FROM COMPETITION TO COLLABORATION IN PUBLIC SERVICE DELIVERY: A NEW AGENDA FOR RESEARCH

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Competition was one of the guiding threads of public policy under the Conservative Governments of the 1980s and 1990s. But whereas the Conservatives looked to the market primarily for the disciplining and economizing effects of competition, the Labour Government sees the market as a source of innovation and improvement. Following a brief description of these different perspectives, this paper identifies three avenues deserving of further inquiry: the costs and benefits of high trust inter-organizational relationships; the way in which partnerships combine the competencies of different sectors; and finally, the extent to which the new partnerships transform public service delivery.

INTRODUCTION

Competition was one of the guiding threads of public policy under the Conservative Governments of Margaret Thatcher and John Major. Public utilities, and other nationalized industries, were exposed to the full rigours of the market through privatization. Competition was introduced into other parts of the public sector, notably the health service and local government, through the creation of new internal markets and compulsory competitive tendering. The new Labour Government, elected in 1997, has emphasized the benefits of collaborative rather than competitive forms of procurement (Parker and Hartley 1997). While some commentators imply that the change in language is a cover for the continuation of the same policy by other means (Teisman and Klijn 2002), we argue that the turn to partnership marks an important departure in service delivery.

This paper does two main things in two sections. First, on the basis of an analysis of the policy statements and guidance emanating from Central Government and the Audit Commission, it highlights a significant change in the interpretation of the role of the market in public service delivery. Whereas the Conservative Government looked to the market primarily for the disciplining and economizing effects of competition, New Labour sees the market as a source of innovation and improvement. This important difference of perspective has led the current Government to promote a different type of relationship between the purchasers and providers of public service.
services. Understanding that new relationship, and this is our second point, requires commentators to embark on a new research agenda. We indicate three avenues deserving of further investigation: the costs and benefits of high trust interorganizational relationships; the way in which partnerships combine the competencies of different sectors; and finally, the extent to which the new partnerships transform services and deliver improvement.

FROM COMPETITION TO COLLABORATION

The history of Compulsory Competitive Tendering (CCT) in local government is well-documented (Rao and Young 1995; Walsh 1995; Walsh et al. 1997; Boyne 1998a; Choi 1999; Vincent-Jones 1999). Introduced in the 1980s, CCT required councils to procure services through competitive bidding processes. Internal service providers could only be awarded contracts if they submitted the lowest bids and met prescribed financial targets, typically a requirement to break even after allowing for a capital financing charge of 6 per cent. Initially applied to a relatively narrow set of functions, through the 1980s and 1990s, CCT was extended to most manual services and then to a number of white collar functions. Throughout this period the Government and the Audit Commission extolled the virtues of competition, vigorously promoting its use by local authorities. The Audit Commission declared that it supported ‘competition as a matter of principle’. Competitive tendering could, it argued, yield ‘savings of 20 per cent or more in contract price’ (Audit Commission 1989, p. 1). Local authority services should therefore ‘be subjected regularly to the test of the market place’ (Audit Commission 1989, p. 2).

By the mid-1990s, however, there was widespread dissatisfaction with CCT. Many local authorities, hostile to the regime from the outset, opposed both the principle of privatization and the coercive instruments designed to deliver it. Research suggested that the regime was proving costly to implement and often failed to deliver genuine competition. While the picture varied between different authorities, areas and services, contracts advertised between 1989 and 1992 received an average of just under one external bid per contest (Walsh and Davis 1993, p. 67). After more than a decade of CCT, internal providers were still winning 57 per cent of contracts in 1996/7 and, because they won a disproportionately large share of the highest value contracts, they held onto 71 per cent of the estimated £2.4 billion that was subjected to contracting at that time (Local Government Management Board – LGMB 1997).

The theory suggested that competitive supply would prove more efficient than monopoly provision, except where the downward pressure on costs was neutralized, or reversed, by high transaction costs. Walsh and Davis found that while CCT had led to an overall reduction in service costs of 6.5 per cent, these gains were partially offset by the cost of preparing for tendering which amounted to 7.5 per cent of the first year’s costs (1993, pp. 142–5). Some of these costs were one-offs associated with drawing up initial
specifications, but it was estimated that 40 per cent would be incurred each time contracts were re-let (1993, p. 145).

Critics claimed that the costs associated with monitoring contract compliance were high because of the way in which CCT engendered short-term, low-trust relationships between principals and agents. Having won the work, contractors had good reason to minimize their efforts consistent with compliance. Client officers, however, continued to police their specifications despite the fact that budgets had often been pared to the bone (Walsh et al. 1997; Coulson 1998; Davis and Walker 1999). Transaction costs were further raised by the time and resources invested by some authorities which were determined to manipulate the regulations and bidding processes in order to avoid having to outsource services (Boyne 1998; Choi 1999).

The new Labour administration, elected in 1997, concluded that, while CCT had ‘made the costs of services more transparent’, the ‘detailed prescription of the form and timing of competition led to unimaginative tendering, and often frustrated rather than enhanced real competition’ (Department for Environment, Transport and the Regions – DETR 1998, p. 56). The Government therefore withdrew CCT, replacing it with the ‘Best Value’ regime in April 2000 (Martin 2000). Best Value required local authorities to review their functions by embracing ‘innovative approaches to commissioning, procuring, and providing services which genuinely challenge existing ways of doing things’ (Office of the Deputy Prime Minister – ODPM 2003a, p. 9).

Although the introduction of Best Value indicated that the new Government saw merit in the private sector delivery of public services, it was also clear that New Labour saw the market in rather different terms to their predecessors. The 1998 White Paper explained that while competition was ‘an essential management tool’ the detail of the new Best Value regime ‘should not be interpreted as a requirement to put everything out to tender’ (DETR 1998, p. 57). Instead, the Government wanted to ‘create the conditions under which there is likely to be greater interest from the private and voluntary sectors in working with local government’ (DETR 1998, p. 57). The draft guidance to the Best Value regime issued the following year went on to explain that, in contrast to CCT, the Government would ‘not therefore seek to prescribe a uniform approach’ (DETR 1999a, p. 1). Rather, it wanted authorities to implement the regime ‘imaginatively in the spirit with which it has been designed’ (DETR 1999a, p. 3).

As early as 1998 the Prime Minister outlined a vision of collaboration rather than competition, explaining that: ‘It is in partnership with others – public agencies, private companies, community groups and voluntary organisations – that local government’s future lies’ (Blair 1998, p. 13). The statutory guidance to the Best Value regime made 147 references to partnership working compared to just 18 mentions of competition (DETR 1999b).

The term ‘partnership’ is used extremely loosely in current policy discourse. Lowndes and Skelcher identify three different rationales (1998,
First, by drawing on the contributions of different agencies according to their specific resources and competencies, Government’s hope that partnership will deliver goals more effectively and efficiently – as Lowndes and Skelcher put it, they will deliver ‘more with less’. Second, by encouraging network like contacts between public agencies, partnership promises to plug holes in statutory mandates and tackle ‘wicked issues’ through joined up governance. Third, by including different groups and sectors in policy- and strategy-making, the new partnerships promise more inclusive forms of government than can be realized through the traditional institutions of representative democracy (see also Sullivan and Skelcher 2003; Lowndes and Sullivan 2004). Different policies give different weights to the three rationales. However, it is the partnerships designed to bring together competencies from different sectors – in the interests of service improvement – which are the focus of this paper.

Mindful of the limitations of legislation and guidance, the government has sought to promote its vision of intersectoral collaboration on a number of different fronts. Following the Byatt Report into local authority procurement (Byatt 2001), ODPM established a ‘Strategic Partnering Taskforce’ to encourage councils to develop new public-private partnerships, ‘as one of the principal options open to authorities in achieving step-changes in performance’ (DETR 2001, p. 9). The taskforce promoted partnership as ‘a particularly powerful tool for improving performance’ (ODPM 2003b). In 2003, the Government launched a ‘national strategy’ for local government procurement setting out the ways in which they expect ‘strategic partnering’ to transform services (ODPM 2003c). The national strategy sets aside £7 million to establish national centres of excellence in procurement while resources from the £27 million ‘capacity building fund’ are available to finance initiatives designed to develop the procurement and project management skills the Government takes to be at the heart of good partnership working (ODPM 2003d).

As if to remove any lingering doubts about their intentions, Ministers issued new guidance to the Best Value regime in 2003 which unequivocally rejects traditional forms of contracting in favour of the new partnership approach. Criticizing authorities for ‘routinely market-testing services without considering how services could and should be improved’, the guidance explains that:

such market testing is unlikely to meet the best value test: it reduces effective challenge, potentially distorts the market for service provision; imposes costs on both authorities and other potential suppliers that are difficult to justify and importantly, fails to assure service users that they are receiving the quality of service that they might reasonably expect. (ODPM 2003a, p. 16)

In a remarkable turnaround given its earlier role in championing competition, the Audit Commission now advises that:
market testing remains an option but should only be undertaken, however, where it is not possible to choose between internal and external suppliers by any other means...where the investment required to provide a service is small in relation to the size of the contract, and where the product specification is likely to remain unchanged over the contract life. (Audit Commission 2002, p. 32)

The Audit Commission has adjusted its inspection and audit routines accordingly so that inspectors are no longer concerned with whether individual services have been subjected to competition, judging instead whether councils have ‘robust and comprehensive’ systems for the appraisal of procurement options and the capacity for effective partnership working (Audit Commission 2002, p. 13).

Of course reform ‘rarely satisfies the prior intentions of those who initiate it’ (March and Olsen 1989, p. 65). Some authorities have used the greater latitude afforded by Best Value to suspend or indeed reverse their engagement with the market, while others, entrenched in the routines established by CCT, have continued to market test their blue-collar services (Davis et al. 2001). The number of public-private partnerships launched in the recent past does however suggest that the push for partnership is having a very real effect on local authority procurement.

A NEW AGENDA FOR RESEARCH

The rhetorical shift from competitive to collaborative forms of procurement opens up an important new agenda for research. The case for competition stood on the theoretical foundations of principal-agent theory and transaction cost economics. The theory suggested that contracting would be at its most successful where principals could draw up exact specifications, measure outputs and replace inadequate suppliers (Donahue 1989). The new approach to procurement does not fit these theoretical foundations. The collaborative model rests on three propositions which taken together suggest a new avenue for research. Empirical tests of these propositions will allow us to determine whether collaboration really is different to competition and, if it is, whether it delivers the benefits promised by its advocates.

**Proposition 1: by encouraging trust, partnership reduces conflict in relational exchange**

In place of control premised on short-lived contracts and dense specifications, the collaborative model requires partners to cultivate long-term, high-trust relationships, to understand each other’s goals and to share information (Department of Transport, Local Government and the Regions – DTLR 2001, Ch. 4). The theory describes trust as easing negotiations and reducing conflict in relational exchange (Zaheer et al. 1998, p. 153; Klijn and Teisman 2000, p. 92; Axelrod 1984). A burgeoning literature advises partnerships on the mechanics of these new forms of collaboration. Huxham and Vangen,
pioneers in the field, identify the key ingredients as: common aims, compromise, communication, democracy, equality, trust and determination (1996).

We already know however that the management of trust is problematic. The literature points to very different types of trust, while warning of the considerable difficulties of developing and sustaining trust when and where it is needed (Zaheer et al. 1998; Kirkpatrick 1999). Certainly, the armies of legal and financial advisers retained by prospective partners imply that there might be a continuing reliance on some of the traditional instruments of control.

Even where there is trust, it is not inevitable that it will have the intended effects. An important sub-section of the literature points to forbidding dysfunctionality. Klijn and Teisman claim that while trust provides the space for creative solutions it ‘is vulnerable to misrepresentation, asymmetric information and opportunism’ (2000, p. 92). Excessive trust can militate against the positive effects of collaboration, since the need as Jeffries and Reed describe it, ‘to push for the best solution possible is reduced’. Partners who trust each other too much ‘will be prone to proposing and accepting noncontentious deals that do not jeopardize their friendship’ (Jeffries and Reed 2000, p. 877). The downside to excessive trust might be just as steep as the downside of excessive competition and control (Davis and Walker 1999).

Researchers need therefore to address two main questions: first, whether the new service delivery partnerships realize high-trust relationships and, second, whether trust reduces relational conflict in the way intended and at what cost. Both questions are likely to be best answered through comparative case studies of recently established public-private partnerships and traditional in-house service providers.

**Proposition 2: partnership unlocks the distinctive competencies of other sectors**

In the competitive model, change was driven by contestability. The threat of new entrants to the marketplace forced service providers to be more creative in their search for economy. The evidence suggested that it didn’t actually matter who won the contract, as long as they were exposed to the disciplining effect of competing for the work (Audit Commission 1989). Contestability assumes a much less central role in the partnership model. In its place we suggest that researchers need to consider the competencies of different providers. According to the Government, ‘strategic partnering can provide access to new skills, resources and ways of doing things and allow for innovation’ (DETR 2001, p. 3). By working with business, local authorities can, it claims, access new funds for capital investment; benefit from economies of scale; bring in managerial, technical or professional expertise; develop more flexible approaches to service provision; and share risk (DTLR 2001; Audit Commission 2002). The case for collaboration, in short, rests on claims that private and voluntary sector organizations have competencies, or resources, which are critical to service improvement.
The management literature provides some support for this picture of dispersed and sectorally distinctive competencies. Osborne and Gaebler claim that the private sector ‘tends to be better at performing economic tasks, innovating, replicating successful experiments, adapting to rapid change, abandoning unsuccessful or obsolete activities and performing complex or technical tasks’ (Osborne and Gaebler 1992, pp. 45–6). In a similar vein, Cohen argues that ‘certain functions are most efficiently and effectively performed by the private sector, others by the nonprofit sector, and others by government’ (emphasis in original, 2001, p. 434). He explains that: ‘Understanding these sectoral distinctions is an essential step in developing a framework for deciding when and where to privatize’ (Cohen 2001, p. 434). These claims, however, sit uncomfortably with evidence from a range of recent studies which suggests that the differences between the public and private sectors – in terms of environment, organizational structure, goals and values – are not clear cut and are becoming increasingly blurred (Antonsen and Jorgensen 1997; Brereton and Temple 1999; Nutt 2000; Boyne 2002).

Researchers need to investigate whether the public, private and voluntary sectors do indeed command distinctive competencies and whether partnership is an effective vehicle for their combination. This might best be done by mapping the exchange of competencies in the new partnerships then comparing these patterns to other forms of service delivery whether old-style contracting or in-house delivery.

**Proposition 3: partnership delivers a transformational approach to service improvement**

In the competitive model, service improvement was largely understood in terms of increased efficiency and decreased cost (Boyne 1998). Typically, the evaluations of competitive tendering focused on changes in contract prices, while assuming that the standard of services was unchanged by exposure to the market (Boyne 1998). The collaborative approach embraces a broader definition of service improvement than CCT ever did. Although still concerned with value-for-money, the new partnerships are intended to deliver the fundamental transformation of service design and delivery. The 1998 White Paper explained that Best Value was designed to ‘secure improvements in quality as well as in cost’ (DETR 1998, p. 57). The statutory guidance refined the message further explaining that the ‘central purpose’ of the partnership approach is to ‘make a real and positive difference to the services which local people receive’ (DETR 1999, p. 4). The Best Value regime and comprehensive performance assessments have therefore focused primarily on the capacity of authorities to improve service standards rather than to drive down costs. While the Government’s ‘Efficiency Review’ (HM Treasury 2004), signalled a continuing interest in economy and efficiency, there is no sign that this will lead to any let up in the pressure on providers to improve the quality of services.
The other distinguishing feature of the current policy agenda is that it goes much wider than CCT. It is concerned not only with improving individual services on a case-by-case basis. The Government’s underlying ambition is to transform supply markets as well as individual services. Those partnerships which raise standards and reduce costs are expected to expand their operations into other councils, thereby gaining additional economies of scale. In due course, the new partnerships should transform whole service sectors on a regional and national basis.

Evaluating the transformation agenda is at once straightforward and complex. Changes in service delivery and supply markets are relatively easy to identify. Longitudinal case studies could be used to track the degree and significance of organizational change introduced by the new partnerships and the fortunes of the new public service companies in terms of new contracts and regional concentration. Determining whether or not transformation delivers improvement is more difficult.

On the positive side, we now have access to a range of different measures: (1) user satisfaction scores; (2) Best Value performance indicators; (3) a variety of inspection reports; and (4) a growing database of councillor and officer perceptions (ODPM 2004). It should therefore be possible to compare performance change, as measured by these indicators, between services delivered through public-private partnerships and matched pairs of similar services in comparable authorities that continue to use traditional, in-house, providers. Whether these indicators, either singularly or in aggregate, give a reliable measure of improvement is of course a different matter (Boyne 2003).

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REFERENCES


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