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# Strategy, Contracts and Control in Government IT Work

Steven Vincent and Irena Grugulis

## Introduction.

This chapter develops and applies an heuristic framework to analyse the structure of contractual forms of organising and the ways that these condition work. The framework is informed by sociological, economic, institutional and labour process theories about work. From a sociological perspective, social structures are understood in terms of the balance of power existing between different social groups. Jessop (1996) outlines a 'strategic-relational' approach, in which the location of groups affects the strategies that they may adopt in pursuit of sectional interests. From this perspective the reproduction of social processes is affected by the 'structural constraints' operating within specific localities. For the purposes of this chapter institutional, labour process and economic theories are used to inform our understanding of the structural constraints that affect the strategies groups may pursue (also see Hyman, 1986; Ackroyd, 2002). This is not to deny the reflexivity of the agents involved, or that they can and do transform their social structures through their actions, but that action is contingent on location. Archer (1995) draws a useful distinction between 'corporate' agents and 'primary' agents. The former group find themselves in a structural location where they are able to pursue collective interests and the latter, whilst an identifiable group, are relatively powerless. To a greater extent all those involved in productive organisations are corporate agents (Ackroyd, 2002), whether managers, employees, shareholders or governmental policy makers.

This orientation to analysis is used to approach a ten-year contract, signed in the mid 1990s by FutureTech<sup>1</sup>. FutureTech is one of a handful of computing specialists that oligopolise the market for managing large IT contracts. The contract was for the delivery of IT services to Govco, a government department that outsourced its Information Technology Office (ITO). FutureTech, a US based multinational, had expanded rapidly over the previous decade by taking over computer work from large firms and government departments. This particular contract specified a 50% reduction in the unit cost for IT systems development over the first five years, which was achieved and hailed as a success. However, this evidence identifies significant problems with both the accountability of managerial employees at the centre of the governance structure and in the employment policies and practices adopted before and after the signing of the contract. There was evidence of poorly performing new IT systems, increased tightness in the control of IT workers at various levels and a question mark over the organisation's ability to reproduce its skill base. This chapter argues that these problems were, in large part, attributable to the way that contracts were drawn-up and regulated.

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<sup>1</sup> As far as possible the names of organisations, job titles and personnel have been made anonymous.

The chapter is divided into several sections. Firstly, we delve further into economic, institutional and labour process theories to consider the particular, capitalist structures that affect the agencies involved in contractual forms of organising, as well as the nature of government contracting. The second section goes on to explore the case study itself. The contractual arrangements between Govco and Futuretech are compared to earlier in-house IT operations and consideration is given to the way that this contract was managed and the forces that influenced managers' choices. The chapter also considers the effect that outsourcing had on the organisation's ability to produce and reproduce knowledge.

### **Inter-organisational governance and the control of work:**

From the perspective of transaction cost economics (Williamson, 1975, 1985) the more complex and uncertain the thing to be contracted for, and IT services are highly complex and uncertain, the less the purchaser can control the outcome. Exact contractual specification is impossible. This means that the purchaser can be vulnerable to opportunistic behaviour, as managers may be tempted to cut costs and make profits at the expense of quality in the service delivered. It is prudent, therefore, to contract for goods and services where outcomes can be easily specified in advance, typically low skilled and peripheral work. Opportunistic behaviour is likely to stop short of compromising the viability of the other organisation in the relationship, as this will not be to its economic advantage (Krepps, 1990; Dore, 1996). It is possible for non-optimal and monopsonistic economic structures to exist, provided that dominant actors are happy for events to continue. Also, whilst there may be the potential for opportunistic behaviour on one side of a relationship, it cannot be assumed that such behaviour will occur. The purchaser may either regulate the supplier, at extra cost, or trust that the supplier is acting in their interests.

In this regard, institutional theorists lead us to consider the forms of regulation and trust that exist where any transaction is embedded. Sako (1992) distinguishes between arms-length contractual relations (ACR), such as that associated with low skilled outsourcing, and obligational relational contracting (OCR), where inter-organisational managers share information to co-ordinate the delivery of more complex services. She suggests that Britain's relatively weak regulatory context pushes relations towards the ACR type as there are few structures encouraging co-operative forms of inter-firm behaviour. Likewise, Lane and Bachmann (1997) compare the institutional context of Germany and Britain and suggest that strong forms of regulation through, *inter-alia*, trade associations, vocational training policies and industrial relations procedures encourage 'systems trust' and more co-operative forms of behaviour in Germany as outcomes are more predictable. This is the central conundrum of contracting in the UK, that while it may be more 'economic' to contract for certain goods and services, it is also more difficult for the most efficient outcome to be achieved. Trust cannot be assumed and needs to be developed through local management relations between organisations (Bachmann, 1999).

However, the problem is context specific as in the UK where strong regulations exist, such as the chemicals industry, OCR type relationships are more likely to be effective (Marchington and Vincent, 2001). The question is whether or not the forms of regulation that exist in government contracting are appropriate for the development of long term, trusting inter-organisational relations of the OCR type.

The rise of 'government by contract' (Camaghan & Bracewell-Milnes, 1993) or the 'contract state' (Kirkpatrick & Martinez Lucio, 1996) has altered public services provision so that many are delivered through contractual relations rather than hierarchical authority structures (Deakin & Walsh, 1996). This shift was originally inspired by the neo-liberal ideology of the Conservative government (1979-1997) that saw markets as the most effective distributors of goods and services. The logic being that, since different markets will enjoy different advantages it should be possible (given appropriately specified contracts) to harness these for the benefit of the public. The Labour administration that has been in place since 1997 has done little to switch emphasis. Under the Conservatives various interventions, including the Local Government Act (1988) and the 'Competing for Quality' White Paper ensured that many activities previously undertaken by the public sector were transferred to private sector firms. Labour interventions, such as Private Finance Initiatives, have sought to secure private sector investment in public infrastructure; effectively transferring the responsibility for short-term costs which are often politically sensitive. This process has transferred many 'peripheral services' to private sector contractors (see Grimshaw et al, 2002) and continues, despite research questioning the cost effectiveness of government contracts (Boyne, 1998). It may be that political expediency, coupled with blind faith in the efficiency of market provision (Gamble, 1994) are rather more influential in decisions to outsource infrastructure developments and services than policymakers would like us to believe.

Most government outsourcing is of low skilled work (Boyne, 1998; Rainbird and Munro, 2003). In these contracts, outsourcing often makes cost savings through the deterioration of staff terms and condition, as in McIntosh and Broderick's (1996) account of refuse collectors. Attempts to mitigate this through TUPE have had a limited effect (Cooke et al. 2000). More generally, the fact that many savings are the result of deteriorating terms and conditions rather than private sector 'expertise' is a cause for concern.

While unskilled work may be measured in terms of cost, the legitimation for outsourcing skilled work is more nuanced with calls for a shift from hierarchical structures to 'quasi' market control mechanisms (Bartlett and LeGrand, 1993; Bartlett, et al, 1994; Challis, et al, 1994). Some suggest that it is possible to create a new hybrid sector, incorporating the public values of quality service and accountability with private sector efficiencies (Brereton and Temple, 1999). However, mixed forms may erode the public service ethos (Corby and White, 1999); lack transparency and accountability, particularly where difficulties in verifying 'quality' are apparent (Grimshaw, et al, 2001); and may introduce rigidity in the form of contractual (mis)specifications and repetitions double counting,

due to the increased need to demonstrate efficiency (Grimshaw et al, 2002; Grugulis et al, 2003).

As suggested in the introduction, a focus on the employment relationships of those that work in and control these organisational forms would seem a useful starting-point for an analysis of outcomes. Transaction cost economics (Williamson, 1975, 1985; Krepps, 1990) and more institutional perspectives (Sako, 1992; Bachmann, 1999) suggest that behaviour is contingent on the nature of the economic context within which it is situated. For example, for Williamson the comparatively most efficient or transaction cost minimising form of behaviour will always prevail. Institutionalists, on the other hand, study the ways that specific social and political contexts shape behaviour towards predictable outcomes. Both may be accused of neglecting the capacity for agency (see Ackroyd, 2002).

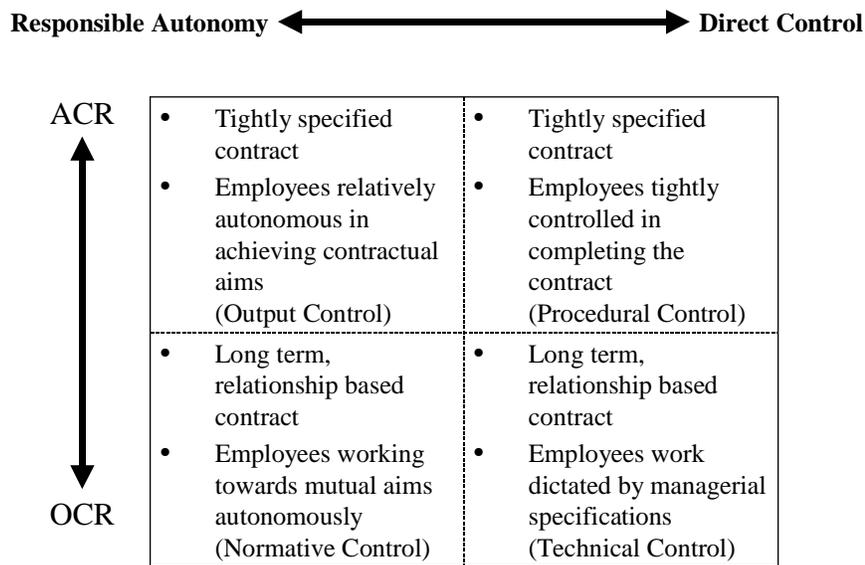
Social scientists from a range of traditions including managerial strategists (Boxall, 1996; Boxall and Purcell, 2000), labour process (Braverman, 1974; Thompson and Smith 2001; Thompson and McHugh, 2002) and critical social theorists (Friedman, 1977; Edwards, 1979; Ackroyd and Thompson, 1999) tend to concentrate on how the control of work is driven by managers and employees acting and reacting to specific organisational contexts. In these accounts agency and management actions cannot be simply 'read off' from either organisational structure or market conditions. Managers make policy choices as to how best to deploy the resources available to them and as these choices may conflict with the wishes of other groups, organisations are political and contested arenas.

Here, the way that organisations control employees is central to understanding organisational choices and strategies. Friedman (1977) captures these tensions in his distinction between *direct control*, in which work is strictly prescribed by managers, and *responsible autonomy*, in which the employee is afforded control within a given jurisdiction. For Friedman, peripheral groups tend to be controlled directly and treated on the basis of their skills. Here, 'centre-periphery' relationships, (such as outsourcing), are not unproblematic but arise 'out of struggle, out of a *combination* of differential workers and managerial strategies' (pp.116-117, own emphasis).

These tensions apply equally to inter-organisational arrangements. Most accounts of collaboration focus on relative forms of advantage. Given, for example, the competition for key knowledge workers that occurs in particular sectors, even well funded organisations may not be able to afford to finance expensive specialist employees indefinitely. Particularly since Boxall and Steeneveld's (1999) study of engineering consultancies suggests that a critical mass of personnel, or 'table stakes', is required to function as an effective organisational unit. Organisations that cannot (or do not wish to) meet these table stakes may think that the potential costs and rigidities of transacting in the (external) product market outweigh the costs and rigidities of transacting in the (internal) labour market.

In order to analyse the governance of inter-organisational relations and employment outcomes it may be helpful to combine the notions of direct control and responsible autonomy with ACR/OCR (see figure 1). Here, contractual specifications and the control of work provide four categories: output control, procedural control, normative control and technical control (see also Lepak and Snell, 1999). Such a device is, inevitably, a simplification. In reality, jobs may have autonomy in some areas but be subjected to control in others, and different groups of workers may have their work controlled differently under the same contract. Likewise, obligational and transactional elements can co-exist (Sawyer and Walker, 1992; Rubery et al, 2003). However, this framework may provide a useful starting point for a strategic-relational analysis into the effect of different contractual structures on employment relationship outcomes.

**Figure 1: Contractual Relations and Employee Control**



**Introducing the case study: IT work at Govco**

The research presented here is taken from a wider project on *Changing Organisational Forms and Organisational Performance*, funded by the ESRC as part of their Future of Work programme. Work was conducted into eight case study companies between 1999 and 2002. One case study, ‘FutureTech’, is taken from the wider project and explored in detail here. In total, 14 interviews were conducted with senior managers involved with contract management in FutureTech and Govco (the department that outsourced its IT provision) as well as 33 with line managers and programmers in FutureTech. The data was collected over two years, and was combined with access to a large collection of government reports, internal documents and observations of the way that specific

contracts for computing services operated. In addition, employees were also asked to describe and reflect on their work histories and experiences, providing an elementary longitudinal profile.

Previously all IT work had been undertaken in-house and the ITO, which employed over 2250 staff, had an annual budget of £250 million and considered itself to be in the vanguard of governmental IT systems development. However, the task of servicing 30 Govco divisions, which often competed for resources when few outside the ITO possessed expertise in computing, was fraught. One senior manager Colin, who still worked in IT management for Govco, explained that:

Users with the most vague idea about what they wanted would come along to the [ITO] and we'd sit down with them, and we wouldn't charge for the service, and we would understand what their objectives were, and we would take that to programming, and we would test it for them, and we would roll it out and hold their hands for the first few months. So, they didn't really understand what was involved in developing the product

The lack of specialist knowledge outside the ITO was reflected in the lack of control structures imposed on it. There was no comprehensive audit of systems and capabilities. Nor was the overall performance of the ITO systematically measured. Control of resources was left to local project managers and technical experts who used their own judgement as to the relative price and effectiveness of the technologies available. As David, one FutureTech senior technical expert said:

in the old ITO it was almost a techies bunch. Managing direct relationships with vendors was "Okay, what's the latest hot stuff? We'll have some of that, oh don't worry about that", and the business was done. There was a certain interplay of value for money there. I mean, people weren't stupid

Strategy was driven by the technologies available and local knowledge about how they might be applied. This kept the control of IT development in the hands of the ITO, leading to widespread resentment from other divisional managers and accusations of poor accountability, with many projects not held to timescale or budget. According to two independent consultants' reports the ITO was 25% less efficient than equivalent private sector organisations and could operate with up to 880 fewer staff. Such claims should be treated with caution, as the development of unique IT systems is notoriously difficult to price. Despite years of negotiations Govco and FutureTech could not agree on a valid reference point for benchmarking the performance and relative value of the work done. However, when they were issued, these reports were highly influential and, coupled with the 'Competing for Quality' White Paper, it was these that persuaded Govco to outsource its IT services. Following a tendering process, the contract was awarded to FutureTech and a new contractual discipline brought in to control the work of managers.

The new organisational structure was intended to be both more transparent and more accountable and, to a certain extent, it succeeded. In order to manage the new inter-firm relationship, as well as the 1700 staff who had transferred across from Govco, an elaborate 'partnership' arrangement was devised. The structure included around 200 managers from the Govco side, organised within its Business Operations Division, and an equivalent number of managers from Futuretech, organised within a newly formed Govco Contract Division. The Govco side of the partnership was answerable to the Govco board, and other governmental institutions, such as the National Audit Office, which regularly reviewed the accounts. The FutureTech side was accountable to Govco and the Board of FutureTech and the respective heads of each organisation met every year to discuss the performance of the contract. As part of the transfer, FutureTech was also required to recognise a trade union for bargaining purposes. This was agreed, but FutureTech management did not extend bargaining privileges to employees hired after the initial transfer and the union could claim little involvement with the day-to-day running of the contract:

You are not obliged to talk to the unions about your business plan. They used to put it on the agenda and I used to refuse to talk about it. He couldn't understand why. I told him in private that I wasn't prepared to talk about strategic direction of the business, to be blunt, in front of people who were only interested in tea breaks and goodness knows what. (Frank, Senior Manager: FutureTech)

In practice, the senior managers, who liased between FutureTech and Govco, enjoyed a great deal of influence in ensuring the success of the relationship. A contractual specification was needed for each piece of work and the managers at the centre of the 'partnership' were responsible for coordinating, defining, pricing and monitoring these. Contracts were priced on the basis of a complex system of the number of 'function points' (an industry standard measurement of computer code) that needed to be developed. This was then used by FutureTech to assess the 'man hours' (their term) required to do a particular job. In practice specifications often had a considerable amount of latitude; timescales were almost always set, but the exact requirements for completing a contract might not be known in advance. Nor were all function points equal in terms of cost and this was acknowledged and allowed for in the system. When FutureTech delivered function points cheaply they were expected, retrospectively, to accept a lower price. When scarce skills were required, these had to be purchased separately at a price that reflected their 'market' value.

Many of the contractual mechanisms that existed to assist the smooth running of the 'partnership' acknowledged the fallibility of the function point system and were designed, not to improve the system, but to make efficiency improvements mutually beneficial. These included: open access to FutureTech accounts, a practice rare in outsourcing which also made it possible to negotiate prices after contracts had started; a profit sharing arrangement, should FutureTech make more than a given amount in any financial year resources would be given back to the Business Services Division (typically

to be invested in research); and financial disincentives to failure, such as reduced bonus payments for FutureTech in the event of an overspend and increased financial costs for Govco when contracts were poorly specified. Liaison took the form of a hierarchy of meetings between the two organisations, with problems that could not be resolved locally referred up the line. Contracts that were likely to fail were to be referred to the most senior management, although this was said to be rare. Since contractual specifications needed to be both flexible and precise and since prices could be negotiated retrospectively negotiations were often complex with both sides engaged in 'horse trading'.

One of the main strengths of the 'partnership' was not the system of governance but the similarities between the senior management from both organisations and their shared interest in making the project a success. Both sides were dominated by middle aged, white men, all driven by the same set of efficiency related goals. Colin also said with pride:

I pull [FutureTech] into meetings with me to other customers and they cannot tell the difference. They can't say "well you're the [FutureTech] bloke and you're the [Govco] bloke". We talk the same language, we say the same things, we are motivated by the same goals, we both want to be successful

Both sides stood to benefit from profit sharing. When this occurred, the Govco Account Division could show the FutureTech board that they had achieved a reasonable profit and the Business Services Division could show the Govco board that they were delivering results. Such a 'partnership' structure may drive the demonstration of competence and efficiency over and above that which is really present (see also Grimshaw et al, 2001). The scope provided in contractual specifications could, as one senior industry respondent conceded, lead to both sides colluding in order to demonstrate shared achievements.

With a few notable exceptions, such as the Internet technologies, the vast majority of contracts have been delivered within timescale and budget, and a profit share has been returned to the Business Services Division on every year of the contract. These achievements were presented as marks of success, suggesting that the partnership has more successfully controlled both the work of the programmers and the deployment of resources. But it is also possible that generous specifications made contracts easier to deliver and much of the 50% increase in efficiency may be attributable to more general advancements in the 'tools' used to do the job, technologically it is possible to do more with less. One FutureTech manager described the organisation's 'core competence' as 'the ability to predict the future price of developing computer code'.

## **Contractual Structures and Employment Relationships**

Outsourcing had significant implications for the way that programmers' work was controlled. As noted above, when work was undertaken internally programmers had a considerable amount of autonomy. Once the department had been contracted out the programmers became subject to 'scopes of work', which specified the times allocated to projects. Managers too were more constrained, in the sense that their careers depended to a greater extent on their ability to demonstrate that money being spent had been accounted for. David said:

I think that what happened when [FutureTech] took over we became more technically constrained because we had to start taking notice of the fact that this cost money, therefore we had to justify it. We became more commercially competent but we didn't become more technologically aware because in the past we ran our own evaluations without interference. When [FutureTech] came on board there was another angle of evaluation to be taken. It almost seemed as though another echelon of management activities had to be gone through to manage those types of evaluation and relationship things (Technical Manager: FutureTech)

Despite these changes in governance, there were broad continuities in working practices that were conditioned by the relationship between the IT systems and the organisation. IT systems were, and remain, central to Govco's organisational performance and its cost reduction strategy. Govco's work is to administrate high volumes of unique and interrelated transactions. A task that is complicated by regular government policy changes that had to be catered for when designing IT systems. This means that the IT systems are highly complex, idiosyncratic and interconnected. When new functions are developed, they must be integrated to existing systems (that are often written in different computer languages) to ensure that the system works as a whole. This requires the combination of a variety of different types of knowledge: knowledge of new technologies; knowledge of existing IT systems (so that new technologies could be adapted to them); specific knowledge of the wider Govco operation and its relationship with central government; and, knowledge of the administrative structure of IT delivery. Work was organised on a project or programme basis with large pieces of development often running simultaneously, so that existing systems were maintained and enhanced and new IT functions developed. Some consistency in practices was retained after the transfer of undertakings as the project management structure of the work was dictated by a predictable bi-annual flow of government policy changes.

Under the ITO programmers had been in a comparatively favourable position. Terms and conditions were subject to collective bargaining and there was a complex status-based pay grading arrangement related to both hierarchical position and length of service, with additional increments awarded individually on the basis of performance appraisal. There was also a flexi-time arrangement and overtime pay. Within the ITO these

arrangements were complicated by recruitment difficulties and the labour market power IT workers could exercise. In practice this meant that promotion was rapid since it was the only means of raising pay, a practice resented by managers elsewhere in the organisation.

The ITO tended to recruit internally when they could. This ensured that employees already had a great deal of local knowledge of Govco practices and systems before being trained in the technology. Despite this, there were significant skill shortages and these were compounded by financial austerities, which included a general embargo on recruitment. Since contractors were not classed as 'employees' in the accounts the cutbacks resulted in increasing numbers of costly consultancy workers, occasionally in preference to updating employees' skills and promoting them (see also Harvey and Kanwal, 2000). Some workers, with highly specialised skills, were purchased for short periods to develop new technologies. Others were ex-Govco employees who had resigned to sell their work back to Govco at a higher price. The cost of contracted labour was reported as four times the price of equivalent internal supply. Unsurprisingly perhaps some contractors, who bragged about their pay, were described as having poor people management skills and a 'cavalier attitude'. Outsourcing the ITO was first considered in 1991, after expenditure on contractors quadrupled from around £2 million to over £8 million during the 1980s.

After the transfer, FutureTech was able to end the relationships with these consultancy workers, either by offering them permanent employment contracts or waiting for the existing agreements to expire. While this ended the relative financial autonomy and freedom from local constraints that these workers enjoyed, it may have alleviated some of the ITO's problems. As Geoff, one transferred manager said:

People liked being managed by [FutureTech] people, [they] tended to be more professional ... everyone was treated with respect for the work they did.

However, the removal of contractors did not signal a more general stabilising of employment relationships. There were changes in personnel with most new staff having individualised employment contracts; inter-organisational contracts were used to drive projects and performance-monitoring practices were introduced. These had significant implications for the way that the programmers experienced work. While the ITO had had few hard measures of performance, in the new organisational structure over 400 measures of contractual efficiency were used to guide decision-making.

Under FutureTech each request for work required a business case and an analysis of the resources that would be needed. Contractual specifications were written and awarded, after discussions with programmers and technical experts and these acted as planning tools, allowing resources to be allocated over a pre-set timescale. The degree to which individuals felt constrained by this structure varied depending upon the type of skills they had, the employment contract that they held with FutureTech and the type of contract for

services they worked on. For a minority of the skilled IT developers and managers there were opportunities on other FutureTech contracts to obtain promotion and develop new skills. In theory, these transfers could benefit Govco since it would no longer have to pay the costs associated with retraining or terminating an employment contract when an individual's services were no longer required. In reality Govco managers argued that much of their best talent was transferred from Govco work, leaving their business to be run by a 'B-team'. FutureTech management, however, maintained that Govco only purchased the work to be done, not the specific people who did it and would only accept Govco intervention in the event of a failure to deliver work to contract. Given the position of FutureTech and flexibility in the contracts awarded Govco intervention was unlikely in all but extreme cases, although there were examples of managers on failing projects being 'moved sideways' after a 'quiet word' from senior managers. As a result of Govco's concerns an assessment of skill needs was undertaken. This identified significant skill gaps, particularly in the area of Internet technologies, which FutureTech was taking steps to remedy. In some areas FutureTech itself started to hire external contractors.

The transfer was also designed to make cost savings through a voluntary redundancy programme, financed by Govco, in which some 200 personnel (of the 800 that applied) left the organisation. Yet over the first five years of the contract the amount of work to be completed doubled and several hundred university graduates were recruited. A smaller number of people were hired from the wider labour market, typically at more senior levels. The graduates were cheaper than the workers they replaced, but, while many had technical skills, none enjoyed the in-depth knowledge of Govco's existing systems and work practices, and their role was variously and insultingly described as: 'warm bodies', 'bums on seats' and 'cheap labour'. Supervisors, also working to meet contractual deadlines, rarely had the time to develop their subordinates in a systematic way. Employees also thought that the removal of experienced personnel meant that the remainder had to work harder. Peter, one graduate employed as a supervisor, said:

The redundancy programme and stuff ... certainly reduced the amount of, not just business but the technical knowledge as well because a lot of them they have a mass of business knowledge, but also a technical experience as well and it's certainly limiting the amount we've got at the moment ... I think it might just mean you need to work a little harder the time you're here, I think. But essentially yes, it may be that you have to work a bit longer ... It's such a challenge though when they lose these people what they do to replace them, because it's almost impossible (Graduate: FutureTech)

According to one ex-Govco programmer, the internal systems were so complex that, after working on one of Govco's larger system for two years 'you can only scratch the surface of being useful to the team because of the business knowledge'.

The new graduates were both much younger than their ex-Govco colleagues (because of the freeze on recruitment) and employed under very different terms and conditions. Over 1500 ex-Govco personnel worked for FutureTech in administrating, managing and doing programming work, with a handful, who had considerable technical knowledge, acting as internal consultants. All ex-Govco staff had their terms and conditions protected by TUPE and, although they could transfer onto a 'Standard' FutureTech contract, none of the staff questioned said that they had done so. Their working time arrangements were protected and the union continued to conduct collective bargaining. There was little that FutureTech managers could do to compel this group to stay late to meet a deadline, and, when they did overtime they could claim this back through flexitime arrangement or get extra pay.

Despite these benefits, transferred staff in the lower grades suspected that they were underpaid. As Alex, one programmer argued:

There are three of us on the team who've got the same sort of money and we are all in the lowest quartile of the range. There are people on the team who, within the next two or three years, will pass my salary. They've been here for four years and can do the code as good as I can. They might be quicker than I am. They are more conversant with PCs if they are younger, but they haven't got the business knowledge to realise the impact of changing the system. And that does cause a bit of resentment, but if I was driven purely financially then I could probably go to my boss and say I want to go on the standard package ... but I don't want to do that ... I'm married with kids. I'm 46 years old so I'm well down the line. There's always the chance that when I reach 50 I might be able to get out by early retirement and we've got a fairly good early retirement that they do offer.

In marked contrast to the ex-Govco employees, no graduate interviewed was over thirty. They were recruited directly from universities and typically occupied more junior jobs in programming and contract management. Two, were interviewed in supervisory roles and three others, with scarce technical skills, had already reached higher status technical roles in the new on-line services group, but graduates were not found at senior levels elsewhere in the structure.

All of these new hires had the 'Standard' package, with individualised terms and conditions and annual pay and performance reviews. None were paid overtime. For those on the Standard package promotion and taking on more responsibilities did not lead directly to increases in pay. Pay was determined by annual performance reviews. In these career and pay recommendations were linked to a systems of peer group and supervisory performance appraisals. Raises could also be on an *ad hoc* basis for effort above the norm. In addition to this there was a series of 'morale boosting' minor rewards, generally given to those who worked through the weekend to solve a problem or meet a deadline. This could be anything from lunch at McDonald's to 'a night out with the girlfriend or boyfriend'. Ultimately the team leaders made recommendations for bonuses

and pay and the local managers decided whether or not to award these. Many of those interviewed complained that the bonuses offered by FutureTech for completing contracts did not match their expectations but the lack of skills development (with its implications for career trajectories) was a more serious source of grievance. In some cases graduates were asked to do repetitive tasks for long periods. Managers confessed that careers were often constrained by the demands of the contract. According to two employees:

I talked to other Standard package people who work on projects, they work so many extra hours a week consistently and they don't get paid for that ... You're paid this much a year to finish a job and although they don't use those words that's the way it is. (Rob, graduate programmer)

At the end of the day it boils down to what business needs dictate so at the end of the day whatever you want comes second place to what [FutureTech] want, which is perhaps fair enough because they pay your wages. (Peter, graduate supervisor)

It seems that, while the new structure succeeded in introducing a mechanism for controlling the work that the IT programmers undertook it was less effective at reproducing and developing the skills necessary for these tasks. New recruits were no longer subject to civil service grading structures and could enjoy higher salaries, but pressures of work often limited their opportunities to develop skills and those who were career minded considered moving away from the Govco contract. For Govco, FutureTech could provide a repository of expertise but its other work meant that skilled staff might be transferred to other posts, new hires had little of the local knowledge that was necessary and some work was still undertaken by contractors.

### **Synthesising Accounts: governance, employment and technology development**

Programmers who were employed adapting existing IT systems were very tightly controlled. Here, since managers on both sides had a considerable amount of local knowledge, contracts could be very tightly specified and, since most effort was put into delivery, the success rate was almost 100%. The same could not be said of the development of new systems. FutureTech was given the task of introducing Internet technologies, as part of a government commitment to providing on-line services. Interestingly, despite its expertise in other areas of computing, FutureTech had little experience of the Internet. It did however employ so many ex-Govco IT staff, that it would have been extremely difficult to develop and incorporate any new IT systems without large amounts of work going to FutureTech. Govco was effectively 'locked in' to development work with FutureTech for the duration of the contract. Furthermore, it is likely, given the knowledge of Govco systems that FutureTech managers held, that they would continue to depend on FutureTech expertise after the existing contract expired (also see Grimshaw et al, 2002).

Graduates, who were more likely to have developed the required technical skills at university (though some were retrained after recruitment), dominated the on-line services group. As in other areas, hiring graduates was less expensive than retraining existing or ex-Govco staff. Various FutureTech and ex-Govco managers were deployed to the group to advise on developing the systems. Here though, the nature of the task not only gave employees more autonomy, it also meant that there was less scope for generous contractual specifications. FutureTech failed to meet its deadlines and Govco purchased 'off the shelf' packages from a third party. David, a FutureTech technical expert, said

I couldn't say I'm proud of the quality of the stuff that we've done because the engineering discipline wasn't in the teams. However, if you talk to the customer [about the project] quality, they don't care about quality ... so they are happy to accept functional degradation, they are happy to accept performance degradation. We don't deliver all the functionality, it doesn't run as fast as you might like.

Failure had implications for the managers involved:

The natural consequence of it all is that you tend to think of what are the implications of everything you do. If this is scrutinised and it all goes wrong, which it may do because there are risks associated with everything, what would happen? And you tend to get, particularly in the user community and in [FutureTech] to some degree, is a risk aversion driven, not by risk analysis as a business would do it but in terms of what would be the effect of someone blaming me for this thing if it goes wrong. (Roger, senior business development manager: FutureTech)

FutureTech management preferred to implement proven IT solutions rather than 'risky' new technologies. And, given tight government budgeting, FutureTech could and did repackage technologies deployed elsewhere, whether or not these were suitable, because they were cheap and easy to implement:

[FutureTech] puts its own slant on the partnership, its technology set-up, its pacts of technology, and basically, tries to leverage those to the customer's advantage, but sometimes it might not work to the best of the customer's advantage. (David, senior technical expert: FutureTech)

Given the age structure of the workforce the pool of ex-Govco personnel is likely to shrink dramatically in the medium-term. Under the new organisational structure, specific knowledge of Govco is more difficult to reproduce. The alignment of internal recruitment and business knowledge that existed under the ITO is gone. It may be that future changes to the service will be dictated by what FutureTech can provide, rather than the uncertainties of a broadly specified and obligational contract. And, given the centrality of IT to Govco's wider business objectives, the technological tail may well start wagging the governmental dog.

## **Discussion and Conclusions:**

This case study provides a dramatic illustration of the way that agency impacts on social structures. The partnership with FutureTech was intended to provide private sector business practices and a repository of computing expertise for Govco. FutureTech's resources would enable it to cope with rapidly changing technologies and skill requirements and the agreement between the two organisations would ensure that technological innovations did not result in profiteering. In practice, Govco was so concerned at the possibility of failure that success was a political expediency. This might have been expected. Management is a political, rather than a neutral process, and managerial actions will be influenced by expectations of performance (Jackall, 1988). Indeed, a key element of sociological and labour process writings is the impact of control systems on outcomes (see, for example, Braverman, 1974; Thompson and McHugh, 2002). Actors 'reflect[ing] on their identities and interests, are able to learn from their experiences and, by acting in contexts that involve strategically selective constraints and opportunities, can and do transform social structures' (Jessop, 1996, p.125).

Managers were charged both to reduce costs by 50% and to define and complete the contractual schedule by which this would be achieved. This in turn provided a set of rules through which managers' acted to demonstrate their control over work. In the case study managers were observed removing expensive skills from the organisation to reduce costs despite an increase in workload, yet contracts were still almost inevitably completed to schedule. Ultimately, the managers were accountable to government auditors, not other IT experts who might judge the standards that they set themselves. The contractual process that managers used to demonstrate their control of the costs affected how expertise was produced and reproduced. Within the new organisational form employees often had reduced career prospects and individualised terms and conditions encouraged un-rewarded increases in the effort bargain.

This reading of the evidence has direct implications for the way that (particularly externally sourced) work is controlled and the types of work that might be suitable for out-sourcing. In the 'partnership' there was an uneasy tension between the need to tightly specify the work (that existed amongst managers due to the financial controls in place) and the fact that new work could not be controlled through direct contractual structures. This, in turn, created a requirement for managers to negotiate the outcomes. As a result of this contractual auditing, the discretion individual workers and managers could exercise sharply reduced (Grugulis et al, 2003) with negative consequences for the learning potential of the organisation over the long-term.

Much of the existing evidence suggests contractual governance structures are not the best way to manage complex IT developments. For example, Willcocks et al. (1995) case study evidence suggest that problems are likely where, as at Govco, organisational strategy and performance is highly contingent on effective IT systems. Also, Lacity and

Hirschman (1993) suggest that IT contractors almost invariably perform relatively poorly as corners are cut and information withheld in order to secure greater profits. It would seem that 'opportunism' is endemic within this field. This evidence suggests that 'opportunism' is conditioned by the strategies and identities of those involved in organisational practices. These are in turn influenced by the structure of markets and institutions that constrain and enable strategic choices. As Hyman notes, 'changes in the external environment of corporate activity which in one sense narrow the range of strategic options may compel internal restructuring which facilitates strategy within the area of choice which remains' (1987, p.49).

In the case of the Govco-FutureTech 'partnership' managers may be accused of behaving opportunistically to demonstrate their successes. The accountancy and 'partnership' structure provided a tool to (re)shape the labour process of IT workers, and managers used this tool to control the work of programmers more directly. However, it is questionable whether or not the managers of the 'partnership' were truly accountable for the standards that they set themselves. It appeared that the 'partnership' set its own standards and the accountancy structure created a risk adverse climate within which innovation was stifled by the desire to demonstrate successes. Ackroyd (2002) suggests that the emergence of inter-organisational relations in contemporary Britain is associated with decline in the corporate agency of other stakeholders relative to that of managers. This evidence suggests, in the absence of significant countervailing forces that challenge the standards managers set, managerial control comes at the expense of innovation in contractual relationships.

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