppliers (3), with trade union officials (2), tax advisers (2) and with HMRC non-IT user employees (2). To formulate this case, we also utilized internal documents and the plethora of secondary literature that now exists, including regular government, parliamentary and National Audit Office reports, and considerable commentary in the trades press (see References). Multiple sources of evidence have been used to validate the findings on the complex socio-political context within which outsourcing has been taking place in the public sector and about events, practices and outcomes within the HMRC (Danziger, 1985; Yin, 2003).

5. The ASPIRE case

5.1. Background and origins

The HMRC central government department is the primary source of income for the British central government, for example collecting £435.1 billion in tax for the 2009–2010 period (HICT, 2011). The ASPIRE (Acquiring Strategic Partners for the Inland Revenue) is an outsourcing arrangement between Capgemini and the Her Majesty’s Revenue and Customs (HMRC) and has constituted one of the largest contracts in IT outsourcing in the UK public sector. ASPIRE covers the provision of IT services to the HMRC and provides the information infrastructure to the entire Department which was created in April 2005 when the Inland Revenue and Her Majesty’s Customs and Excise were merged to become the HMRC department.

ASPIRE is the latest step in the outsourcing process initiated by the Inland Revenue (IR) in the early 1990s. In 1992 the Conservative government mandate to market test public services eventually prompted an IT outsourcing investigation by the IR. This was in response to the Treasury’s newly set annual IT budget for the Department. To give some socio-political context gained from interviews, the UK government pushed hard for outsourcing at IR. It would provide a lower cost, better quality exemplar at the heart of government to trigger further outsourcing in central and local government. According to a trade union respondent, the government also wanted to reduce union power by outsourcing, something it had a track record on in the 1980s (e.g. the Department of Social Security (DSS) pensions strike of 1987, and subsequent decentralization and outsourcing of DSS IT). Ideologically, the then Conservative government favoured privatization of public agencies, and radical outsourcing of public administrative tasks. At the time, according to senior IR executives, the IR was considered one of the more efficient IT shops in UK government. Its data centres were benchmarked as amongst the most efficiently run anywhere, while the IR had built an enviable reputation for its internal capability, and an impressive track record on delivering IT projects.

5.2. The Inland Revenue–EDS contract 1993–2002

The IR outsourcing decision process took almost 2 years. To initiate the process the IR assembled an evaluation team to draft the Request for Proposal, evaluate bids, and negotiate the contract. In January 1993, four bids were submitted for the outsourcing contract. One bid was a consortium of several suppliers. The three single suppliers were EDS, Hoskyns, and Sema Group. The evaluation team selected EDS because they were perceived as the only supplier capable of handling such a large account (Kern and Willcocks, 2001). After a long and complex contract negotiation, which encompassed disputes on transition costs associated to changes in organization structures, redundancies and other HR concerns, the IR agreed to transfer arrangements to EDS.

As in all mega-contracts of this period (Lacity and Willcocks, 2001), the IR and EDS spent the first 2 years of the relationship operationalizing the contract by establishing the post contractual management infrastructure and processes, validating services, costs and responsibilities, discussing and managing additional services requests and fostering realistic expectation of supplier performances. The operationalisation of the contract was very complex. It was characterized by continuous tinkering in the face of what transaction cost economics would call the ‘asset-specificity’ of large parts of the IT inheritance. To comply with the existing IT infrastructure, suppliers had to develop customized, ad hoc systems. The unique characteristics of these developments required specific contractual protection for the suppliers against the potential loss incurred if the contract failed. The specificity of the IR systems did not offer any alternative market opportunities for EDS, and therefore in-
creased their potential risk. The complexity and uncertainty of the project required frequent re-negotiation and new, ad hoc agreements between the parties. Changes in law, such as the introduction of the Self-Assessment tax scheme in 1997, in fact redefined part of the background upon which the initial contract was drafted. EDS and the IR had to find contingent arrangements and agree upon contractual changes to support these government tax changes. In 1999 the project stabilized and also provided positive returns for both parties. These partly came from economies of scale and scope generated by joint projects undertaken by EDS, especially with the Department of Social Security and its data centres (Kern and Willcocks, 2001).

During the 10 years of the outsourcing relationship, EDS gained full outsourcing control of the IR information infrastructure. Eventually it employed 2000 of the 2500 IR IT employees, thus taking over nearly all the IT operation of the UK tax authority. In 2005/2006, when the HMRC was created, the UK government decided to open a public tender for the provision of IT operations to the newly established Division. The new IT Operations by HMRC were in fact far bigger and complex than the ones in place before the merger of the IR and the Customs and Excise – accomplished in April 2005. The size and scope of the HMRC activities grew considerably, and existing IT architectures could not support the new organization’s needs. Additionally, our respondents pointed out that both entities had run into serious problems of IT delivery (this was rarely mentioned in official reports of the time (e.g. HCPAC (House of Commons Committee of Public Accounts, 2007))). It was therefore decided to revise the Inland Revenue IT service contract with EDS for IT services, and with Accenture for the National Insurance Recording System (NIRS). These covered only the Inland Revenue and the Social Security departments’ needs. Following the increasing demand for competition in public sector procurement (and to comply with the EU public procurement rules), the government decided not to extend the existing contract with EDS and Accenture. Instead it went for a public tender.

By this time, the HMRC IT operation had become responsible for collecting over £430 billion each year, maintaining over 70 million National Insurance records, dealing with 32 million tax payers, 1 million companies and 2 million employers. This could only be done with the support of an appropriate information infrastructure. Given the nature of the services and the complexity of the architecture, the contract was worth between £3 and £4 billion pounds over a 10 years term. This was expanded to £8.5 billion when the HM Customs and Excise IT contract was included (House of Commons Committee of Public Accounts, 2007).

5.3. The decision to Re-tender 2002–2005

The public tender process was started in 2002. It followed the existing ‘best’ practices that governed IT outsourcing projects in the public sector. The tender extended the Department’s previous contracts with EDS for IT services and with Accenture for the National Insurance Recording System (NIRS). It not only covered the provision of the new infrastructure for the HMRC as a whole, but also the maintenance and replacement of the existing IR and NIR architectures. The complexity of this outsourcing project was therefore twofold. Firstly, it required the contractors to maintain and replace the existing backbone of the IR IT infrastructure. Secondly, a new, integrated architecture for the HMRC would be developed and deployed.

However, the IT infrastructure in place at the IR and the operational practices were, at the time of the ASPIRE tender, still owned and operated by EDS. As incumbent supplier with accumulated knowledge of and control over the IR systems, they had a competitive edge over potential competitors. To be clear, EDS in fact owned the architecture and ran the IT operations over the previous 10 years. This made it difficult for other bidders to compete on the ASPIRE tender. To attract other bidders, and therefore to exploit competition amongst suppliers, the government had to find the proper set of incentives for potential newcomers.

To secure competition, the Inland Revenue offered several million pounds to suppliers to offset bid costs. The government also decided to follow the unusual practice of contributing to the winners’ transition costs in taking over from the existing supplier. Furthermore, the government also considered that not to pay these costs would send out a wider signal to the market that they were effectively locked into the incumbent supplier. The calculation here was that the costs of transition would have made the competition unviable for any supplier other than EDS (House of Commons Committee of Public Accounts, 2007). The government, therefore, decided to pay transition costs to the winner of the tender if different from EDS, thus levelling the field between EDS and incoming providers. These transition costs were identified by the government as those costs not incurred by EDS had it been confirmed as supplier. The existence of this de facto lock-in was already known and high-

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6.1. ASPIRE – Outcomes, outsourcing and public value

According to HCTC (2011), HMRC achieved over £1.143 billion efficiency savings between 2005 and 2010. But a major source of savings were staff cuts, supported by outsourcing, with HMRC staffing reduced by a quarter between 2006 and
2010. The report relates various failures to these staff reductions, for example reduced tax collection, and criticisms of service levels. HCTC (2011) is particularly damning of ‘the considerable dissatisfaction among the public and tax professionals with the service that (HMRC) provides to taxpayers and benefit claimants.’ It notes particular concern over access to advice over the telephone, responses to post, and offline alternatives to Internet-based filing and guidance. Flawed implementation of the ASPIRE-driven computerized PAYE system throughout 2011 affected some 5.7 million taxpayers. It notes that ‘dissatisfaction has been building for some years now.’ It cites earlier critical reports, including the loss of 25 million personal records in 2007 and changes in management and governance in the same year, following a highly critical Capability Review.

HCTC (2011) suggests that HMRC performance has been damaged by the sustained reductions in its resources since 2005. Costs of tax administration were displaced onto individuals, businesses and tax professionals, all of whom, of course, pay for the tax system, raising an interesting net public benefit issue. IT was introduced to achieve job cuts and administrative efficiency, but staff reductions were made and predicated on the ability of IT systems to deliver, when quite clearly in many cases they did not. The HMRC was losing a cadre of staff at all levels who had long, valuable experience in tax matters, with adverse impacts on service quality and responsiveness. These events, including outsourcing, and a command and control management approach, had adverse impacts on retained staff morale, engagement and service ethos. The new Real-time IT infrastructure project required inter-departmental working for its development, placing ‘idiosyncratic’ (Williamson, 1979) public sector demands on the development process. Official service standards and targets were acknowledged as not really embodying the full public value story of an organization perceived as ‘unable to collect the right amount of tax, increasingly difficult to contact by phone, letter or in person, yet unforgiving of customer error and relentless in pursuit of small debts.’ (Chartered Institute of Taxation, HCTC, 2011, p. 32). Since processing and customer contact have been separated (a consequence of outsourcing) the decline has been marked. Call centres have become less responsive, the cost to the public of phone calls and waiting has risen, face-to-face contacts have been reduced, and HMRC’s move to on-line services has experienced problems and widespread criticism (e.g. too complex, lengthy, delayed resolution, security worries, mandated replacement rather than complementing of extant services). Overall, the HCTC (2011) concluded that the HRMC efficiency savings were partly responsible for the decline in service standards and that the ‘HRMC’s claim to have delivered £1.1 billion of savings ‘without overall negative impact on performance’ lacked credibility.’

In all these outcomes one can see a central tension. On the one hand, a public service becomes dependent on outsourcing suppliers to deliver automation, new IT, and processing services through centralization, standardization and cost displacement. This is with relatively inflexible, long-term contracts in situations of near monopolistic provision. On the other hand, there are serious adverse long-term public value impacts as a result of how HRMC has been managed and sourced.

What the many official reports neglect to focus on is that outsourcing has been used as an essential vehicle for cost reduction including through automation, headcount reduction (from 92,888 to 69,300 FTEs between 2005 and 2010) and on/off-line self-service i.e. shifting tax work onto citizens. Essentially outsourcing achieves cost savings – one of the major objectives of ASPIRE – through centralization, economies of scale and standardization. However, once these are embodied in contracts and technological systems, it becomes very difficult to deal with the adverse public value impacts that subsequently emerge. Let us pursue the analysis further.

6.2. Outsourcing: Comparison with private sector practice

ASPIRE is one of the 540 government Private Finance Initiatives contracts as at end of 2009 (Willcocks et al., 2011). Each of these contracts would face similar transition problems if switching suppliers, as ASPIRE did. Competition and transition in public sector outsourced contracts are therefore important issues when outsourcing options are considered as money saving solutions for the public sector. One of the ironies observable in the adopting of private sector outsourcing practices by the public sector has been the application of solutions actually considered outmoded or indifferent by leading private sector corporations. This has a long history (Willcocks and Harrow, 1992).

The weight of empirical studies suggest that the lowest risk route to using the market is to outsource useful commodities in conditions of low uncertainty (Willcocks and Lacity, 2006; Willcocks et al., 1995a,b). On the technical front, it is important to reduce risk by outsourcing discrete, as opposed to integrated systems, in situations of high technology maturity where the market could provide comparable service at a more efficient price (Willcocks et al., 2011). In practice, there will be trade-offs between these factors. The case reveals that the IR/HMRC did not follow these stipulations at all strongly. Moreover the risks to reduce risk by outsourcing discrete, as opposed to integrated systems, in situations of high technology maturity where the market could provide comparable service at a more efficient price (Willcocks et al., 2011). In practice, there will be trade-offs between these factors. The case reveals that the IR/HMRC did not follow these stipulations at all strongly. Moreover the risks to reduce risk by outsourcing discrete, as opposed to integrated systems, in situations of high technology maturity where the market could provide comparable service at a more efficient price (Willcocks et al., 2011). In practice, there will be trade-offs between these factors.

Additionally, looking across the available empirical studies, for public and private sector organizations alike, the following questions need to be answered positively if the outsourcing is to be effective (Lacity et al., 2009; Lacity and Willcocks, 2009):

- Is there an economic rationale? This may not be straightforward. In the public sector, for example, outsourcing can be a way of avoiding capital expenditure and large outlays on IT updating that can hit annual budgets hard. In the ASPIRE case there is an economic rationale. But cost savings have probably undermined the ability to bring in increased tax revenues. The private sector has seen several examples of major backsourcing. Sometimes the economic rationale for existing outsourcing deals has disappeared with mergers and acquisitions, for example at JP Morgan Chase (2004) and Bank of Scotland (2002). Often it has turned out that the work can be done cheaper internally than by providers, however rearranged.
In HMRC there have been a number of mergers – DSS, Customs and Excise and IR – but these have not reaped the full benefits of economies of scale that could be expected going forward. Indeed, they have created integration and ‘silo-isation’ issues that have been difficult to overcome.

- Is there a low rate of technological change relevant to the content and length of the contract? Undoubtedly the HMRC underestimated the rate of technological change across contract lifetime to 2017.
- Can we manage ownership issues around asset and people transfers? Infrastructure ownership and expertise did not always favour the HMRC.
- Is a suitable vendor available? In practice in ASPIRE there has been too limited a number, but it would require an expansion of internal management capability to manage more.
- Is there sufficient in-house management capability to make and deliver on the decision? In the HMRC this started eroding from 1993, in the face of ever more complex and increasing IT processing and development needs.
- Can we handle any significant human resource issues that will arise? None arose on transfer of IT staff but by 2011 the outsourcing was having adverse effects on internal staff morale, according to HCTC (2011) and respondents.
- Is there significant business change and uncertainty over the lifetime of the contract? This is difficult to predict and perhaps one reason for not signing long-term contracts. HMRC regularly experienced changes in tax and benefits legislation and procedures. Changes of government also increase the burden of new legislation. HMRC saw six governments from 1992 to 2012, three Conservative, and three Labour.
- Does the long term outcome deliver stakeholder value – in the public sector this means both value for the taxpayer and values that citizens’ desire? The evidence cited above suggests that public value is mixed and restricted for the first 6 years of ASPIRE.

Clearly, much also depends on a tailored detailed contract and adequate evaluation systems in place to assess baseline costs and service and monitor vendor performance (Willcocks et al., 1995a,b; Willcocks and Lacity, 2009).

These principles, if used to assess the ASPIRE outsourcing contract, demonstrate that the outsourcing decisions in such a large IT public sector project are difficult to justify. Nor are they sustainable from economic, welfare, and long-term value perspectives. In public sector outsourcing, governments around the world are increasingly engaging in relationships likely to be subject to contractual uncertainty. Contractual uncertainty is not necessarily a problem in itself. But it can be if the government is in an unfavourable power relation in dealings with its supplier(s) (Lonsdale, 2005). The ASPIRE case shows that public sector bodies are often seeking to manage outsourcing relationships from a position of weakness. Governments really do need to learn from better practice of how the developing IT services market can be leveraged to achieve public service advantage.

As the ASPIRE case shows, full outsourcing of the IT function and of hardware and software design, management, and maintenance, can be very risky. The 10 factors risk framework developed from research into practice by Willcocks et al. (1999) and used to assess the LISA public sector case is useful here. In ASPIRE six of the risks they cite materialized strongly – in particular failure to build and retain requisite in-house capabilities and skills, power asymmetries developing in favour of the vendor, difficulties in constructing and adapting deals in the face of technological change, (surprising) lack of maturity and experience of contracting for and managing ‘total’ outsourcing arrangements, unrealistic expectations with multiple objectives for outsourcing, poor sourcing and contracting for software/technical development.

Given the on-going state of flux in the public services, disciplined selective sourcing would be the lower risk approach. It would lead to a mixed economy and a contractual organization emerging, but one where the in-house capability on core IT functions was high. This was noticeably weak in the ASPIRE case – in negotiating the contracts, managing the suppliers, and maintaining internal domain expertise. ASPIRE also needed to maintain a capability to manage external suppliers, together with in-house capabilities to elicit and deliver on business/organizational requirements for IT, and maintain control of the organization’s IT destiny. From recent research, the latter would be delivered through retaining in-house capability to design technical architecture and arrive at IT strategy, together with the ability to solve IT problems that do not have standardized solutions (Contini and Cordella, 2007). Thus a fundamental building block of a public service contractual organization must be a high performing rather than a ‘residual’ IT function, a factor belatedly recognized by more recent House of Commons reviews (Willcocks et al., 2011).

If these principles can be put forward as ‘best practice’ for outsourcing, whether in the private and public sector, then the ASPIRE outsourcing record would suggest that private sector ‘best practice’ is not being adhered to. This, ironically, self-undermines successive governments’ faith in private sector providers’ inherently superior efficiency and management.

6.3. Outsourcing: Central government limits?

To further the analysis, Hood’s (1991, 1997) identifies transaction costs, public power, and “core competences” as factors that can limit the viability of the ‘contract state’ from a public value perspective:

- Transaction cost theory highlights that in situations of small numbers involved in bargaining, where there may well be high agent opportunism, the limits of long terms contracts may be exposed, and this may preclude the outsourcing of complex, non-standardized services and large public organization functions.
The public power argument grounds itself in the specific nature of some public service functions which, given the specific legal and political nature of their function (such as the army, and the police) cannot be enforced by any private sector organization. Only the State, and therefore a public administration, has the legal power to exercise these functions.

A third approach, the one based on the “core competences” argument in the corporate strategy literature, suggests that public sector organizations should not externalize elements of the business in which they want to excel.

If applied to the ASPIRE case, these principles help to explain why the project has not achieved many of the planned results. The ASPIRE contract builds on the existing IR infrastructure. As clearly indicated by the Committee of Public Accounts, EDS provided a very specific, if not unique set of resources to the IR. The infrastructure was so exceptional that no other supplier would have been able to provide it. According to transaction costs theory, to avoid lock-in situations the best way of using the market is in conditions of low uncertainty and low specificity (Williamson, 1979). In the case of IT this is the case for relatively simple, un-integrated systems. But not for complex and interdependent systems such as the infrastructure of the IR/HMRC. The result is that Accenture is still in control of part of the infrastructure. Moreover, Capgemini has employed the workforce which already serviced the contract with EDS. Once again, the complexity of the pre-existing contract between EDS and IR generated a lock-in which allowed the existing provider to opportunistically exploit the situation. Thus the ASPIRE case raises questions about the public value advantages of ‘total’ outsourcing of public sector IT infrastructures. The concept of the ‘contract state’ will not defacto apply to large IT outsourcing projects where the marketization of these contracts fails to serve the basic conditions under which market competition can provide advantages for the government.

From a “public power” viewpoint, little can be learned from private sector experiences. Preserving the notion of public service provision but seeking a radical reform of the manner in which this provision is undertaken, as proposed by some IT outsourcing advisors, can be a very difficult circle to square. In practice, as we see in the ASPIRE case and elsewhere (Bonia and Cordella, 2009; Cordella, 2007; Cordella and Willcocks, 2010), outsourcing can have profound, often adverse effects on the specific nature of public services and the truncated ‘public value’ delivered. But public service managers could have an important, indeed central, role to play in delivering and managing reforms based more on longer term, strengthened democracy, citizenship participation and community values. However, the defacto monopolistic situation of ASPIRE providers is already having more profound effects than that of economic power over the buyer. IT systems development can only be done through the resources, competences, and skills of those providers. This potentially reduces the windows of opportunities for IT development and strategies needed to produce the wider public value expected by citizens, and potentially pursued by governments.

From a ‘core competence’ viewpoint the government/HRMC has seriously diminished control over the IT architecture. Moreover, the lack of knowledge within retained IT management of the IT has partly arisen from the outsourcing of design, management and control of the IT infrastructure. If discussed from a public power perspective, this suggests that successive governments have failed to consider the impact of outsourcing on IR control over the background infrastructure. Nor have they weighed up the impact of this on limiting HRMC room for manoeuvre on public values subsequently – as one example in the area of privacy. From both a core competence and public value perspective, it is of paramount importance to maintain internal control of the organization’s IT destiny and of the IT trajectory which affects, shapes and contribute to defining the value of the delivered services (Cordella and Iannacci, 2010). This can only be delivered by retaining in-house capability to elicit desired public values, design technical architecture, design IT strategy, and solve non-standardized IT problems (Willcocks and Craig, 2007). A high performing public service retained organization is needed, rather than the ‘residual’ IT function so often found in central government organizations. The design of technical and strategic IT solutions have impact on the nature of the public services delivered and on the value these provide to the citizens. Internal capabilities are also needed to address public concerns and make decisions in the wider public interest. Examples of such issues are: the maintenance of inter-agency data and its compatibility, the availability of data in the light of potential IT suppliers competition and commercial confidentiality, data security issues affecting the citizen, and the possibility of developing inter-agency IT usage in synergistic ways.

6.4. Towards public value in outsourcing

The introduction of a richer notion of public value suggests a radical shift in outsourcing management practices, at least in the UK. We dramatize the shift in Table 1.

The public value paradigm provides a richer foundation for our argument than “core competences” theory. The concept of “core competences” is closely associated with private sector outcomes and relates to organizational abilities to perform better than competitors. Public value is defined not on the base of organizational performance and industry based indicators (who produces it), but by the collectivity who consumes it, that is, the citizens who judge a government’s deliverables. Public value, however, concerns multiple objectives, shifting over time. Only by maintaining control of the internal IT function does it become possible to overlook, steer, and correct the IT trajectory that shapes the nature and quality of the services provided.

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that are produced, mediated, or delivered by the IT architecture. In fact, internal control by the IT function is a prerequisite for influencing multiple political and public value outcomes generated by IT adoption in the public sector.

Why is this important? Some examples. The outsourcing of the HMRC infrastructure is clearly clashing with public concerns over privacy and identity protection (Whitley et al., 2007). The dependency on private suppliers constricts the future path of development of the architecture, data format, interoperability options. The Government opportunities for future changes in policies related to Inland Revenue and Customs and Excise are also narrowed. The technical characteristics of public sector IT policies have in fact long-lasting political effects (Cordella and Iannacci, 2010) which are “capable of triggering dynamics whose unintended and unanticipated consequences may nevertheless follow a contextual logic” (Barley, 1986), so creating a legacy which is part of the IT architecture and therefore of the policies associated with it.

From a public value viewpoint, this is a crucial aspect. The outsourcing of large IT projects is creating a legacy of private sector suppliers that limits the window of opportunities for future government reforms. In so doing, it reduces the ability of government to respond with adequate policies to the multiple objectives that constitute public value. The ASPIRE case shows that to change supplier is not only expensive, but also not a real option. The case very clearly shows that the drivers of traditional outsourcing decisions, as presented in Table 1, do not account for the long lasting implications these decisions can have on the ability of public organizations to create public value. Instead, by accounting for the multi-variegated dimensions that challenge the creation of public value, the public value column in Table 1, provides a different approach. As the case highlights, large public sector IT outsourcing contracts can lead to a residual IT function unable to engage in the challenges of delivering public values when citizens expectations, both social and political, change over time. In ASPIRE, at least so far, the destiny of the IT trajectory, and therefore of the definition of the values IT delivers, remains in the hands of private sector contractors.

### 7. Conclusion

We point to a less than thought through move to IT marketization and outsourcing throughout UK central government departments across the 1990–2012 period. The paper suggests how more disciplined uses of outsourcing, learning from private and public sector experiences alike, can assist the performance of government agencies. Major outsourcing and marketization initiatives also need to be rethought in the light of public value creation. We make this point in 2012 as the UK public sector looks to be gearing up to another major round of outsourcing, and even ‘cloud-sourcing,’ in order to manage down the cost of public services. Major IT operations and innovations, such as e-government, NHS and Identity policy, have generated legacies that do not make efficient use of market competition amongst providers to govern outsourcing contracts, and may well also have deleterious public value effects.

In all this, one must question the degree to which successive governments have actually been alerted to the strategic nature of IT and IT outsourcing, and the strategic and public value implications of their IT sourcing decisions. One major lesson is that public sector outsourcing decisions need to be taken holistically and pragmatically and with a view to the long term and not in a manner which is theory or dogma driven. Too often, it seems, governments have provided ‘strategic IT’ rhetoric, but have treated IT as not only just an administrative tool, but also as a ‘fire-and-forget missile’. More informed policy making, and follow through on IT decision-making is needed within central government itself. A key part of a way forward is also rebuilding internal Departmental skills in terms of IT policy development and management capability, the latter translating into the ability to elicit and deliver on public values rather than on business requirements or short term cost savings. Until public administration can achieve high performance in public value creation, it will be (and demonstrably has been) high risk to go down the route of large-scale IT outsourcing. The NPM rhetoric has not only favoured outsourcing but also the denigration of bureaucratic structures and values, despite the fact that bureaucracies in specific concrete forms can be the rich repository for values, skills, efficiency and effectiveness, where supported by a distinctive public management ethos, and suitably supportive ITs for public value creation (Du Gay, 2005). We conclude, therefore, that attentive consideration of the public value created by government action, a rebalancing of outsourcing and in-house sourcing, and a reassessment of how flexible ITs could be deployed, would seem to be a useful counterweight to the rhetoric of progress, modernization, transformative ITs and new public management that has shaped public management practices over the last 20 years.

On future research, this paper has responded to the call for more policy-orientated research that links, strategy, policy and IT (Jarvenpaa and Tiller, 1999). Hopefully we show the potential value from more such studies. The paper also complements...
more recent views and studies on the criticality of IT and of treating IT as a strategic resource (Galliers et al., 2012; Merali et al., 2012). Unusually, this paper contributes a study of strategic IT in central government contexts. Given the size of government spend on IT, more such studies are needed.

More critically, the ASPIRE case suggests that public sector ICT enabled reforms should be studied in the broader light of public value creation. Research needs to identify indicators for public value creation, but also to discuss whether, and under what conditions, public sector IT investments can create public value. These investments are shaped by contextual visions and values which can be conceived of as carriers of transient political interests (Barca and Cordella, 2006; Cordella and Iannacci, 2010). The choice and design of IT in public sectors could be studied by looking at the tension deriving from the mismatch between the transient values leading the design and adoption of specific IT architectures, and the long term outcomes of these investments. Research is needed to better understand if and whether IT investments in public sector can be malleable enough to deliver public value when shifts in collective political expectations occur.

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