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Bringing a commercial perspective to public sector managers

After retail magnate Philip Green's review of Whitehall waste, David Lowe argues that a major step change in public sector commercial practice in areas like the NHS is needed not more edicts from efficiency czars.

Not a lot has changed, so it seems, since Sir Philip Green's much-publicised efficiency review by was published. Examples of poorly negotiated and run public sector contracts continue to surface.

Headlines, at the time, ranged from sensationalistic: "I'd be bust (or the lights would go out) if I ran my business the way government does", to others seeking to undermine Green's suitability to carry out the review or asserting that he was merely stating the obvious.

"While it is generally acknowledged that commercial skills within the public sector have been improving, they are still not comparable with those found in the private sector," said Green.

Although clearly featured in Green's report, the question of whether managers running government departments had the right commercial aptitude was given scant media coverage.

Commercial aptitude

Generally, when mentioned, the focus was on the fact that Green was merely regurgitating what has been reported in numerous National Audit Office and Office of Government Commerce reports over the past decade: the most recent being the procurement capability reviews, which evaluated commercial aptitude across the 16 government departments. For example, the department of health procurement capability review programme found that:

"... PCTs are not uniformly strong in commercial capability, and are being offered support by NHS PASA, CD, Commissioning Directorate, Hubs, and by private sector providers... [However,] ... This range of support to them (people and guidance) is not fully coordinated and varies in quality". (OGC, November 2008)

So why, despite government investment in training and transformation programmes, the creation of the OGC (which is now part of the new efficiency and reform group within the Cabinet Office) and a continual championing of the 'professionalisation' of the government procurement function, are significant changes in commercial practice not evident?

While it is generally acknowledged that commercial skills within the public sector have been improving, they are still not comparable with those found in the private sector. Moreover, the adoption of Green's recommendations for the public sector to 'leverage its credit rating and its scale' (buying power) could lead to fewer collaborative agreements and encourage increased opportunistic and adversarial behaviour by suppliers.

If this were to be the case, it is unlikely that government departments would have the appropriate commercial capacity or capability to respond appropriately.

Green's report followed the government's white paper: 'Equity and excellence: Liberating the NHS' published in July. While adhering to the core principles of the NHS, "... a comprehensive service for all, free at the point of use, based on need not ability to pay", the paper denotes the government's desire to undertake a radical review of and simplification of the NHS.
In doing so, it advocates establishing the world's largest social enterprise sector and liberating the NHS from its 'old command-and-control regime'.

"This 'Brave New World' of the NHS will require outstanding commercial skills both to establish and to maintain appropriate trading relationships."

In terms of changes to the existing commercial structure, the paper promotes the transformation of the NHS's payment system and the creation of an 'Outcomes Framework' (that specifies what a service should achieve, but leaves the professionals to develop how it will be delivered); seeks to give all NHS trusts Foundation Trust status; and permits 'any willing provider' to supply services to NHS patients.

At the same time, in order to delivering efficiency savings, it proposes reducing the Department of Health's NHS functions (and, therefore, its administration costs), reducing management costs (through the abolition of quangos and cutting back on back-office functions) and disempowering the 'bureaucracy'.

In doing so there is a danger that this action will further undermine the development of appropriate commercial skills within the sector. This 'Brave New World' of the NHS will require outstanding commercial skills both to establish and to maintain appropriate trading relationships.

Dr David Lowe is a senior lecturer in commercial management at Manchester Business School