Value for money (VFM) in public services: The importance of organisational culture

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SYNOPSIS

VFM has been a key aspect of public service management for several decades and its importance has been raised in recent years as a consequence of austerity.

Organisational culture is recognised in research literature as a key driver of organisational performance. However, little attention has been paid to the topic of organisational culture in relation to VFM in public services.

This paper presents the findings of recent research in this area.

Key words

Value for money, Austerity, Performance, organisational culture

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Introduction

The search for Value for money (VFM) has been a key part of public service management for many decades. Prior to the 1980s, the term VFM had already been coined and was well used within the discipline of public sector management but in the 1980s, two significant events took place:

- The creation of the Audit Commission in 1982 with its focus on VFM in the public sector

- The passing of the National Audit Act 1983, allowing the National Audit Office to examine and report on the economy, efficiency and effectiveness (i.e. VFM) of public spending

These changes provided a significant kick-start to the profile of VFM in the public sector.

Furthermore, the onset of financial and economic austerity should have given a new degree of importance and impetus to VFM but it is not clear that this has been the case.

Much of what is written about VFM usually concerns technical issues such as benchmarking, data analysis, public consultation, process review, checklists, project management etc. However, evidence suggests that perhaps the most important factor is for there to be an organisational culture that encourages, empowers and incentivises employees at all levels in the organisation to search for ongoing VFM improvements. This has been little researched.

This paper is drawn from research undertaken by the authors as the basis for the development of a guidebook (published by CIPFA) entitled "*Having a value focussed culture: Continually improving to face the challenges of austerity*".

Organisational culture and organisational performance

Culture is often seen as being somewhat amorphous in nature and difficult to describe or define. Edgar Schein (1985)　gives many insights into this issue. He starts by observing that an organisation's culture is the most difficult attribute of an organisation to change, not least because so much of it is hidden from plain sight. He starts by breaking organisational culture down into three building blocks:

- *Artefacts* - what we see from the outside, the 'artefacts and creations' level as Schein called it, is easy to ascertain. What we can easily observe are the behaviours of people within the organisation; how they adhere to the norms of behaviour, the rules and customs. We also see the physical manifestations such as the building, the provision of coffee lounges to facilitate informal communication, the way people dress and the insignia of the organisation. We can also recognise the attitudes of the organisation, namely the formal procedures.

- *Values and beliefs* - Schein explains that the observable level is built upon the organisation and its members' values and beliefs. These are harder to observe from outside although they are likely to be recognised by members of the organisation. It may be that the size of your desk denotes status or that the sales force expect to have preferential parking spaces. It could be that working in a new air-conditioned building is 'the way that an organisation of this stature operates'.

- *Basic assumptions* – the most difficult to see, often for the individuals themselves, is the 'basic assumptions' level. This is usually subconscious and therefore the most difficult level to change. These assumptions inform the values and beliefs and in turn the observable level. An assumption might be that 'working from home is not an effective way of doing things' or 'it is impossible for someone under 30 to have gained sufficient experience to run a department'.

If we consider the issue of how does a culture within an organisation evolve, there are several key factors. Clearly, with a small commercial organisation the culture is likely to be strongly influenced by the founder – who is possibly also the owner.

However, the founder may also have a major influence on the culture of a larger organisation. Looking back to Schein's three determinants of culture it is not hard to visualise a strong founder having a lasting influence on the assumptions and the values and beliefs. Once these assumptions and values are formed, they become embedded in the minds of employees. They become part of the culture and are hard to change even when the founder leaves.

Organisational history also plays an important role in shaping culture. An IT company formed in 2015 will be likely to have a much looser culture than a manufacturing company formed in the 20th century. However, it is not just the era in which it was formed that influences the culture today. Also important are all of the events and the stories that influence the individual employees be they political issues, socio-cultural issues etc.

In addition, the geographic location of the business and the culture of the country where it is based are likely to have an influence. An organisation in France is likely to have a different culture to one in America, or one in China. National and regional values also influence culture.

Of critical importance is the impact that organisational culture can have on the performance of an organisation. There is much clear evidence from published literature that culture impacts strongly on performance (Lee and Yu 2004, Ehtesham et al 2011, Shahzad et al 2012, etc). However, the relationship is not straightforward and many other factors such as human resource policies, professional loyalties can have impacts as well.

VFM and organisational culture in the public sector

The term value for money has an every-day connotation but in relation to public services, it has a specific definition. A traditional formulation underpinning VFM has been the "3Es "– economy, efficiency, and effectiveness that is illustrated below in figure 1, which was prepared by the National Audit Office (NAO – undated).

FIGURE 1

The previous section discussed the topic of organisational performance and, clearly, there are many ways of measuring and evaluating organisational performance, which will vary greatly. However, in the UK public sector VFM is a key aspect of organisational performance in public services and, as such, the achievement of improved VFM will be influenced by organisational culture issues as much as any other aspect of performance.

We have already noted that the term culture is difficult to define. However, to make progress it is necessary to develop a framework to describe a good VFM culture in public service organisations in order that we can recognise such a culture when we see it. To this end, we have developed a working definition of a VFM culture. This has been established by reviewing previous research in this area and taking opinions from experienced and knowledgeable person about what they see as important. Some people may have some disagreement with what we have proposed but we believe it provides a good basis for examining the issue of culture in relation to VFM.

We consider the prevalence of a VFM focussed culture in relation to six main dimensions illustrated in figure 2 and subsequently discussed.

FIGURE 2

1. **VFM focussed leadership**
   For many years, much emphasis has been placed on the importance of leadership in public sector organisations. However, such leadership has several aspects and settings. The vast bulk of managers working in the public sector have traditionally worked in an environment where modest annual growth in financial resources was the norm, notwithstanding earlier short periods of cutbacks, and the management task essentially concerned making the best use of this growing pool of resources to develop and enhance services. The onset of austerity changed all that and now those same managers are faced with the task of delivering services and maintaining VFM in an environment of nil growth (or

reductions) in resources over a much longer period. This change requires a new focus and set of leadership skills and possibly new leaders.

2. **Openness and innovation**

   We have already talked about organisational cultures at some length. Some organisations will be "open" in character and people feel free to say what they think. Others will be more "closed" with people being reluctant to contribute. The degree of openness will be a key driver to obtaining innovative solutions that are at the heart of improving VFM. This dimension concerns an organisation where employees, at all levels, are encouraged to say what they think and make suggestions for improvement without fear of harassment or ridicule.

3. **External focus**

   For many years, most public sector organisations have had some form of external focus whereby they have attempted to get the views of a wide range of stakeholders) about the services being delivered and the potential scope for change. However, while some organisations have addressed this task enthusiastically, other have just played lip service to the idea. Having an external focus is a key aspect of VFM and requires an organisation that, genuinely, looks externally at the views of its clients and other stakeholders, takes account of their views wherever possible and provides feedback accordingly.

4. **Organisational change**

   Managing the process of change in an organisation is a difficult and time-consuming task. Many (or most) VFM improvements will require some form of organisational change and this may range from the minor to the significant. Hence, the capability to manage this change is a key dimension of VFM culture. This requires an organisation that is capable of making the changes needed to improve VFM and has the management capacity to manage the change process

5. **Involvement of front-line service professionals**

   Quite often, the process of identifying and delivering VFM improvements in public services is very much a top down process. External pressures force the organisation to identify such improvements and senior managers who communicate the required changes to lower levels in the organisations. Quite often, staff at lower levels, and especially front line service professionals, have little knowledge and understanding about what is being sought and little involvement in developing proposals. However, these very same individuals are

most likely to have good ideas as to how to achieve VFM including process redesign. Hence, it is important to have mechanisms in place to communicate to service professionals the meaning and importance of identifying VFM improvements and an <u>ability to engage</u> those professionals in the improvement process

6. **VFM infrastructure**

However good the VFM organisational culture, appropriate tools and processes will also be needed. Hence, this involves having appropriate information, evidence and suitable strategic and operational management systems in place to facilitate assessment of current performance and potential improvements. The extent to which this exists varies from organisation to organisation.

Research focus and approach

The focus of our research concerns the emphasis placed by public sector organisations in relation to VFM and culture. More specifically:

- The extent to which public sector organisations see organisational culture as important in the search for improved VFM
- How well developed, in public sector organisations, are the dimensions of VFM culture referred to above

Our approach to this research has been as follows:

- **Review** – a review of various publications and published research concerning the topic of culture in relation to VFM culture.
- **Survey** – using CIPFA databases, a questionnaire survey of opinion among a wide range of public sector managers concerning their perceptions of the current situation regarding VFM and its cultural aspects. Over 500 responses were received equating to a response rate of 10%.
- **Expert interviews –** a series of 20 expert interviews with "informed persons" concerning their perceptions of the current situation regarding VFM and its cultural aspects. This was designed to supplement the results of the survey. The content of the interviews were recorded and analysed.
- **Overseas interviews –** to gain an international perspective about VFM and cultural issues we also conducted a small number of interviews with individuals

involved in public service finance and management in three overseas countries: Canada, Australia and New Zealand. Again, the content of the interviews were recorded and analysed.

In analysing the findings, we have attempted to triangulate evidence from the questionnaire survey and the expert interviews with previous findings from the published research literature.

Research Findings

The main findings are described below:

The importance of VFM in public service organisations

The questionnaire enquired how important respondent's regarded the identification and delivery of genuine VFM improvements in their organisation. Not surprisingly, 60% of the respondents who expressed an opinion said it was very important while the remaining 40% thought it important.

This result may not be surprising and it was back up by findings form the expert interviews. However, there was also a strong consensus of views, among interviewees, that certain caveats might be placed on this view.

- While VFM is seen as important, the reality is that in many parts of the public sector the pressures of austerity and the "front-ending" of funding cuts means that the priority has been for short-term cost savings sometimes at the expense of real and long term VFM improvements.
- As a consequence of these short term pressures, some believe that although VFM is an important concept, others believe that the VFM agenda has actually gone backwards (not forwards as might have been expected) over the last few years
- It is to be expected that the degree of progress on VFM would differ between different public sector organisations. However, there is also a strongly held view that the rate of progress varies considerably with local government being seen as

the best, central government the worst and with the health service falling somewhere in between.

- A number of the responses indicated that while VFM is seen as very important in public service organisations it is not always clear what VFM means. Many are of the opinion that many staff (especially frontline service staff) see VFM as equivalent to cost cutting i.e. emphasising economy at the expense of efficiency and effectiveness.

- In some parts of the public sector the term VFM is not always, the most commonly used term. For example, in the NHS, the terms CIP (cost improvement programme) and QIPP (Quality, Innovation, Productivity and Prevention) are more commonly used or Network Rail who had their Organising for Quality programme.

The importance of culture with regard to VFM in public services

Questionnaire respondents were essentially asked how important they thought it was to have a VFM focussed culture in their organisation. Once again, there was an overwhelming view that having a VFM-focussed culture was seen as being a key means of delivering VFM improvements.

These views were supported strongly by our expert interviewees who saw having a VFM culture as almost a pre-requisite to delivering real improvements in VFM. Thus, the importance of organisational culture in delivering VFM improvements cannot be under-stated.

The existing prevalence of a VFM culture in public services

When we turn to the issue of how prevalent is a culture of VFM to be found in public service organisations we see a very different picture. Around a quarter of respondents indicated that a strongly focussed VFM culture was to be found rarely or occasionally and a similar proportion felt that such a culture was only to be found most of the time.

Our interviewees took broadly the same position but were perhaps somewhat stronger on the absence of well-developed VFM cultures. They noted that the

existence of good VFM cultures varies between individual organisations (and even within organisations) and between sectors but were of the view that fully developed VFM cultures in the UK public sector was a rarity. Given the focus on VFM over three decades this is a significant criticism.

The focus on developing a good VFM culture in public services
The issue here concerns whether public sector organisations focus strongly enough on developing an organisational culture for delivering VFM improvements. Asked the question as to whether public service organisations focus strongly enough on developing an organisational culture aimed at delivering VFM improvements. The results over 60% stated that they did **not** do so. Again, the response of our interviewees broadly agreed with the views of the questionnaire respondents.

This result has to be considered in the light of the fact that, as we have already seen, there was an almost universal view that having a VFM focussed organisational culture is an essential part of delivering VFM improvement

Dimensions of VFM culture: Existing prevalence
Earlier in this paper, we outlined our approach to describing a VFM culture in relation to six dimensions of VFM culture. This section of the questionnaire asked respondents to give their perceptions as to how well developed the various dimensions of a good VFM culture, were in the public services. The results are shown in figure 3.

FIGURE 3

These results do not provide a very positive picture of the situation regarding a VFM focussed culture in UK public services. Over thirty years after the development of VFM in the UK and five years after the onset of austerity in the public sector, the proportion of respondents who believe these VFM cultural dimensions are well developed is either just below or just above 10%. Around 35%-40% believe it is under-developed or very under-developed.

Our expert interviewees were broadly in agreement with the above findings but they were particularly damning about the lack of top-level leadership in relation to VFM. This was seen as the case in relation to both senior managers and to elected representatives. While some elected representatives in local authorities were seen as having an understanding, knowledge and focus in relation to VFM, others were seen as sadly lacking which often led to dysfunctional approaches in the organisation.

Another comment concerned VFM infrastructure that was seen as being very deficient but also having worsened over the past five years. This is because of the elimination of various support mechanisms to public authorities that were disbanded. This was seen as particularly damaging in relation to the sharing of learning and good practices among public authorities

Overseas Perspectives

To get a broader perspective we also conducted some short interviews with public service managers in a small number of overseas countries, namely Australia, New Zealand and Canada.

As we have only a small number of respondents, the need for confidentiality means that we are unable to make any comments that could be attributed to an individual. However, some generalised conclusions are as follows:

- The concept of VFM and its understanding is broadly the same in these other countries as in the UK. VFM has also been around for some time in these countries.
- In recent years, these countries have not had the pressures of public sector austerity to the same extent as the UK although Canada went through a similar process in the 1990s
- Like the UK, the prevalence of effective VFM cultures in the public sector of these countries varies considerably between organisations and sectors. There are some organisations which are very strong, some which are weak and the vast bulk which fall somewhere in the middle.

- There is a recognition in these countries that much more can be done in relation to VFM and might well need to be done in the years ahead
- Like the UK situation, there is a view that leadership in relation to VFM needs to be strengthened across the board
- Some take the view that major improvements in VFM, in these countries, will only come about through radical approaches such as disruptive innovation

Conclusion

The conclusions from this research are fairly clear-cut and in some ways rather paradoxical.

Firstly, the research literature indicates that organisational culture has a strong influence on organisational performance and this should also apply to VFM performance. From our surveys and interviews, we find that public service managers, in the UK and overseas, basically support this view in that:

- The identification and delivery of genuine VFM improvements in public service is seen as of <u>great importance</u>
- Having a VFM-focussed culture is seen as being a <u>key means</u> of delivering VFM improvements.

However, when we come to consider what is actually happening on the ground those same public service managers take the somewhat paradoxical view that:

- the <u>existing prevalence</u> of an effective VFM focussed culture in public services <u>is not high</u> and this is perhaps even more surprising given that VFM has been with us for almost four decades
- public sector organisations <u>do not</u> focus strongly enough on developing an organisational culture for delivering VFM improvements
- public services organisations display <u>low levels of development</u> in all of the dimensions of VFM culture which were investigated

Clearly there is a disconnect here between what managers believe is important and what actually happens in practice. One can postulate what the causes of this dis-

connect might be and the following suggest themselves as barriers to developing VFM focussed cultures.

- Political interference at local and/or national level. Managers are not allowed to manage

- Lack of consensus among managers. John Kotter (1996) has suggested that for culture change to be successful, 75 percent of an organisation's management needs to "buy into" the change – this is a challenge.

- Lack of managerial skills and experience in effecting culture change

- Lack of focus and leadership among senior managers in organisations. This may be due to a lack of awareness about the longer term impact of austerity and the need for major culture change (Prowle et al 2014)

The CIPFA publication referred to earlier addresses some of these issues but there remains a clear need for further and deeper research in this area.

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Figure 1: The nature 0f VFM

Commissioner / Service provider

Other influences

Objectives

Resources → Inputs → Processes → Outputs → Outcomes (intended and unintended)

Economy
Minimising the cost of resources used while having regard to quality

Efficiency
Relationship between outputs, e.g. services, and the resources used to produce them

Effectiveness
Extent to which objectives are achieved and the relationship between indended and actual impacts of a service

Cost-effectiveness
The optimal use of resources to achieve the intended outcomes

→ Contributes to the measurement of...

Figure 2: Dimensions of VFM culture

VFM Cultural Dimension	Description
VFM focussed leadership	The existence of leadership from the top of the organisation (political and managerial) having a <u>strong focus </u>on <u>VFM</u> and providing effective leadership for the achievement of improved VFM
Openness and innovation	An organisation where employees, <u>at all levels</u>, are encouraged to say what they think and make suggestions for improvement without fear of harassment or ridicule
Externally focussed	An organisation which<u>, genuinely,</u> looks externally at the views of its clients and other stakeholders and <u>takes account</u> of their views wherever possible
Capability for organisational change	An organisation which is <u>capable</u> of making the changes needed to improve VFM and has the <u>management capacity</u> to manage the change process
Involvement of service professionals	Having mechanisms in place to communicate to service professionals ((*e.g. doctors, teachers, police officers, social workers etc)* the meaning and importance of identifying VFM improvements and an <u>ability to engage</u> those professionals in the improvement process
VFM Infrastructure	Having appropriate information, evidence and suitable management systems in place to facilitate assessment of current performance and potential improvements

Figure 3: Prevalence of VFM cultural dimensions

VFM Culture Dimension	Well developed	Partly developed	Under-developed	Very under-developed	Uncertain	Total
	%	%	%	%	%	%
VFM focussed leadership	12	60	20	6	2	100
Openness and innovation	13	44	34	9	1	100
Externally focussed	11	51	27	9	2	
Capability for organisational change	10	45	36	7	1	100
Involvement of service professionals	8	42	36	8	6	100
VFM Infrastructure	7	50	30	11	3	100