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Good moves, mistakes and unexpected events in an initiative to improve public management in the ICT service provision at a university

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Abstract

New public management aims to improve the efficacy and other performance criteria of public organizations. To that end, it is based on principles like specialization and public organization desegregation, and on practices such as outsourcing and the development of internal markets. This article presents a public university management action comprising the creation of an information and communications technology service enterprise. The bases for this initiative include theoretical approaches as well as practical issues. The value of this work is that it studies the referred initiative implantation process and its subsequent effects. The case method is used to analyse some theoretical proposals of new public management. The result is that good moves, mistakes and unforeseen consequences have been found, making it a source of learning for academics and professionals in this field.

Points for practitioners

Internal markets constitute an appropriate mechanism to achieve the benefits of new public management. However, when implementing it, care has to be taken in several aspects: (1) the use of private sector initiatives in the public sector is complex and many different aspects have to be considered; (2) the human

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resources of the contracting company have to be involved in the process from the very beginning and; (3) measures of performance of the process must be developed and put into practice. That said, internal markets allow an increase in the number of services delivered without increasing the number of work posts, providing the parent firm with the advantages of both outsourcing and insourcing.

Keywords: information and communication technology, insourcing, new public management, outsourcing, Spain, universities

Introduction

Public organizations need to modernize their management. Any conversation on this subject with politicians, citizens, public managers and academics highlights the need for a more efficient and effective administration oriented to the satisfaction of citizens' requirements. Therefore, public organizations have attempted, and are still attempting, to introduce management practices to accomplish objectives such as those previously mentioned.

As Pollitt and Bouckaert (2000) state, a series of public management reforms have been taking place in the developed countries since the 1980s. Various proposals or models that share some points have appeared in response to those calls for change in public management. Of those proposals, we can highlight (Sarker, 2006): new public management (Hood, 1991); market-based public administration (Lan and Rosenbloom, 1992); reinventing government (Osborne and Gaebler, 1992); and the post-bureaucratic model (Barzelay, 1992).

In this work, we use only one of those concepts, which, as previously indicated, are quite similar. We prefer new public management (hereafter NPM) because it appears the most frequently in the works addressing issues like those discussed in this article.

Although there is no complete agreement on the convergence of the different reforms that have occurred in public management in various countries and on whether it really is a new model, there is a series of common denominators. It is possible to summarize these as the preference for specialization and simple structures, as well as the use of management practices typical of the private sector. It can be seen that these basic proposals of NPM are very broad and address a great number of management aspects and practices. Thus, and at a more specific level, two issues frequently addressed in works on NPM are outsourcing and decisions on human resources (hereafter HR) practices.

This work presents a public management initiative that was put into practice. This initiative fits in with the proposals and philosophy of NPM and is focused on both outsourcing and HR improvement. Based on a detailed analysis of a real case, we present the results and consequences of an organizational change. Thus, our objective is to identify the benefits, difficulties and obstacles that were encountered in the process. We understand that those elements can be useful for the theoretical development of the public management area as well as for practitioners in the field. Briefly, the case refers to a state university that has introduced a series of management improvements since 1998. One of those innovations consisted of the creation of an enterprise, fully owned by the university, to which various information systems

and information and communication technology (hereafter IS/ICT) services were outsourced.

The article is structured in the following sequence. First, we present the framework, NPM, in which the organizational change took place in order to clarify the reasons for, and the orientation of, the initiative. We follow that with the theory specifically oriented to the action that was developed. Hence, we address outsourcing and modes of HR employment. This is followed by descriptions of the case and the methodology used and, finally, we present the results and conclusions.

New Public Management

In the 1980s, most Western countries began an important process of change in their public management. The reasons behind those modifications originate from two types of criticism of traditional public administration (Sarker, 2006). The first refers to *economic problems*: governments were too large and consumed vast amounts of scarce resources, they were involved in too many activities when, in many cases, there were alternative ways of developing them, and state intervention led to higher inflation and excessive costs and bureaucracy. The second refers to the *pattern of administration*, with the traditional model described as inefficient, costly, inflexible, corrupt, irresponsible and unsuitable for an age that requires models of economic and social development that are more dynamic (Hughes, 1998).

The reforms introduced into public management as a result of those criticisms have been labelled NPM (Hood, 1991) and, although there is not total agreement about the homogeneity of the different actions and changes in management that it covers, its general bases are accepted by most authors (Pollitt, 2002). Table 1 provides the characteristics of NPM as stated by three authors.

Of the five bases suggested by Pollitt (2002), we would like to highlight the two that provide support for the process developed in the organization presented in this article:

- Greater use of management practices typical of the market economy for the delivery of public services (including privatization, contracting out, development of internal markets, etc.).
- Blurring limits between the public and private sectors, with different alliances between public and private organizations and the proliferation of hybrid organizations.

As can be seen, those two proposals have the underlying intention of improving public management by concentrating efforts on key services, achieving better response times to the demands of the environment, and having greater flexibility in the organization of resources. This is because traditional public management makes it very difficult to achieve those goals (Hughes, 1998; O'Flynn, 2007).

Works on NPM usually address the issue either at a macro or state level (Brudney and Wright, 2002; Page, 2005; Sarker, 2006) or at an international level comparing the situations in different countries (Pollitt, 2002; Dunleavy et al., 2006). Our article is based at the organization level, which we believe adds value in a field in which there are not many results on implementation processes.

Table 1 Characteristics of NPM

Authors	Characteristics of NPM
Hood (1991)	(a) Professional management, (b) specific use of performance indicators, (c) greater emphasis on product control, (d) use of divisional structures in public service, (e) greater competition in the public sector, (f) implementation of private sector management styles and (g) greater discipline and rigour in the use of resources.
Olías de Lima (2001)	(a) Reduction in the size of the public sector, (b) decentralization of organizations, (c) introduction of flatter organization designs, (d) integrating the public sector with smaller units, (e) introduction of competition for resources and service delivery, (f) establishing remuneration linked to results and promoting personnel rotation, (g) pursuit of user satisfaction, (h) implementation of measuring and evaluation systems and (i) a change in public administration's culture.
Pollit (2002)	(a) Shift in the focus of management systems from inputs and processes to outputs and outcomes, (b) shift towards more measurement, with frequent use of indicators and standards, (c) preference for lean, flat and autonomous specialized organizations, (d) greater use of management practices typical of the market economy for the delivery of public services (including privatization, contracting out, development of internal markets, etc.) and (e) broadening and blurring of the frontier between public and private sectors, with the growth of public/private partnerships and proliferation of hybrid organizations.

Source: Hood (1991), Olías de Lima (2001) and Pollit (2002).

Since the reform in question was based on NPM and consisted of the outsourcing of part of the IS/ICT-related tasks, with inevitable consequences for HR management, we now examine outsourcing strategies and the modes of HR employment.

Sourcing strategies

The preference for simple, specialized organizational structures means that the typical actions of NPM include the analysis and the consequent decisions about which activities public organizations should assume directly and which could be best performed by an external service company (Pollitt, 2002). The latter is called outsourcing: the use of an external agent to undertake an organizational activity (King and Malhotra, 2000).

In IS/ICT outsourcing, it is common not to implement full outsourcing. Frequently, only certain parts of the IS/ICT function are outsourced because the complexity of the function and the number of parts it comprises suggest this partial approach to be preferable (Gupta and Gupta, 1992). This is known as *selective sourcing* (King and

Malhotra, 2000), or, in other words, an appropriate mix of tasks performed inside and outside the organization.

The extent, importance and criticality of the IS/ICT area have meant that, with time and the evolution of the various options, the panorama has become increasingly complex in that there is a series of modes associated with the outsourcing phenomenon (King, 2001), which we now describe.

- Outsourcing. This is the process by which certain IS/ICT processes are performed by a third party. Within this mode, it is common to find the term *offshoring* when a service is outsourced to a company abroad.
- Insourcing. This is the process in which the organization undertakes an outsourcing process and then decides that the services should once again be performed by its own personnel. It also refers to when an organization examines the costs and possibilities of outsourcing but finally decides to perform the function in-house (Hirscheim and Lacity, 2000).
- Strategic alliances. These come about when two or more organizations jointly develop determined IS/ICT functions in the interest of economies of scale. For a strategic alliance to function and be successful over time, all the participating organizations must consider that they are obtaining value from the alliance; in other words, that a 'win-win' situation occurs (King, 2001).
- Internal markets. These occur when a company creates its own organization to undertake the IS/ICT tasks, and the new organization provides services not only to the parent company but also to other companies in the market, thus guaranteeing a competitive pricing structure and an appropriate quality of service.

King and Malhotra (2000) state that for this mechanism to function, it is necessary that the internal units compete under market rules and operate as business units, that a system of competitive cooperation be generated, and that the managers succeed in getting all the units to work from the corporate view. Those authors consider that, unlike the other options listed so far, internal markets allow the organization to retain control of the IS/ICT function while also obtaining the cost savings and service quality that an external supplier would aim for.

- BPO, or *Business Process Outsourcing*. This consists of handing over control of an ICT-based process (for example, human resources management or accounting) to another organization (Rouse and Corbitt, 2004). The firm thus eliminates the need for determined IS/ICT areas since the supply company will be responsible for the IS/ICT required to provide the service.

All the aforementioned means that there are several ways, each with a different reach, of implementing the specialization and concentration on basics proposed by NPM.

McFarlan and Nolan (1995) put forward four recommendations that should be taken into consideration in IS/ICT sourcing processes. We refer to them since we consider that they are appropriate in our case. First is the continuance of the customer

organization's CIO (Chief Information Officer), who should be in charge of contract management, architecture planning, management of emerging technologies and continuous learning. Second, objective measures of performance must be developed. Third, a good level of task mix, between maintaining legacy systems, where outsourcing entails few risks, and large, low-structured projects, where outsourcing entails high risks, has to be achieved. Fourth, there should be points of contact between customers and providers at all organizational levels and not just at a management level.

The mode of HR employment

With the term *mode of employment* we refer to the determination of what type of employer–worker relationship is most appropriate for the organization and its goals. From a reductionist point of view, we can say that there are two basic forms of recruiting the workforce: insourcing and outsourcing of human resources. The transaction costs theory (Williamson, 1975) and the human capital theory (Becker, 1964) are traditionally referred to in the decision between those two options. According to the transaction costs theory, insourcing will mainly occur when the organization frequently needs capabilities that are scarce in the market. In turn, an organization will tend to outsource capabilities that are abundant, especially when they are used infrequently. On the other hand, the human capital theory maintains that organizations will decide between the two options in accordance with the productivity forecast with the investment in workforce skills. Thus, if the costs of training and internal development of personnel that insourcing entails are higher than the forecast results, the organization will opt to outsource.

However, the reality is much more complex and offers a much wider range of options, as already reviewed in the outsourcing section. In that respect, Lepak and Snell (1999, 2002) have studied the different firm–worker relationships and have proposed a model to determine the optimum mode of employment for the firm. In doing so, they adopted a broader approach than the traditional one based on the strategic arguments of the resource-based theory (Barney, 1991), as well as on the economic view of the transaction costs and human capital theories. According to Lepak and Snell (1999), all three theories show that there are two ubiquitous dimensions: the strategic value and the uniqueness of human capital. Those two factors have the advantage of being able to differentiate most human capital. Thus, those authors propose a model in which the decision on the mode of employment depends on how the human capital is classified into four modes of employment. These four modes are displayed in Table 2 and are the result of combining high and low levels of the two ever-present dimensions: high/low potential to create value in the firm, and high/low level of uniqueness to the firm (Lepak and Snell, 1999, 2002).

For example, there are positions that have high potential to create value and require capabilities that are unique to the firm: that situation recommends insourcing and a mode of employment using selection based on potential and on later training and internal development. If the value is high, but the uniqueness low, it will also be insourced, but by acquiring already trained and developed human capital at market salaries. If both value and uniqueness are low, the mode of employment is low com-

Table 2 Lepak and Snell's (2002) modes of employment and configurations of HR

Combinations of value and uniqueness	Modes of employment
1. High value and high uniqueness	Insourcing (development based on potential and knowledge)
2. High value and low uniqueness	Insourcing (immediate productivity based on skills and task requirements)
3. Low value and low uniqueness	Insourcing (temporary work contract) or Outsourcing (commercial contract between firms)
4. Low value and high uniqueness	Alliances (collaboration based relationship between firms)

Source: Adapted from Lepak and Snell (2002).

mitment and centres on compliance with contract specifications with no additional investments. The contracting of personnel can be direct, by means of temporary contracts, temporary employment agencies or by outsourcing to other firms. Finally, one other possibility is that the firm needs workers with firm-specific capabilities that are difficult to find in the market (which, according to the transaction costs theory, would justify insourcing) but do not directly influence the creation of value to the customer (which, according to the resource-based theory, would justify outsourcing). In this situation of conflicting arguments, an alliance would be the appropriate mode of employment. In this context, researchers use the term alliance to refer to an external relationship in which each party contributes to a jointly shared result (Borys and Jemison, 1989; Parkhe, 1993) and it applies to both the mechanisms seen in the previous section, the strategic alliance and the internal market. Although they are not the same, it is obvious that a level of collaboration is possible in the alliance that is difficult to achieve with traditional outsourcing.

Given the subject of this work, we will expand on that last mode of employment. Unlike pure outsourcing, the alliance permits the organization to have a certain influence over the conduct of employees. This is because the benefits of an alliance stem from sharing objectives and knowledge. The functioning of an alliance is based on trust and collaboration between the parties, thus generating a transfer of knowledge between the human resources of the two organizations. This cooperation to achieve a common goal leads to better results than if each organization acted alone. Therefore, contact, collaboration and trust are the keys for an alliance to have the expected success. More specifically, choosing a mode of employment like this permits a certain influence over the partner firm's personnel while reducing the transaction costs that mere outsourcing entails.

Although the authors do not specify it, we believe that Lepak and Snell's (1999) model is contingent on the activity developed by each organization. For example, a programmer can be a valuable and unique human resource to a firm whose business is the development of computer applications. However, that programmer would be

an employee with little value and uniqueness to a firm whose activity has nothing to do with ICT and which only makes standard use of them without in-house developments. Later in the article, we will refer to the evaluation of the affected personnel, in our case in the two previously mentioned dimensions that are proposed as determinants of the type of firm–worker relationship.

Methodology

The main goal of this work is to analyse a management initiative derived from the philosophy and propositions of NPM. The decision to introduce management changes was taken considering, among other aspects, the previously presented theoretical foundations, since the authors of this work were decisive agents in the process. On the whole, we believe that it represents a rare opportunity since it permits contrasting arguments and theoretical reasoning. Therefore, the methodology employed has to pursue the goal of analysing in depth the implemented change, its results and its consequences.

As previously stated, this work is based on a single case. It would have been desirable to have access to other similar cases, but we are unaware of similar initiatives. According to Yin (1981), case study is a research strategy distinguished for studying a contemporary phenomenon in a real life context, especially when the boundaries between the context and the phenomenon are not clear. That same author (2003) recommends a case study strategy to answer 'how' questions and to understand the contextual conditions in which participants act. Eisenhardt (1989) also classifies it as a research strategy, stressing that it focuses on understanding the dynamics that occur in unique environments. Patton (2002: 447) states that the purpose of a case study is to 'gather comprehensive, systematic and in-depth information' about a phenomenon. The strengths and weaknesses of the method have been addressed extensively by Eisenhardt (1989, 1991) and Dyer and Wilkins (1991). Those authors agree that a case study is useful in research fields that are in a very early stage of development or when the phenomenon needs to be approached from a different perspective. Therefore, the qualitative case study method is appropriate for this research. On the one hand, there are very few works dealing with NPM at the organization level and, on the other, the case study method provides information different from that acquired in sectorial studies.

To evaluate the consequences of the action undertaken by the organization, four types of technique or data collection methods were used: participant observation, document retrieval, in-depth interviews and focus groups. The evidence obtained was qualitative as well as quantitative. The time frame under consideration starts when the institution announced the action of creating the enterprise and ends when the latter had been operating for one year. This accounts for a total of 20 months. The analysis took about three months and started after the enterprise's first year of operation, except for some data that were collected as the process was happening, as explained below. The different techniques were applied directly by the authors of this work.

Participant observation and document retrieval were possible since, as previously stated, the authors of this work were part of the process. Thirteen in-depth interviews

were conducted on all the main participants in the action, seven of them with staff from the university's IS/ICT area, namely, the chief technology officer, the heads of the three main areas in which services were organized, and three other staff from the technical level; the manager and the rector of the university were also interviewed; another four interviews took place with staff from the newly created enterprise, the manager, the technical director and two other staff. All the interviews were conducted at the very end of the enterprise's first year of operation; in other words, between January and February of the year after start-up.

Four focus groups were conducted. Two of them took place with the staff from the application development and user support areas of the university, while the participants in the other two were their counterparts from the created enterprise.

Since, as will be discussed later, the representatives of the employers' association protested about the creation of the firm, a meeting also took place between them and the university's managers, at which the authors of this work were present.

A basic questionnaire with five questions was sent out to the members of the application development area of the university asking them about their satisfaction with the results of the applications developed by the enterprise.

Finally, measures of the performance of the services delivered by the firm were obtained by means of a survey conducted by the evaluation department of the university. In that survey, every service delivered by the university was evaluated: student registration process, IS/ICT services, campus services, transportation, etc. We now present the case, followed by the results of the research.

Case: A new public management initiative

The case addressed in this article involves a state university in Spain. This institution has approximately 24,000 students, 1500 teachers and researchers and 800 administrative staff. Since 1998, the university had made a series of modifications in its management with the aim of modernizing it and making it more effective and efficient. To describe them would go beyond the objectives of this work, but to summarize them from an overall perspective, they comprised department and organization chart restructuring, the use of strategic planning, a strong commitment to ICT, customer orientation both in procedures and in organizational objectives, the implementation of systems to measure and evaluate results, and the rationalization of expenditure.

As previously mentioned, the specific initiative addressed in this work is the creation of an ICT service provider that is fully owned by the university. This action is aligned with statements in NPM referring to the need for public administrations to focus on their basic activities and on the adoption of practices normally used in the private sector. However, since the origins of the process are conditioned by the evolution of IS/ICT in the university, we describe those origins in some detail in the following section.

The history of IS/ICT in the university

As in most European organizations, the department responsible for managing IS/ICT was formally created in the mid-1980s when the first systems and computer appli-

cations were acquired. The IS/ICT department experienced significant growth in the 1990s and by 2000 there were 45 staff members. From that date, due to tight restrictions on increases in staff throughout the Spanish public administration, that growth came to a halt and the department's workforce currently stands at 48 members.

Due to the shortage of available staff in the university, the implementation of computer applications was initially undertaken under the buy and adapt model, with the latter partly by means of outsourcing. Unfortunately, the results obtained with purchased applications during the 1990s were not too positive. In 2000, when the possibility of changing application arose due to the arrival of the euro and a recently completed process of adaptation to the year 2000, it was decided to opt for a strategy of insourcing for reasons cited by Hirscheim and Lacity (2000):

- Problems with outsourcing that meant that objectives were not accomplished, and costs rose.
- The IS/ICT managers' defence of insourcing.
- Executives who confirmed the value of ICT and were, therefore, committed to insourcing.

However, another reason specific to the university was taken into consideration, and that was the low availability of application providers in the nearby environment, which was due to the geographical situation of the university studied.

Thus, the year 2000 saw the start of the development of a client/server application, later web based, under the paradigm of in-house development. The good results obtained with those applications, together with the generalized use of IS/ICT by the entire university community, led to a huge increase in the demand for IS/ICT. That demand for computer services, together with the impossibility of expanding the IS/ICT workforce, meant that the university had to develop a solution to compensate for that antithesis. Faced with uncertainty about the amount of resources required, it decided to use the services of an organization, specifically, a not-for-profit foundation, whose objectives included supporting innovation strategies in organizations and firms. Thus, under a collaboration agreement signed by the two institutions, the means to execute a support plan for the technological modernization of the organization was specified. That agreement ended in 2005 and, under its terms, the foundation contracted staff whose job was to develop the strategic actions of the previously mentioned plan. These were recent graduates who thus obtained their first job placements.

At the end of 2005, the number of support staff managed by the foundation had reached 28. Therefore, there was a workforce that knew, to varying degrees depending on their length of service, the university's computer developments and systems, that were, as mentioned earlier, the result of work done by members of the IS/ICT area of the university.

The 28 workers of the external workforce required organizational and human resources management, which, given their situation, was not possible to provide. Thus, for example, control over their work declined, demand for projects and tasks was increasing and there was no serious rational planning for which activities they

should participate in, and, finally, there was a wish to offer these workers career plans and job stability. In addition, the foundation could no longer maintain them in its organizational structure. That set of factors motivated the university to reform the structure and functioning of its IS/ICT area. The following section describes the different options that were studied and the reasons behind committing to the creation of a company.

Options for the reorganization of the IS/ICT area

Since it was not thought viable to continue with the form of agreement between the two institutions, the university began to analyse how to manage the increasing demand for ICT services. To be in line with previous management changes that fit into NPM, the solution to be implemented had to be flexible in the delivery of services, in its organization and, of course, efficient. In that respect, the NPM guidelines are presented in Table 1.

Hence, various possibilities were studied. Before explaining those options, we should stress that, in 2005, the university's IS/ICT area comprised: (a) 48 university workers and (b) 28 foundation workers who performed work related to the actions contained in the ICT modernization plan. Those external human resources complemented the university's own workforce and, since they had less experience, their professional level was lower.

The management options and the reasoning behind their implementation are as follows.

Insourcing

One possibility was that the university insource that external workforce. This option was clearly against the principles of NPM as stated by Pollit (2002) in the sense of intensifying the use of market system mechanisms, such as outsourcing. It also contradicted Olías de Lima's (2001) comments on a preference for flat and specialized organizations. Finally, it was also contrary to the decentralization proposed by Olías de Lima (2001) and the unit size reduction proposed by that author and by Hood (1991). Moreover, in the case under consideration, those human resources had a medium or indirect effect on the creation of value in the institution's key activities. It must also be considered that expenditure on personnel is limited by the budget approved every year by the university government bodies and that insourcing would have required a significant increase in the budget allocation in that area. Furthermore, the university receives most of its funding from the Government under multi-annual agreements. This means that it is difficult to assume any significant unforeseen increases in costs. What is more, in the case of human resources, Spanish public organizations are obliged to participate in negotiations about the composition of their workforces and those negotiations take place at long intervals, usually every three or four years. Finally, the variable nature of the activities undertaken by those external personnel called for prudence when faced with such a significant increase in the workforce. Thus, with the need for an adjustment in the workforce or for internal reorganization, the inflexibility of labour relations increased the transaction costs of the insourcing option.

The only consideration in favour of insourcing was the uniqueness of the workforce, since they had been trained on the job and knew the peculiarities of the internally developed systems and procedures. However, that reason was not enough in light of the previously stated problems and facts that made insourcing impossible.

Outsourcing to an ICT service company

Another option was to outsource the tasks undertaken by those human resources to a computer service supplier in the market. This alternative is specifically mentioned by Pollit (2002) when presenting the characteristics of NPM and is also inferred from Hood (1991) and Olías de Lima (2001), who both refer to issues such as implementing private sector management styles or reducing the size of the public sector. From another point of view, and according to Lepak and Snell (1999), the specificity of the workers' skills and knowledge made outsourcing doubtful. Hence, the main disadvantage of that option lay in the uniqueness of the university's information systems, which, together with their complexity, meant that any external firm would have to spend considerable time studying and analysing them before being able to work with them. Apart from that, the university's own IS/ICT staff would also have to devote a significant amount of time to the external firm. With 28 workers knowing the peculiarities of the university's IS/ICT, it would have been disadvantageous to outsource those functions to an organization that was ignorant of them, both from a transaction costs perspective (i.e. difficulty in finding a firm with the required knowledge and capabilities) and from an economic view (i.e. the new provider's cost of learning and the loss of the previous investment in external workers).

Internal markets

The other possibility was the creation of a company to provide the services needed. The development of internal markets is present in Pollit's proposal (2002) on the basis of NPM and, as with outsourcing, it can also be seen in the approaches of Hood (1991) and Olías de Lima (2001) when they recommend the use of smaller units in the public sector. From the HR perspective, and according to Lepak and Snell's model (1999), relationships based on alliances are suitable for highly specific personnel whose work does not contribute significantly to value creation in the organization. The close relationship that characterizes an alliance allows greater influence over the activities of the allied enterprise than that allowed by outsourcing. More specifically, when compared with outsourcing to an independent firm, there are lower risks of:

- Loss of control (Gupta and Gupta, 1992; King and Malhotra, 2000; Lee et al., 2003), which from the NPM perspective is especially problematic since it focuses on product control (Hood, 1991).
- Loss of expertise in IS/ICT and of corporate memory (King and Malhotra, 2000), moving away from the professional management intended by NPM (Hood, 1991).
- Loss of trained personnel (Gupta and Gupta, 1992; Lee et al., 2003) and of the exploitation of earlier investments in human resources, which would be out of line with the previously mentioned professional management, private sector management styles and the greater rigour stressed by NPM (Hood, 1991).

- Loss of competitive advantage in information management (Lee et al., 2003), innovation capability and organizational learning, particularly in the computer program development area (Earl, 1996). Those consequences would also contradict many of the actions proposed by NPM, which are shown in Table 1.
- Loss of alignment (Lacity et al., 1996), a fact that would also go against the intended culture change in public administration (Olías de Lima, 2001).

Thus, given the difficulties that the first two options entailed and the advantages of the last one (from the point of view of NPM and the modes of HR employment), the decision seemed fairly straightforward. In 2005, it was decided to implement an internal market strategy and create a company that was fully owned by the university. This firm would take over the external staff that had been providing services in the university, thus ensuring the retention of unique capabilities. Exclusive ownership by the university also guaranteed an alignment of its interests with those of the firm, as well as the possibility of influencing the human resources that would provide the service.

At this point, it should be said that the university's IS/ICT managers are on the firm's board of directors. Therefore, the relations between the two organizations go beyond purely commercial relations, with an alliance that involves mutual benefits (Lepak and Snell, 1999). On the one hand, the university can influence the functioning of the firm and adapt it to its interests and needs in a way that would not be possible with an independent service company. On the other hand, the firm has a client with a significant work demand. The university would contract those services provided that the firm achieved the specified levels of performance (levels that the university could influence since it owned the firm). This option also boosts knowledge transfer and collaboration between the two parties since the performance of each depends on how well the other performs.

Moreover, in the process of implementing the internal markets strategy, two of the factors listed by McFarlan and Nolan (1995) were taken into consideration in order to guarantee successful outsourcing.

The client retains the figure of CIO and, with that figure, the tasks of planning, contract management, IS/ICT management, consultancy to top management, etc. In this case, even greater participation was achieved since the IS/ICT managers of the original institution were on the board of directors of the created firm.

A wise choice of tasks to be outsourced is made. Thus, the outsourced tasks varied from low-risk tasks such as systems maintenance and operational tasks[1] to tasks related to the development of applications and user support.

Data and figures of the process

In this section, we provide some figures that should help give a better understanding of the process. As previously stated, the university that contracted out the services has 24,000 students. When the process took place, 48 staff were employed in the IS/ICT department and 28 workers were contracted through the foundation. Twenty-one of those workers decided to pass to the enterprise, which began its activities with those 21 plus a manager and a technical director.

The enterprise basically delivered two kinds of IS/ICT services: computer application development and user support.

In the area of computer application development, 12 projects with a total value of 250K euros were launched during the first year of operations. On examining the documentation of each of those projects, we found that more than 80 percent were delivered on time. After that first year, the members of the university's IS/ICT area were reasonably satisfied with the results (4.2 out of 5 on a Likert scale of 1 to 5). That 4.2 is the average for items such as delivery times, price and quality of work.

In the user support area of the university, 18,000 cases were opened in the first year that the enterprise was operating. Eighty percent of the total number of cases were resolved, and the enterprise that was created took part in 30 percent of those, that is, in 4320 cases. User satisfaction with the user support area at the end of the year was high (4.5 out of 5), with an 8 percent increase from the previous year. In general, users observed no differences between the quality of the services provided by the firm and those delivered by the university's own department. The university paid the enterprise a total of 450K euros for services, not just for user support but also for merchandise transportation, equipment recycling and other services.

Results and consequences of the internal market strategy

The objective of this work was to evaluate and identify the repercussions of a NPM action at the organizational level. We will now comment on the results both related and unrelated to the theoretical foundations previously set out, with the aim of contributing knowledge on the issue. The results are presented in three sections: positive aspects, negative aspects and unforeseen aspects.

Positive aspects

The process of creating the new company was, to a great extent, in line with the theoretical suppositions in the literature, namely those related to NPM, the internal market strategy and the alliance mode of HR employment, as shown in previous sections of this work. This generated a series of positive consequences.

First, and in comparison with insourcing, the growing need for IS/ICT services was met but did not warrant additional technical or supervisory work posts in the university. Moreover, the university did not become involved in HR management, so the bureaucracy and management that an increase of personnel entails were also avoided.

Second, it was possible to retain most of the human capital with unique capabilities resulting from the training that they had undergone. This meant that there was no prolonged period of reduced productivity caused by the provider's ignorance of the peculiarities of the university's IS/ICT. Twenty-one of the 28 people who knew the specificities of the university's IS/ICT decided to move to the new enterprise, while the rest were not interested in doing so. To quote the members of the ICT department: '. . . it is easier and faster to communicate with the workers of the enterprise than with any other service provider, since they know our technical specifications and our work protocols . . .'.

Third, the presence of the university's IS/ICT managers on the firm's board of directors enabled the university to influence factors that are decisive to the quality of the services provided by the firm. Issues such as the training of employees, the factors by which their performance is evaluated, the entry requirements for the new personnel, the organization of services, the design and execution of work procedures, and the organization chart of the firm were developed with the needs proposed by the university managers taken into consideration.

Fourth, both the management of the university involved in the creation of the firm and the managers of that firm understood that the process followed was more than mere outsourcing. This led to continuous conversations and formal and informal working meetings to promote the transfer of knowledge and a better adaptation to the needs of the other party. The added value that an alliance represents in comparison with outsourcing was produced at this managerial level, in line with what was indicated by Lepak and Snell (1999). According to the managers of both organizations, there were formal meetings at least once every two weeks as well as a couple of spontaneous meetings every week. In the rest of the work posts, that confidence and cooperation occurred but, according to the executives of the two organizations, it took some time. This was due to a certain mistrust, as will be commented on in the following section.

Fifth, the changeover of external workers from the foundation to the firm permitted the application of HR practices (training, team work, performance evaluation, promotion, job rotation, etc.). This allowed an increase in both their performance and their motivation in comparison with their previous situation; in other words, of workers' knowledge and skills. This was, according to the executives of the newly created enterprise, due to two good practices: a training plan for all the staff and frequent job rotation in which almost all the staff took part. Moreover, motivation also increased due to the implementation of a performance measuring system and some internal promotion actions. The enterprise members in the focus groups expressed their satisfaction with their situation. Some of the expressions used in those groups were 'we felt part of a project with a future', 'we want this [for the enterprise] to be a proficient enterprise and something positive for the university'. They also displayed professional motivation since 'working for the university allows us to get involved in projects of some importance that need specialized knowledge'.

Finally, when restructuring and reorganization of the services provided by the firm were necessary, the flexibility proved to be greater than could have been achieved through insourcing the workforce. This is due to the typical public administration costs of modifying and cancelling contracts. Hence, specific increases in the needs for some of the services delivered by the enterprise (i.e. on-site user support, computer application installations and services related to on-line learning) were satisfied with the previously described job rotation or with modifications in job tasks.

Hence, we understand that many of the benefits derived from the propositions of NPM (as shown in Table 1) were achieved, namely, professional criteria-based management, control of the size of public organizations, lean structures, specialized organizations and user orientation.

Negative aspects

In this section, we describe some of the negative aspects of this case. We pay special attention to those aspects which, since the literature refers to them, should have been managed better by the university's IS/ICT managers.

First, and as some authors indicate (Gupta and Gupta, 1992; King and Malhotra, 2000), we find a certain drop in the morale and performance of the university employees, who saw the process as undervaluing their capabilities. Communication on the creation of the enterprise and its fit into the IS/ICT activities of the university took place through several meetings with the university's IS/ICT workers. According to the university executives, some employees at those meetings reflected that they believed the creation of the enterprise to be a waste of the IS/ICT personnel's skills. Although not all workers explicitly expressed that belief, the number was significant enough to generate a decrease in productivity that lasted approximately six months, from two months before to four months after the enterprise was launched.

Moreover, and especially in the beginning, the IS/ICT personnel perceived the newly created company as a source of competition rather than of cooperation. This was because they feared that the process concealed possible total outsourcing in the future: in other words, that they would be included in the process and be forced to depend on the newly created company. This was made clear in the meetings with the heads of the departments of the IS/ICT area. Those workers, based on the opinions of their team members, were reluctant to provide the information that the new enterprise needed to assume some services. Finally, they expressed their shared belief that, in the future, there would be full outsourcing of the IS/ICT area. One of them specifically stated that '. . . it starts with a few services and it will end with full outsourcing'. According to the others, that feeling was shared by some members of their teams.

Second, we detected that a low level of autonomy was displayed by the personnel of the external firm.[2] This was especially notable among the least experienced human resources since practically all of them had no professional experience other than that acquired as university support staff. When they began to work independently, their lack of professional maturity and the need for experienced leadership were apparent, especially at the beginning. Thus, although they knew, to a greater or lesser extent depending on their length of service, the peculiarities of the university, they lacked the skills of self-management and organization. This was expressed in the interviews with the technical manager of the enterprise and with the heads of the IS/ICT departments of the university. The former, who was chosen for his vast experience in the ICT sector, mentioned the workers' high dependency on regular instructions and procedures. The latter noted frequent calls from the enterprise workers to the university workers. That situation was aggravated by two facts. The first is that the enterprise workers, with few skills to manage projects, had a similar level of responsibility to that of the parent company employees. The second, which has already been mentioned, is that the university personnel saw the company members as rivals rather than as colleagues. Therefore, we can speak of inadequate management of relations between insourced and outsourced workers (Ang and Slaughter, 1998).

Third, there were problems of technological indivisibility (Earl, 1996), especially in

the computer systems area. Thus, and although the executives from the parent company initially showed some interest in outsourcing certain system maintenance tasks, it was seen that the technological interdependence between modules made partial outsourcing too complex. Therefore, it was decided to retain the entire area in-house. As expressed by the university's IS/ICT executives in the interviews, it was after the creation of the enterprise that they realized that the technological criteria constituted a factor to be considered in outsourcing processes.

Finally, when the enterprise was launched, the university did not reach an agreement in the performance measures needed. According to the university managers, it was because they thought this would generate better relations in confidence and collaboration. Those managers recognized their error, which coincides with McFarlan and Nolan's recommendations (1995). In fact, after a very short time, both the enterprise board and the university's IS/ICT personnel demanded performance indicators, as was usual with other suppliers. The university personnel indicated that the absence of such measures made it seem that the relationship was going to be built on low rigour, chaos and favouritism more than on trust.

Unforeseen aspects

This section explains two unforeseen events that conditioned the process of outsourcing and the creation of the company.

The most significant of these unexpected events was that the creation of the new company generated controversy outside the university, specifically from the representatives of the employers' association, who protested about the creation of the firm. When they were interviewed, they said that they considered the new enterprise a kind of 'unfair competition' and that 'public administration should leave the creation of enterprises in the hands of the private sector'. This reaction was totally unexpected for two reasons: the first was that Spanish law gave universities the legal authority to create companies or other bodies to help them achieve their goals. The second was the precedent set by other universities and other public administrations in Spain. For example, an enterprise was created by five Spanish public universities to deliver IS/ICT services to all of them; another Spanish public university had launched an enterprise to manage a venture capital fund; outside the university context but still in the public sector, the Madrid Autonomous Community and the Barcelona City Council both have organizations created by the public sector to provide them with IS/ICT services. However, the size of the protest was such that, according to university managers, after various negotiations, the services of the company had to be restricted to the university itself. Therefore, it was impossible to comply with one of the requisites of an internal market strategy, referring to action as an independent business unit operating under market regulations (King and Malhotra, 2000).

Restricting the activities to a single client generated an excessive dependency for the enterprise. This meant that when more income was needed to balance costs, and since no other clients could be attracted, the enterprise would put pressure on the university in two ways: by proposing new projects that could be interesting for the university or by producing at a pace that was not convenient for the university personnel. Hence, to quote the university technicians, 'it looks as if the enterprise decides

the needs and pace of the university's IS/ICT department' while, according to the enterprise's managers, 'the university's IS/ICT staff are not aware that we depend exclusively on them and they do not generate the volume of activity we need to balance costs'.

Another surprise was that one group of the workers who were going to be transferred to the created company decided to bring a lawsuit against the university because they saw an opportunity to become employees of the institution if the court ruled in their favour. In the discussion groups with these workers, they put forward the argument that the situation prior to the constitution of the company was interpreted as an illegal transfer of personnel. Under Spanish law, the temporary transfer of workers to other companies is restricted to temporary employment agencies. This group expressed that 'the creation of the enterprise is an excuse not to create more public employment' and that 'this is just concealed privatization of public services'. For them, the creation of a public enterprise had nothing to do with professional management, public organization decentralization, unit desegregation, lean and specialized organizations, cultural change and other characteristics of NPM (Table 1). Consequently, that led to a situation where some of the human resources who had technical experience and were expected to form part of the company from the outset remained outside both the company and the university, especially after court ruled against them.

Conclusions

Before setting out the conclusions, we should mention the limitations of the methodology used to arrive at the previously presented results. Being rigorous, we can neither generalize nor maintain that what happened in this case will happen in others. However, it is true that the methodology used enabled us to undertake a more in-depth study than would have been possible with other more extensive methodologies. Therefore, we believe that this case can be useful as a first step in the generation of new theoretical bases and/or as a reference in professional practice.

That said, we believe that the internal market mechanism was an appropriate action to achieve the potential benefits of the proposals and ideas of NPM. Hence, the adopted solution was adequate and satisfied the objectives of the university, in the sense of having a modern and efficient management. However, the events that occurred throughout the process should make us think twice about the apparent simplicity of the NPM's formulations and the tendency to generalize them.

One consideration would be *the complexity of extending suppositions from the private to the public sector*. Even when one of the objectives of NPM is to transfer to the public sector models in which the private sector is more efficient, that transfer entails many difficulties since the contexts in which the two sectors operate are different. The initiation of an action to achieve this objective can generate a series of reactions in the enterprise. Some authors attribute a markedly utilitarian character to NPM (Stoker, 2006) and we detected reactions that range from rejection and lack of comprehension to attempts to block the whole process as some of the workers of the public organization tried to do. The NPM's proposals are strongly oriented towards efficacy and efficiency and barely take into account some well-established

values in the public sector, such as risk aversion and the prevalence of the organization's interests over service quality (Kernaghan, 2000).

One deduction from the above, and a more specific conclusion from the results, is that we consider it *essential to involve the human resources that remain in the contracting company* in an outsourcing process. Experience shows the need to give them detailed information about the reasons for the process and the advantages that they will obtain from it. Such involvement aims to make them participants in the process since it enables them to collaborate in the tasks of designing the company to be created (contractual terms, staff training plans, etc.) and in the work interface between the two organizations.

Another conclusion is the need to consider the implementation of NPM and, therefore, outsourcing, as a *process in which success depends on factors outside the organization and its activity*. In our case, other theoretical approaches that refer to the social character of organizations were not considered in the planning of the developed action. Hence, it did not adopt a systemic approach (Boulding, 1956) and, more specifically, did not take the institutional subsystem into account (Parsons, 1960). That subsystem, which seeks the social legitimacy of organizational actions and supports, or not, those actions, is another variable to be considered from the very outset of the planning of the outsourcing process. Since, in our case, the legitimacy provided by the law is not enough, it is also necessary to obtain the legitimacy that depends on the perceptions of other agents indirectly involved in the process.

With regard to the latter type of legitimacy, we believe that, in the public sector, *an internal market strategy must avoid competition with already existing private companies*. In that respect, transparency is the key since some social agents, fearing the possibility that situations of unfair competition might occur, may interpret that kind of movement as a threat rather than as an organizational solution.

In line with the theoretical suppositions of NPM, *internal market strategies have been shown to be highly valuable in improving the traditional model of administration*. Moreover, it has also been proved that this mechanism enables *the disadvantages of insourcing and outsourcing to be compensated for*, primarily because it generates relations of greater trust, since it is a way to establish the alliance mode of employment. Nonetheless, we should clarify that, in our case, the cooperation and knowledge transfer associated with the alliance were, in the beginning, limited to the management staff. Time had to pass for the rest of staff to get rid of prejudices. Hence, the apparently unquestionable need to improve public management with which we began this article has to be moderated by two variables: (a) the path chosen to allow that improvement and (b) the vision that public employees have of the public sector.

However, it must also be considered that the internal markets model loses some of its potential if the firm cannot operate in the market; as we have seen previously, various authors indicate that this competitive action is what guarantees a validation of the firm's performance. But if the firm operates in the market, and due to its public origin, its strategy must differ from that of companies in the private sector. In other words, it must not take market share away from private enterprises; it has to operate in areas not covered by these firms.

Finally, *it is essential to develop measures of performance in the outsourcing*

processes. These will make the model justifiable and believable, not only in the eyes of members of the outsourcing organization's IS/ICT area, since these measures offer them better guarantees of the process and its functioning, but also in the eyes of any members of the organization, whether union members or managers, who may be sceptical of this type of process.

Notes

1 Tasks on which the organization depends only a little and expects to depend little in the future.

2 One of the risks of outsourcing that Earl (1996) explicitly refers to is the poor experience of the workers providing their services in the firm to which their services are outsourced. In this case, there is technical experience in that firm but no experience of autonomous management of projects.

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