

*InsideOUT series*

INSTITUTE  
FOR  
GOVERNMENT

# THE WHITEHALL ENTREPRENEUR

*Oxymoron or hidden army?*

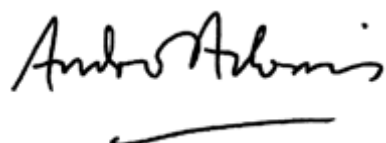
Andrew Cahn & Michael Clemence

# Foreword

Tracking down the 'entrepreneurial civil servant' has become the quest for the holy grail among modern Prime Ministers. They all want 'can do' officials with business and project management skills, able to 'innovate' and 'deliver' in the way that (they imagine) private sector entrepreneurs do. And nowhere do they want this more than in trade promotion, where civil servants work closely alongside business leaders to sell UK plc and break into new markets.

There is therefore no-one better to consider the concept of the entrepreneurial civil servant than Sir Andrew Cahn, the outgoing head of UKTI, the government's exports and inward investment promotion agency. Andrew Cahn casts a cool eye over the concept of the entrepreneur in modern government. There is 'good' entrepreneurialism - innovation, dynamism, a focus on tangible results. But there is also 'bad' entrepreneurialism - trading recklessly with taxpayers' money, as in the Crown Agents affair which he witnessed at first hand at the start of his career. The challenge is to cultivate the good without the bad.

This pamphlet is the first in the Institute for Government's new 'Inside Out' series of essays by authors with valuable personal perspectives on contemporary government. Andrew Cahn makes a highly stimulating and informative contribution to one of the central debates on modern government: how to encourage entrepreneurial dynamism among public officials, while remaining true to values of public service and public probity.



Andrew Adonis

Director, Institute for Government

## About our *InsideOUT* series

There is little systematic attempt to capture the knowledge and insights of people who have worked closely with government and share them with a wider audience. The Institute for Government is keen to remedy that. Our *InsideOUT* series gives people with an interesting perspective on government effectiveness an opportunity to share their personal views on a topic that sheds light on one of the Institute's core themes. The Institute for Government is pleased to be able to provide a platform to contribute to public knowledge and debate, but the views expressed are those of the author.

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# About the authors

## Andrew Cahn

Andrew Cahn started his career in the Ministry of Agriculture, Fisheries and Food in 1973. He was twice posted overseas with the Foreign and Commonwealth Office; worked in the Cabinet Office on the 1994 Civil Service and Science White Papers and subsequently as Deputy Head of the European Secretariat; and worked in the European Commission, in the 1980s as part of the team which created the EU Single Market, and in 1997 as *Chef de Cabinet* to Neil Kinnock when he was charged with reforming the Commission.

In 2000 he left public service to join British Airways, but returned in 2006 to become Chief Executive of UK Trade and Investment. He retired from that post in January 2011 and later this year will become Vice-Chairman of Nomura International and join the board of Lloyds of London. He is a governor of the Institute for Government and a Trustee of the Gatsby Foundation. For six years he was a Trustee at the Royal Botanic Gardens Kew.

## Michael Clemence

Michael Clemence has a First Class undergraduate degree in anthropology from University College, London. He recently graduated with a Master's degree in democracy and democratisation from the same institution and has worked as an intern at the Institute for Government since September 2010.

# Acknowledgements

I would like to thank, in particular, Michael Clemence for his collaboration, notably on the history of the concept of entrepreneurialism. He has learnt the perpetual truth of the public service that the juniors do the real work.

Digby Jones and Mervyn Davies were great Ministers to work with and they have given me insights on the question in the title. Susan Haird was my deputy at UKTI for the whole five years of my tenure and is now Acting CEO, and was a hidden army herself.

The Institute for Government, now admirably led by Andrew Adonis, has been as welcoming as one could possibly hope. He, Jill Rutter, Peter Riddell, Catherine Haddon and Zoe Gruhn have made valuable suggestions. David Sainsbury is one of the great philanthropists of our time, and the Institute only exists because of his vision. It has been a privilege and a delight to work with him over the last 15 years on a wide range of charitable activities.

Andrew Cahn, March 2011

*“In the past, Governments have progressively increased the number of tasks that the Civil Service is asked to do without paying sufficient attention to the need for economy and efficiency... The present Government are committed both to a reduction in tasks and to better management. We believe that we should now concentrate on simplifying the work and doing it more efficiently”*

*Margaret Thatcher (13<sup>th</sup> May 1980<sup>1</sup>)*

*“The Government believes that departments and agencies should now be given **greater flexibility to develop programmes for improving efficiency** which best meet their own needs, with less detailed central oversight of those plans”*

*John Major (1991<sup>2</sup>)*

*“In an opportunity society, as opposed to the old welfare state, government does not dictate; it empowers. It makes the individual - patient, parent, law-abiding citizen, job-seeker - the driver of the system, not the state. **It sets free the huge talent of our public servants and social entrepreneurs** whose ability is often thwarted by outdated rules and government bureaucracy”*

*Tony Blair (28<sup>th</sup> September 2004<sup>3</sup>)*

*“And I can announce today that we will actively publish all public services performance data online during 2010 completing the process by 2011... Releasing data can and must **unleash the innovation and entrepreneurship** at which Britain excels - one of the most powerful forces of change we can harness”*

*Gordon Brown (07 December 2009<sup>4</sup>)*

*“...freeing you from top down micro-management and targetry... **Liberating the hidden army of public service entrepreneurs**, deeply seized with the public service ethos, but who itch to innovate and drive improvement themselves. I know there’s a hunger for this... There is huge pent-up frustration among so many public sector workers who see how things could be different but can’t make it happen.”*

*David Cameron (17<sup>th</sup> January 2011<sup>5</sup>)*

# 1. Introduction

Prime Ministers always want the Civil Service to be more efficient, innovative, or entrepreneurial. In this tradition, David Cameron spoke this January of 'liberating the hidden army of public service entrepreneurs'. I have written this paper to ask whether such people are a contradiction in terms, or can we find ways of encouraging the entrepreneurial capacity in the public service the Prime Minister wants?

The quotations from the last five Prime Ministers show that their focus on cutting costs and improving public sector efficiency has shifted to the need for change and innovation. There has been an evolution from Margaret Thatcher's demand for efficiency, through John Major's unsung improvements to public sector management (which I saw as William Waldegrave's Principal Private Secretary) and Tony Blair's focus on measurement and delivery, finally culminating in David Cameron's 'hidden army'. Does this reveal a perpetually unmet ambition of government public service reform? Are they simply hollow utterances, a 'soundbite' designed to catch headlines? Or do they represent a misunderstanding of the term 'entrepreneur'?

George W. Bush famously, if apocryphally, told Tony Blair that the problem with the French economy was summed up by one fact: "the French don't have a word for entrepreneur".<sup>6</sup>

My worry is that here in Britain we don't have a word, or at least the right word, for a public service entrepreneur. The political world says it wants the public sector to be more entrepreneurial, but what they may actually mean is that they want the public sector to be more energetic, more open to new ideas, more innovative themselves, and more focussed on outcomes and delivery and less on process and precedent.

I begin by looking at definitions of the entrepreneur, from the 'creative destruction' of the Schumpeterian *Unternehmer* to the domesticated 'intrapreneur' working in a large corporation. My own view is that entrepreneurialism is a compound of innovation, risk and individual profit. Central government has difficulty accepting two of these three. It finds it more difficult than the private sector to legitimise risk, particularly the risk of failure, and it is proper that it does not want the fruits of innovation to benefit individual civil servants.

At the entrepreneurial extreme, when public servants become speculators, as in the Crown Agents affair in the 1970s, disaster results. I was a young civil servant observing at first hand the investigations of the Fay Inquiry into the causes of the Crown Agents' spectacular meltdown, and it has served as a warning to me ever since.

But there are a variety of public sector activities which would benefit from a greater focus on spotting opportunities to improve services or profits, rather than following precedent or a rule book. The most obvious examples of such activities, such as oil and gas, utilities and aviation, have

been privatised, whilst others operate as trading funds or Agencies, at arm's length, and with significant independence even if still part of government. But there remain many service providers in Whitehall where the Prime Minister's exhortation strikes a chord of longing without a belief that the government really means it.

One of these is UK Trade and Investment, the non-Ministerial department I led from 2006 until early this year. It is a direct service provider capable of acting in a quasi-commercial way. In six brief case studies, I look over episodes where an entrepreneurial effort succeeded, or was squashed, by external and internal pressures. These case studies, covering issues such as using golf balls for marketing, commissioning the 2010 Shanghai Expo Pavilion, and doing a deal with British Airways, illuminate the factors which can dampen or promote innovation and risk taking in the public sector. I identify the reward structure and culture of the civil service, the political need for rapid results, the nature of Parliamentary scrutiny and Ministerial accountability, and the media focus on exposing and punishing failure, waste, and impropriety as the most constraining. There is very little incentive to take any risks, and hence to be entrepreneurial. But I believe UKTI is one of the most entrepreneurial parts of Whitehall and I highlight seven features of UKTI which foster an entrepreneurial-like spirit in the organisation – which Whitehall should try and emulate.

If UKTI is an encouraging example, my time with Neil Kinnock trying to reform the European Commission provides is rather the opposite. The individual entrepreneur was rampant there, but only because the formal machinery was so difficult to manage. Our efforts to introduce accountability, efficiency and transparency did improve matters. But we also created a layer of control that stifled innovation even further.

I conclude that Prime Ministers are right to demand higher performance from the civil service, but the word 'entrepreneurial' is not helpful. They want energy, innovation and efficiency, but not the profit and risk inherent in entrepreneurial activity. Yet even for these aims, the solution is to bring more private sector disciplines, rewards and culture into public life. For this they should adopt the entrepreneurial approach of starting small, experimenting, changing tack, and responding to the marketplace, finding niche opportunities, and finally committing for the long term.

## 2. What is entrepreneurialism?

The concept of entrepreneurialism developed alongside the science of economics. The word *entrepreneur* derives from the French for 'one who undertakes', which nicely encapsulates the mindset of an entrepreneur (an apt American English transliteration might be 'go-getter'). The initial description of the term, outlined by economists such as Richard Cantillon and Jean-Baptiste Say over the eighteenth and nineteenth centuries, centred around two concepts – personal profit and change. In their formulations, an entrepreneur personally profited from the management of change.<sup>7</sup>

Entrepreneurialism arrived at its modern definition in the early twentieth century with the intellectual might of Joseph Schumpeter and other economists of the Austrian School.<sup>8</sup> Schumpeter claimed that the entrepreneur – *Unternehmer*, literally 'one who undertakes' in German, but employed by Schumpeter with implications of a 'wild spirit' – was the driving force of economic growth. These 'wild spirits' were far more active than in previous understandings of the entrepreneur, using the market to create change in order to break up monopolies and derive personal profit. Schumpeter's most famous theory, 'creative destruction', describes the actions of the 'wild spirit' entrepreneur. The concepts of change, free markets, risk and profit which inform the current definition of entrepreneurialism are well summarised by the Harvard Business School. It defines entrepreneurialism as "the pursuit of opportunity without regard to resources currently controlled".<sup>9</sup> This approach is the very opposite of the typical public sector approach.

### The evolution of the public sector entrepreneur

'Wild spirit' entrepreneurs were long seen as sole traders, either disreputable (the 'spiv' of the black market say) or uncontrollable; both completely anathema to organisations, public or private. In the late sixties some academic literature began to incorporate the entrepreneur into business discourse. Harvey Leibenstein was one of the first to develop a theory of 'corporate entrepreneurialism', arguing that individuals within corporations were able to reduce the 'slack' in their corporation by small innovative steps, making the company more competitive and less likely to be bought out.<sup>10</sup> This marks the beginning of a conceptual shift, where theories of the firm began to turn from approaches which treated corporations as monolithic organisms into theories which examined individual agency within corporations.

In the eighties this new approach entered the mainstream, affording the entrepreneur an established home within corporations. One example arises in the creation of the word 'intrapreneur'. Theories of intrapreneurialism acknowledged that a Schumpeterian entrepreneur was unlikely to function well in a corporation, and created the intrapreneur as a character who could incorporate the flexibility and ambition of an entrepreneur into a corporation.<sup>11</sup> In government, new public management theories also drew on private sector expertise to assist the public sector; for the first time the two were considered as comparable, and the private sector ideas

injected into the public sector around then, such as increased competition, included the germ of what would become known as the public sector entrepreneur.

The first growth in public sector entrepreneurialism emerged in 1992 with the publication of David Osborne and Ted Gaebler's book "Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector". It laid out a ten point plan to foster entrepreneurialism in government. Their first recommendation that government should 'steer and not row' was then oft-quoted in the corridors of Whitehall, and for good reason. Rhetorical flourishes such as;

*"we do not want less education, fewer roads, less healthcare. We want better education, better roads, and better healthcare, for the same tax dollar"*<sup>12</sup>

promised a revolution in public services which appealed to all in Whitehall and Westminster. Their message perished in America with Al Gore's failure to win the 2000 Presidential Election,<sup>13</sup> and their arguments faltered here due to their excessive US-focus.

A more fundamental stumbling block is their separation of entrepreneurialism and risk. It is a book on entrepreneurialism written by the victors, who retrospectively class their successes as dead certainties. In the preface the authors quote a successful entrepreneur who claimed that

*"the successful [entrepreneurs] I know all have... one thing in common: they are not risk takers".*<sup>14</sup>

Risk-free entrepreneurialism is truly an oxymoron; innovation or incentives would describe their recommendations far better than 'entrepreneur'. All opportunities come with risks attached, and entrepreneurs, whether public or private, show true skill in minimising their impact.

By the year 2000, Osborne and Gaebler's entrepreneurialism was replaced by 'public sector entrepreneurialism'. Whilst David Cameron is the first Prime Minister to use the precise phrase, management theory had been staking out the territory for some time.<sup>15</sup>

One of the best accounts of public sector entrepreneurialism is given by Kearney, Hisrich and Roche in 2008. In their conceptualisation, entrepreneurialism of all kinds is comprised of three related but distinct components – innovation, risk taking and proactivity.<sup>16</sup> Public sector entrepreneurialism is differentiated by the relative difficulty the public sector has in promoting these three components.

This model gains another dimension from Shockley *et al.*, who argued in the same year that public sector entrepreneurs alongside policy and social entrepreneurs are all 'non-market entrepreneurs', who derive a different satisfaction from their actions than profit.<sup>17</sup> This is, for me, the most important difference between entrepreneurialism of the public and private sectors.

More generally, in my mind, public and private sector entrepreneurs differ along four key points. Firstly, in their conceptualisations of profit; secondly their levels of acceptable risk taking; thirdly their capacity to act proactively; and fourthly and importantly, in their approach to innovation. As Christian Bason, the head of the Danish government innovation centre 'MindLab' explains:

*“In the private sector, the innovation challenge is largely about **opportunities**: how to identify them and leverage them for competitive advantage... In the public sector, the innovation challenge is much more about **problems**: how to define them, what to do about them, and how to know whether they are being fixed or not...”<sup>18</sup>*

I fear that this division between the opportunistic innovation of the private sector and the more problem-oriented innovation of the public sector may be too simple, although its broad strokes are well-intentioned. Profit motivation could provide an equally stark, and more accurate, dichotomy, but neither alone is capable of covering the huge variety of public sector activity.

Winning the contest to hold the 2012 Olympics could not be described as a problem waiting to be solved. But the decision to bid for the Games was made by elected politicians who seized an opportunity to make political capital. Once the Games were won, Whitehall then had to 'solve the problem' of initiating a multi-billion pound building programme in East London to host them. However, there are many other examples where the private/public-opportunity/problem dichotomy does not hold up.

Andrew Adonis has argued to me that;

*“virtually every exercise in effective diplomacy (abroad) and social improvement (at home) requires some measure of entrepreneurialism, as much in identifying and capitalising on opportunities as in dealing with problems”<sup>19</sup>*

I agree, and in particular I have seen our diplomats take initiatives far from home to achieve government aims. I believe the FCO to be one of the most entrepreneurial departments precisely because it requires the greatest independent action of its staff. However, it seems to me that most civil servants, most of the time, react to problems instead of seizing opportunities because, whatever the rhetoric, that is what the culture and real life signals tell them is wanted.

But Bason's dichotomy does get at the reason why UKTI is rather entrepreneurial. Most Whitehall departments are concerned with problem solving and resource allocation. UKTI searches for opportunities to fulfil its task of helping business to be more entrepreneurial. When it is directed by government, helping businesses can be considered as problem solving, but UKTI often has greater independence than this, which allows it to spot opportunities.

Many of the structures in place which stifle public sector entrepreneurialism, such as strict hierarchy, diffuse responsibility and rigid accounting mechanisms, are specifically designed to prevent individuals from acting unilaterally with public money. These are wise safeguards and there will always be a trade off between machinery to prevent impropriety and innovation. Can public servants then be entrepreneurs unless they are allowed to take individual decisions to use public money to fund innovative but risky projects? Are we asking the impossible? To borrow from Schumpeter again, Whitehall is being asked to be creative, without legitimising the necessary destruction?

## Central government, the agencies and those in between: a taxonomy of the public sector

Of course, public services are integrated to different extents into central government. It is clear that some areas of government are more amenable to private sector activity than others, and hence might benefit more from entrepreneurial conduct. Whilst the exact boundary between public and private organisations is porous and liable to move with public opinion, some public organisations have become very successful as private entities, able to utilise private sector entrepreneurialism in an area previously considered as the government's prerogative. Those organisations which for strategic or political reasons, or for a lack of a viable private sector business plan, are in public ownership can seek to improve processes through public sector entrepreneurialism.

I find it more useful to imagine a spectrum of entrepreneurialism, ranging from wholly privatised former government organisations at one end to totally centralised Whitehall policy departments, such as the Cabinet Office, at the other.

At the privatisation extreme of the spectrum lie those organisations whose operations could most easily be carried out by the private sector. British Airways is a good example, of which I have personal experience. When I was an executive in British Airways, I found none of the left-over nationalised industry culture of which some accuse it. To the contrary, it was highly commercial and innovative (every time you lay your bed flat on a plane, thank BA).

A plethora of organisations lie at various points along the centre of the spectrum, including arm's length bodies and Next Steps Agencies. Many of these could be either state- or privately-owned. Lying towards the privatisation end, the publically owned Defence Evaluation and Research Agency (DERA) was privatised as the defence firm QinetiQ in 2001. When I visited it in 2009, it was as commercial and innovative, and experimental, a company as you could hope for. The Commonwealth Development Corporation (now CDC) lies almost directly in the middle of the spectrum, as a public limited company owned wholly by DfID. Both defence and development are areas in which the government takes a keen interest and leading role, but are also areas where an entrepreneurial impulse is welcome.

At the other extreme of the spectrum there are those organisations which are best suited to, and remain within, the public sector, because they are of national strategic importance or provide a public good which the private sector would be unable to supply because the market would not allow a company to derive enough profit from it. There are also many service delivery and regulatory functions, such as the UK Passport Agency, the UK Intellectual Property Office, or Ofcom, which government must manage. In addition, the core business of Whitehall departments, such as direct support for Ministers, regulation and the allocation of funding, must be state owned and delivered. But where innovative and commercial approaches can be beneficial for the economy and the citizen there is always scope to encourage entrepreneurs; perhaps the most challenging example is the Royal Mail, which successive governments have attempted to make more entrepreneurial without privatising it.

Other examples can be found in education and healthcare, where successive administrations have sought ways to make schools and hospitals more entrepreneurial. Academy schools and Foundation Trust Hospitals have been given a great deal of autonomy from the state to allow them to innovate and experiment. Yet creating a viable failure regime for failing schools or hospitals has taxed many Secretaries of State. In these particularly sensitive areas all innovation and dynamism is welcome, so long as it succeeds.

I think that UKTI, as a non-Ministerial virtual Government Department shared between the FCO and BIS, is another example of a service which cannot be privatised. In its current form no viable commercial business model exists for it; the services, assistance, and marketing it offers UK firms at home and abroad cost a great deal more than the small income it derives from its fee-paying services, making profit an impossible goal in the UK and every other country I know of. UKTI, as a marketing operation under pressure from global competition to constantly find new ways to meet its targets and to offer a 'tailored' individual service to its clients, appears peculiarly suited to entrepreneurialism.

The best example of an entrepreneurial organisation at the heart of Whitehall is SIS, which certainly has a hidden army. But, impressive as it is, SIS cannot be a model for the rest of the public sector.

However you define it, the Whitehall entrepreneur has broad scope and at least some elements of the hidden army are clearly needed. Yet many people do think the phrase an oxymoron because governments have deliberately obstructed the Whitehall entrepreneur. The next section explains why.

### 3. The Crown Agents – a cautionary tale

A true entrepreneur is willing to put everything on one business venture or deal which has a significant chance of failure. Such behaviour is anathema to the culture of the public sector, and underlines the need to delineate public sector entrepreneurialism from unfettered entrepreneurialism by reducing and managing risk. The Crown Agents affair of the early seventies underlines the enormous risks posed by poor entrepreneurialism from public servants.

The Crown Agents have been likened to “the smile of the Cheshire cat, remaining after everything else had disappeared”.<sup>20</sup> The first use of the term ‘Crown Agent’ occurred in 1758,<sup>21</sup> and the Crown Agents gradually emerged as a distinct body over the second half of the eighteenth century. They were principally agents of the Crown Colonies, representing them in London and arranging services for colonial government officials visiting London. However as an amorphous organisation, they diversified into numerous fields, such as construction management across the Empire and ship restoration. After independence, the former colonies were able to select their own providers of these services, ending the Crown Agents’ former monopoly. Those running the Crown Agents realised that now they would have to reinvent themselves and sell and market their services to keep in a job – in short they were required to be entrepreneurial.

The Crown Agents’ fears that they would lose all custom were ill-founded, and whether through entrepreneurial activity or the newly independent countries’ familiarity with them, by 1977 they were providing services to 67 Commonwealth countries.<sup>22</sup> However, their experience in the early seventies was a salutary lesson on the perils of unchecked entrepreneurialism in the public sector for me as I began my civil service career. At the time I was Private Secretary to Sir Alan Neale, who was then Permanent Secretary in the Ministry for Agriculture, Fisheries and Food and a witness before the Fay Inquiry into the collapse of the Crown Agents from his time in HM Treasury.

In the years 1967-1974 the Crown Agents, under the (false) impression that the UK government would not rescue them if they got into financial trouble (it wasn’t that they were too big to fail, just too embarrassing), strove to create a £7 million cushion to protect themselves from financial hardship.<sup>23</sup> Using their reputation to borrow cheaply, they engaged in all sorts of speculation and dubious financial practices, including substantial investments in Australian property.

As the property boom of the late sixties gathered pace the Crown Agents surfed at the top of the wave, abandoning their initial aim to raise only £7 million in capital and becoming similar in structure to the large number of small lending banks, or secondary banks, which entered bankruptcy in what became known as the secondary banking crisis of 1973-5. The Crown Agents followed suit, making a loss of £212 million; an enormous sum in those days, and quite the worst financial scandal in the public sector for decades. One of their defences to the Fay Inquiry was that they merely copied the City’s tactics of window dressing balance sheets, tax avoidance and property speculation.<sup>24</sup> The lesson drawn by the body politic was that civil servants should stick to

their last, had no business trying to be entrepreneurial like the private sector and, besides, were not very good at it.

What this shows is that it is easy to find examples of bad entrepreneurialism; and that the bad ones can be truly dreadful. However, it is also easy to find examples of bad bureaucratic timidity, a feature which stifles innovation and can cost the public services even more because it is harder to eradicate.

The lessons I drew from the Crown Agents affair can help to differentiate public sector entrepreneurialism from the less restricted private sector entrepreneurialism. Public servants should be adventurous, but it is right that they must apply higher standards of probity in their dealings than the private sector: the fact a practice is not of itself illegal is not sufficient cover for doing it. Also, public servants ought not to get involved in areas where they have little expertise and are likely to be out-manoeuvred. The final lesson I derived from the Crown Agents fiasco weighs most heavily against true entrepreneurialism. The direction of public bodies must be set by Ministers, not civil servants. Changing the function and objectives of an organisation and hiding this fact from Ministers and the public, as occurred in this case, was a truly entrepreneurial response to the ending of the Crown Agent's monopoly. However, like many entrepreneurial ventures, it failed – compounding the Crown Agent's undemocratic actions with an enormous bill to the taxpayer.

## 4. Public sector safeguards against the entrepreneur

The Crown Agents affair was but one in a long line, before and since, of episodes which underline the need not only for an overarching public sector culture of probity and caution, but also for constant vigilance by auditors, Parliament and the media. This section highlights the way these constraints are designed to dampen entrepreneurialism in the public sector, and most effectively do so.

The role of Departmental Auditors, the National Audit Office (NAO) and the Public Accounts Committee (PAC) of Parliament in tempering entrepreneurial impulses is rarely given its due. Civil servants are taught early on that criticism by the NAO and an appearance of their Permanent Secretary Accounting Officer before the PAC is to be avoided at all costs. This lesson goes well beyond ensuring that the rules have been observed, not least as the NAO, far more than its counterpart organisations elsewhere in Europe, focuses on value for money, processes and safeguards. The culture created is one where the risk of immediate criticism by the NAO is far more important than the potential future benefits generated by a brave new idea. The NAO have tried hard in recent years to avoid dampening innovation, not least by reinterpreting their enquiries as a means of giving departments free 'value for money' consultancy. However, civil servants lag behind this and still use the auditors as a bogeyman to halt innovation. In my experience over five years as an Accounting Officer, there is more focus on the means by which a department functions, than on the ends, that is whether the department has achieved its objectives.

Parliament acts not only via the PAC but also via its powers to question, demand information, and criticise civil service actions in debates. Here too the culture in the civil service is very clear; it is one's job to avoid criticism in Parliament and to ensure that one's Minister is not held responsible for any departmental action which resulted in failure. Civil servants often use the "Daily Mail" or "Private Eye" test, where a course of action is halted if one can imagine either of the publications being able to use it to criticise the government or their Minister. Often, a similar "Parliament" test is applied simultaneously. What would the line of criticism be, would it be embarrassing and would one's Minister be comfortable defending the proposed course of action at the despatch box? Much of the time, this is a valuable self-censoring tool. But these tests are blunt instruments, and amount to a 'precautionary principle', placing the burden of proof on the innovator who must prove that their plans are impervious to criticism.

This applies even more strongly to the media. In Parliament one usually has the chance to explain, to argue, and to justify a course of action. In the media, that is rarely the case. There is often a presumption of civil service incompetence and an implicit suggestion that civil servants frequently act improperly. So from the perspective of an individual civil servant it is just not worth trying to do something exciting or energetic, let alone entrepreneurial. The 'Daily Mail test' promotes sticking to

precedent and avoiding any innovation, to ensure that failure is avoided; and the more individual civil servants are identified in the media, the stronger this pressure. A senior member of Tony Blair's entourage said to me that being attacked by the Daily Mail was 'a badge of honour'. Perhaps so, but it is a decoration almost all civil servants avoid like the plague. It is ironic that the Daily Mail, which inveighs against jobsworth civil servants, encourages bureaucratic timidity by its actions.

A contrary pressure also exists, a positive side of the media focus which highlights inadequacy and failure to live up to targets, policy objectives, or political claims. Ministers respond by pressing the civil service to try harder, be more effective and to find better ways of delivering a service. But the negative pressure from the media, Parliament and government means that civil servants try to do this without taking risks; a contradiction which is difficult to handle. Much of the tension in government comes from Ministers/Special Advisers wanting to get on with the latest idea and civil servants pointing out the downsides. That fruitful tension can, given a sufficiently risky idea, lead to paralysis. The paralysis is often deepened when there is pressure, usually political, to get on with a project rapidly.

I believe this is a fundamental problem in Whitehall today. Initiatives have to happen too quickly, without the right preparation. Private sector entrepreneurs start small and grow. Thorough research, pilot projects, frequent adjustments and scaling up are normal elements to this process; in the public sector they are usually bypassed because they would delay the implementation of an initiative beyond the lifespan of the Minister.

Even if an individual civil servant resolves the contradiction by wanting to be entrepreneurial, civil service incentives do not encourage them to act entrepreneurially. I recall the debates around the introduction of performance related pay to the civil service in the early 1990s. Its proponents, and I was one of them, were convinced that we would make each civil servant responsible for their own achievements. But it has not worked out like this, and I speak as a beneficiary for five years of a large potential bonus. Promotion, performance related pay and peer approval, all predispose the individual to avoid risk. Of course some high profile civil servants have prospered via risk, but for the generality, most of the time the lesson remains "don't do anything which might go seriously wrong". The civil service culture is, perhaps for good reason, the strongest disincentive to be entrepreneurial.

## 5. UKTI and public sector entrepreneurialism

UKTI is a particularly entrepreneurial part of government. As an outwards-facing service delivery organisation responsible for promoting UK business, it has many contacts in the private sector and its aims are often measured in private sector terms. Its corporate plan for the years 2009-2011 highlighted some of these 'private sector' aims, such as achieving an 80% level of customer satisfaction, increasing organisational income through enhancing the use of its charging services, and promoting a measurable rise in research and development spending in companies based in the UK.<sup>25</sup> Additionally, UKTI is in direct competition for foreign investment with competitors in other states, such as Invest in France and IDA Ireland. Finally, its five year strategy from 2006 placed proactive and extensive marketing at the heart of UKTI strategy.<sup>26</sup>

A trade body like UKTI has existed roughly in its present form since 1999, when its predecessor, British Trade International, was founded on the recommendation of the Cabinet Secretary as a way to reconcile the perpetual argument between Foreign Affairs (the FCO) and Commerce (BIS, then DTI) over who controlled commercial diplomacy. In 2003 BTI and its two arms – Trade Partners UK and Invest UK – were combined and rebranded as UKTI.

UKTI's structure, staff, and the nature of its work give it an entrepreneurial flavour. UKTI has a widely dispersed staff, operating in almost 150 cities in 96 countries, as well as having offices throughout the English regions. The majority of UKTI staff at its international posts are locally engaged – not diplomats, but hired locally by the embassy or consulate. Most of them have business experience, and all are encouraged to think of innovative ways to deliver UKTI's services and hit their targets. Since much of their activity is identifying business opportunities, creating business networks, and providing commercially useful information, there is no fixed way of doing the task, allowing its staff the freedom they require to innovate. As a result, the services provided by UKTI are 'tailored' to each client or each project.

Structurally, UKTI is a 'virtual department' – all its staff are employees of either FCO or BIS, and about 80% of its activity in the UK is contracted out. As a result it is able to retain those who enjoy the work or show an entrepreneurial talent, whilst those who don't are able to move on to another part of their home department.

Neither the business-oriented aims of UKTI, nor the behaviour required to reach them, necessarily come easily or cheaply to government organisations. A recent advertising campaign by 'Invest in France' targeting the US, Europe, China, India, Brazil, Turkey and the Gulf states cost €10 million, and a similar IDA Ireland scheme for the US market cost €3.3 million. The total expenditure by UKTI's global counterparts in *The Economist* magazine last year alone was £5.8 million.<sup>27</sup> The blanket scope and enormous budgets of these efforts demonstrates that if UKTI is to meet the

Government's objectives, it needs the firepower to match its comparators, as well as real commercial nous.

The obstacles mentioned above are just part of the problem; attracting foreign investment to the UK and promoting UK companies abroad are tasks which require a level of business and marketing acumen more commonly associated with external, private sector, advertising agencies, consultancy and professional services companies, and businesses. Indeed, an earlier Trade and Investment Minister, Sir Richard Needham, told me that;

*"UKTI can help entrepreneurs be entrepreneurial, not be entrepreneurial itself.*

*Indeed it should specifically not be entrepreneurial"*<sup>28</sup>

I accept that UKTI's role is primarily facilitating. But I would look for more entrepreneurial energy within UKTI than Richard.

Perhaps for this reason it has recently become common practice that the Minister with responsibility for UKTI, the Minister of State for Trade and Investment, is an ennobled businessman rather than a politician from the House of Commons. This example of using 'GOATs' (an acronym of 'government of all the talents'), was initiated by Gordon Brown with the logic that a highly successful external expert should not only comment from the Lord's benches but also bring their expertise and knowledge into government. In this case they were to help UKTI to be more businesslike and entrepreneurial. In this specific instance, because they do not have constituency obligations, GOAT Ministers are more able to undertake the extensive world travel associated with the post.

The first Minister of State for Trade and Investment from the business world, Sir Digby Jones, a former Director General of the CBI, became Digby, Lord Jones of Birmingham and occupied the post from June 2007 to October 2008. During his time he brought huge energy and a very high public profile to the post, giving UKTI far greater political visibility and focusing on his trademark 'batting for Britain' salesman activity. He also linked UKTI more closely to the business community than other economic policy departments. But the end of his tenure as the Minister underscores the differences which can exist between the culture of the public and private sectors: he famously said half of the civil service deserved to be sacked, and told the Public Accounts Committee that his time as a Minister was "one of the most dehumanising and depersonalising experiences" anyone could have.<sup>29</sup>

In January 2009 Lord Jones' successor, Mervyn Davies, Chairman of Standard Chartered bank and now Lord Davies of Abersoch, took up his position. He remained as Minister until the May 2010 General Election. Like Lord Jones, and with equal energy, Lord Davies spent much of his time travelling around the world promoting British business interests, but he was also closely involved in the government's policy response to the global financial crisis, in particular its policies towards the financial services sector. This highlights the potential value of the GOAT concept to contribute to wider policy issues. Lord Davies also interested himself in trying to improve the structure of UKTI as well as the Export Credit Guarantees Department, a separate government organisation which some have argued could be combined with UKTI. He took over responsibility for Small Businesses,

Infrastructure and the Shareholder Executive. He accreted responsibilities so by the end he was an extraordinarily powerful Minister of State who ranged widely across government. Lord Davies completely disproved the notion that businessmen make poor politicians. Indeed he shone brightly in the latter days of the Brown administration.

The coalition government has recently appointed the current Minister of State for Trade and Investment, Stephen Green, the former Chairman of HSBC and now Lord Green of Hurstpierpoint. Like his predecessors, Lord Green hails from the business world, and intends to travel extensively in promoting British business. He has a remit to deliver the Foreign Secretary's priority of commercial diplomacy and increased levels of inward investment. To my regret, I left before I had a chance to work with him in detail.

I did, however, serve seven Ministers in my five years, far too many of course and in itself a real problem. But I am clear that the GOATs in particular added greatly to the skills, the energy, and the innovation of the government they served and I hope that this experiment becomes the norm. I have no doubt that a key to such entrepreneurialism UKTI has is the leadership of businessmen as Ministers, and of businessmen as senior executives.

Appointing a business-oriented Minister is a good signal of intent. In itself however, it does little to tackle the structural obstacles impeding government departments from exercising a degree of entrepreneurialism. What follows are the most pertinent examples of successful and failed entrepreneurialism my time as CEO of UKTI. Each highlights different aspects of the tension between the entrepreneurial drive present at UKTI and the political, media, and civil service pressures which make true entrepreneurial conduct in public services rather difficult.

### Example one: UKTI and BA deal-making – the hidden army scores a hit

The partnership agreed between UKTI and British Airways in 2008 is a good example of how UKTI can be entrepreneurial. Under the partnership, British businessmen exploring new export markets and new foreign investors in the UK were offered free business class seats on BA flights. The deal benefitted both organisations, as UKTI was better able to reach its export and foreign investment goals, whilst BA raised its profile and would benefit from future repeat custom. It was a successful deal, with almost 3000 small and medium enterprise (SME) owners receiving complimentary tickets in 2009 and significant new business for the UK resulting from it.<sup>30</sup>

The entrepreneurialism of this particular deal emerges in the detail. It was conceived by mid-ranking executives from the two organisations networking at a UKTI event. Whilst joint business ventures are commonly derived in such circumstances between private sector organisations, they are far more unusual in public sector organisations owing to safeguards against rash decisions such as a strict hierarchy and the use of committees. Committees prevent individuals from immediately implementing their plans, and the strict departmental hierarchy means that such ideas must go to the top for approval; often to an elected – and therefore risk-averse – politician or his top civil servant proxy. In the hierarchy there is an inbuilt bias towards finding reasons not to authorise a junior's bright idea.

Although the deal went ahead, was successful, and has been prolonged and converted into a 15% discount scheme for all companies on UKTI's "Passport to Export" and "Gateway to Global Growth" schemes, it raises some wider questions.<sup>31</sup> I had, prior to becoming CEO of UKTI, been an executive in BA, and so there was the chance that a perception of a conflict of interest could arise. This was despite the fact that I had nothing to do with the deal itself beyond giving it formal approval.

There were also questions relating to government neutrality. Could the government be seen to be cutting deals with one particular airline, the previously nationalised BA, whilst not offering the same opportunity to Virgin, BMI, or EasyJet? How should UKTI allocate the tickets – which businessmen would miss out? The scheme could be seen as compromising the neutrality of the civil service and could therefore be considered risky. The fact that a business was offering free goods to the government in expectation of business benefit treads closer to charges of impropriety than many government departments and agencies are comfortable with, even though great efforts were made to ensure that nothing improper could happen. I took the view that we would eagerly do the same sort of deal with BA's competitors and told them as much, and that we allocated tickets to those businesses which were most likely to use them to the national benefit. In the event, I am sure that there was no impropriety. But it felt difficult to get this innovative scheme off the ground.

## Example two: The Shanghai Expo pavilion – where the state can be more adventurous than the private sector

If risk-taking is the central component of entrepreneurialism, then no example better portrays the entrepreneurial traits of UKTI than its involvement in the British pavilion in the 2010 Shanghai World Expo. The experience of the Foreign and Commonwealth Office (FCO) in previous World Expos, where high cost had not yielded benefits in trade or diplomacy, had made it chary of repeating a dismal performance. The World Expo did not have the level of public salience required to attract Ministers who might invest their political capital in a radical or innovative design, so the project was drifting. However I saw the Expo as a great chance to boost the UK's outward trade and foreign investment, and so offered that UKTI would do some of the spadework for the 2010 attempt, particularly in the design of the pavilion.

The jury tasked with choosing a design was chaired by Digby Jones, at that time Trade Minister. The choice of winning design was risky but the jury's adventurousness paid off. Thomas Heatherwick's "Seed Cathedral" became the iconic image of the Expo, being the most popular amongst the 70 million Chinese visitors to the Expo and winning both the Expo's gold medal for design and the prestigious RIBA Lubetkin prize. The dividends it has paid in altering perceptions of the UK, which is generally considered in China as a land of cobbled streets and Dickensian mists, are huge. However, this design had the potential to be another Millennium Dome; a startling building with little content, and for this reason it is surprising that the jury's decision was followed and the building built.

This particular instance is interesting because it offers an example of where entrepreneurialism in the public sector, with the implicit backing of the state, can truly excel. In a similar situation a private sector company, with previous unprofitable experience at Expos, an experimental pavilion with the potential for cost and building time overruns – in short a high risk of failure – would probably decide to change plans and implement a strategy designed to place it in the middle of the pack. But throughout history, the state has acted as patron of the creative arts and states have wanted high status projects which project a positive image. The UK's need to project its reputation as the global centre of the creative industries and counteract the prevailing Chinese perception of Britain as old-fashioned meant government had a larger risk appetite than business in this case, and was able to mobilise significant resources to achieve something astounding. An alternative explanation is that no one else involved wanted to be responsible, and so the entrepreneurial UKTI was left to get on with it.

The design was not without its detractors, and had to overcome numerous obstacles to come into being. Some early press coverage of the pavilion was less than flattering,<sup>32</sup> and politicians very understandably saw the dangers as they knew they would be held accountable for any Dome-like failure. FCO management saw the rising budget and the lack of project management skills and were not convinced the risks were worth it. Against this cautious backdrop, UKTI injected the necessary entrepreneurial spirit to commission such an adventurous building. Despite this success, the civil service has not concluded that it should adopt an entrepreneurial approach to future similar projects, though it has learnt the lesson that it needs to be better at project management. Not all artistic endeavours are successful, and government money often does nothing to tip the scales of success, so the 2010 Shanghai Expo pavilion may remain a one-off. I hope this is not the case.

Government is constantly a commissioner of buildings and events and it needs to be better at it, both to procure best value and to achieve high impact. This may well be more about good project management than entrepreneurialism.

### Example three: Marketing – golf balls as political football

Although key to any entrepreneurial private sector organisation, marketing has at times proved a thorn in the side for UKTI, and highlights how political and press pressure can create an atmosphere in which it is impossible to be entrepreneurial.

During my time as CEO at UKTI, our marketing material was transformed from being worthy and dull to a level far above that expected of a Ministerial department. I identified a young gifted businessman called Danny Lopez to manage UKTI's branding, and we used a combination of new agencies, in-house skills and *pro bono* contributions from experts to transform our marketing approach on a shoestring budget. The use of new and untried, but cheap, agencies represents both the breaking of civil service precedent and an entrepreneurial turn by bringing in specialists to do a job rather than relying on generalists, but it is a risk which many public sector organisations and elected politicians would avoid. The risk-averse approach has been heightened by the coalition government's marketing freeze. This highlights a clear difference of view between the entrepreneur in government, who wants to achieve a result, and policies and principles which conclude that government should not be in this business at all.

The press also maintain that government should not be involved in marketing activity. In 2007 UKTI produced some UKTI-branded golf balls for use in the USA and Japan, markets where such promotional products are both normal and effective. However, one was found by an MP in the light rough at Wentworth. Instead of asking why someone was using US-Japan marketing material in the UK perhaps for personal purposes, and who they were, a Parliamentary Question was lodged mocking the production of the ball at all. The press were quick to jump on this as an example of waste,<sup>33</sup> as were the opposition Conservative party. Labour were also critical, and Ministers and the Treasury upbraided UKTI for its wastefulness. Indeed, the Treasury clearly stored it away, for once in government the coalition held up the golf balls incident as a key example of the government wastefulness they were keen to eradicate. In July 2010 George Osborne, the new Chancellor of the Exchequer, chose "the UKTI golf ball scandal" as the prime example of government waste when he presented his Emergency Budget, with a personal article in *The Sun* (with half of the front page and a double page spread inside on the topic) focussed on the absurdity of spending money in this way. One has to ask if the Treasury could not identify a more substantial waste of money in the whole of government than £4000 a year for three years on the UKTI marketing bill.

In the face of strong political, press and public sector condemnation UKTI was forced to disavow ever branding golf balls again. Yet in the markets they were intended for, branded golf balls are a mundane but effective tool which many private sector organisations employ to promote their commercial objectives. It raises the broader, conceptual question of whether advertising, marketing and promotional activity will ever be accepted as part of the public sector service delivery armoury. Is the coalition government's marketing freeze a temporary expedient rather than a long term policy, and if not, can you have a promotional operation in government? Indeed, can you be business-like if you cannot market your services?

## Example four: UKTI and DSO – why we need entrepreneurialism, but must constrain it

Defence exports are one area where entrepreneurial skills have long been valued, but entrepreneurialism in the arms trade often raises ethical objections. Because defence is of national strategic importance, private sector negotiations by British defence exporters require extensive government involvement. Over the years, the business practices of those involved in what is one of Britain's largest and most successful export industries have come under considerable scrutiny. The Scott Inquiry into the Arms-To-Iraq scandal, which I observed at close quarters and consider the worst conducted Inquiry during my career, set out how the entrepreneurial interests of defence exporters can contradict and co-opt the interests of the state. Prior to 2008, defence exports were handled by the Defence Exports Services Organisation (DESO) in MoD. Shortly after becoming Prime Minister, Gordon Brown announced that responsibility for defence exports would be transferred from the Ministry of Defence to UKTI. His motivation was the wish both to avoid the suspicion of undue business influence in DESO and to make it a more effective body. This resulted a year later in the creation of the UKTI Defence and Security Organisation, a sub-section of UKTI concerned solely with defence exports.

UKTI-DSO has proved itself business-like and wholly proper. It now has four parent departments; the MoD, FCO, BIS and UKTI itself. This is in stark opposition to DESO which only reported to the MoD, and was thus strongly hierarchical and wary of innovation. In managing its multiple competing priorities, UKTI-DSO has greater freedom of action.

It is also able to take advantage of UKTI's accumulated marketing knowledge, which complements DESO's approach of analysing markets, choosing a potential customer and setting out to win them over.

Placing defence exports within the remit of an outward-looking organisation such as UKTI brings additional clarity to the previously opaque dealings of the defence industry. It also provides a marked contrast with, and an aspiration for, defence imports, which remain under the auspices of the MoD and have recently come under renewed criticism and scrutiny.<sup>34</sup>

The arcane and private nature of defence exporting has been given sunlight and normality by working within UKTI, proper forms of entrepreneurialism have been encouraged and innovative and energetic ways to promote exports are more in evidence. Continuing public concern in this area attests that there is no sector in which it is more important to constrain and control the entrepreneur. Yet if we are in this business, and it is our most successful manufacturing sector, with the highest levels of R and D, and a particular focus on the poorer regions of the country, we need to be as entrepreneurial as our competitors, the Americans, the French, the Russians or the Israelis.

## Example five: Going Global – how the best ideas are grounded

As discussed earlier, one of the surest signs of an entrepreneur at work is that plans are carried out without a 100% chance of success. One of UKTI's more recent ideas, the 'Going Global' website, is a good example of this.

The idea for the website arose from UKTI's ICT group, one of its six sector marketing groups. These groups are composed of private sector practitioners in the relevant field, providing an infusion of private sector knowledge, ability and entrepreneurial potential into UKTI's strategies. The ICT group initiated the development of the 'Going Global' project; it drew the outlines of a business-to-business website where businesspeople looking to export to differing regions of the world could exchange information, ideas and tips.

The concept is highly entrepreneurial; it seems counter-intuitive that businessmen, who are nominally competing with each other in markets, would share information with a competitor about how to better negotiate entry to a market they are already in. Our business advisers judged that it would be a cost-efficient way to overcome information deficiencies for British companies looking to export their goods – which UKTI research has revealed to be one of the greatest obstacles to success for export companies.

Naturally, it would require market testing and product development before it was released, and during these processes it might be found to be useless. However, at some point a decision would have to be made, without the guarantee of success, on whether to develop the project or abandon it. These decisions and processes form the heart of the research and development undertaken by private companies the world over but are more alien to failure-averse politicians and public services.

At UKTI we analysed the pros and cons, summarised in a special report by our finance director, before I decided to take the entrepreneurial gamble and develop the concept. After conceiving the idea with the ICT sector marketing group, it took hold of the project and developed it, performing detailed due diligence, and then committing fully to the project despite the risks. All of these actions are evidence of the hidden army of public service entrepreneurs working energetically already. It is perhaps significant that the project has been frozen for six months, a casualty of the centrally imposed moratorium on the development of new websites. This is an example of the insurmountable obstacle central control can present to entrepreneurial ideas in the public sector; the Cabinet Office has been blocking a good example of the Prime Minister's request for innovative ideas.

## Example six: The Global Entrepreneurs programme – outside Whitehall's comfort zone

One of the most entrepreneurial projects initiated during my time as CEO at UKTI was the Global Entrepreneurs Programme. A few (between six and ten) business people, themselves entrepreneurs, were recruited to work part time (one to three days a week) for UKTI. Their task was to attract foreign entrepreneurs, from countries such as India, America or Japan, into the UK so that they would be persuaded to establish companies here. They did this partly by networking - you have to meet the prospects before you can persuade them; partly by helping to arrange the finance - every entrepreneur knows this is the biggest hurdle and the GEs spent much of their time making the right introductions to sources of finance; partly by finding appropriate partners in the UK - entrepreneurs need a commercial support network and often they are not good at finding it for themselves; and partly by guiding them through the forest of regulation that otherwise discourages inward investors into the UK.

The results were impressive. Since its inception, the programme has helped over 150 companies to relocate and expand in the UK, creating over \$200 million in revenue in the process. It has also been responsible for introducing over 40 mentors and non-executive directors to increase the management capabilities of its client companies.

The question therefore is why I did not expand this programme further and why it did not act as an exemplar for Whitehall. The answers revolve around the fact that Whitehall is uncomfortable with such activity. The entrepreneurs had other, private activities and one had to ensure there were no conflicts of interest. The projects that worked were fantastic but there was quite a high rate of projects which led nowhere, as you would expect in such a risky area. Most of all, a public servant, albeit a very part time one, was engaged in putting deals together, essentially acting like an investment banker. There was always a feeling that this was not quite the right sort of thing for UKTI to be doing.

This highlights the key issue. Of course, most of this sort of activity should be in the private sector. But there is a role for a public body to come in and do deals which require government blessing, or meet government objectives, or fall within a government to government agreement. This is most obvious in the defence sector, where the purchasers are governments who insist on supplier government involvement. But it is also true in the case of attracting inward investment. If we are to succeed in retaining our place as the second most successful recipient of foreign direct investment, we need to be more prepared to do deals with government intervention. Mervyn Davies was a great proponent of a more activist approach to finding the best prospects and then intensively working to attract them to the UK. The present administration is following same course. But this requires more deal-making, individual energy and entrepreneurial flair than we find in the public sector, though in my experience a number of FCO Ambassadors were remarkably good at it. That is why the global entrepreneurs were so unusual.

My failure was not having the courage to defend and expand rapidly a really entrepreneurial and successful activity. The broader issue is that the aspiration to target foreign investors requires far more acceptance of individual initiative than the civil service is comfortable with.

## UKTI case studies: conclusions

UKTI, although a Government Department, has many of the characteristics of an arm's length body. It is a service delivery organisation, constantly in touch with businesses, rarely involved in policy, and with readily measurable objectives. These unusual traits (for a government department) make it well-placed to take entrepreneurial decisions: the above case studies detail some of UKTI's recent successes and failures. What are these traits?

First, UKTI is a **target-based organisation**. It has clear, published, independently assessed targets for its main objectives. These targets are used to allocate resources and to guide behaviour. Staff are aware that they are expected to deliver their targets, and future resource to teams will depend on meeting and exceeding targets, rather than on a judgement about whether an approved bit of process was used. This encourages innovation because results are the criteria of success. It is striking how rarely Treasury officials, and Ministers more generally, judge a Department on whether it meets its targets, and how often other criteria, such as respect for process or a subjective sense of what the organisation is like, seem to take precedence. This was often the case at UKTI; I had regular meetings with Treasury officials but I was never held to account on the basis of metrics. Almost always my performance was judged on the basis of what an official new to the subject 'felt' from first principles.

Second, staff know that **the measurement is objective**, apolitical and not personalised. The mechanism for evaluating performance is designed by economists and carried out by external consultants. This gives an assurance that if they can devise more effective ways of delivering the service, they will be recognised and rewarded. It also gives confidence that there is an objective basis to decisions on rewards. One of the surprises in the introduction of performance related pay and in the way promotions are made in the public sector is that the staff do not feel it is particularly objective or reliable. There is a view that politics, or personal prejudice, or political correctness play too large a part. This may well be incorrect, but it makes independent, data-rich, measurable evaluations all the more valuable.

Third, **enthusiasm and energy** is important. The leadership needs constantly to tell all staff that they are in a high-performing organisation which values innovation, and where entrepreneurialism will be supported and rewarded. Innovation is a mindset, and having the courage to try something requires confidence. One of the main reasons public servants are reluctant to do new things is that they are not encouraged to; and encouragement comes from self belief and dynamism, not instruction and exhortation.

Fourth, **learning from best practice overseas** decreases the chance that an innovation will fail. Sharing information with others means that new ideas can be tried with experience of their effectiveness. UKTI had an annual meeting with comparator organisations from Canada, Australia and New Zealand where good practice was exchanged. For example, UKTI's customer relationship management system was improved by lessons from the experience of the Canadian system, whilst UKTI's evaluation system was of great interest to the others. Such interchange acts as a prompt to trying out something new and also as a confidence builder. International organisations are usually less useful than bilateral contacts. At multinational conferences, general principles are more often exchanged than specific practice and learning.

Fifth, **constant two-way communication** is vital to allow staff to share information and ideas. UKTI has a widely dispersed network, in 96 countries overseas. Conference calls, blogs, staff newspapers, leadership conferences, webinars, open email lines are all components. But the key is that staff should feel that they are constantly in touch with management and are constantly hearing their messages. And the message has to be that “there are better, newer, more exciting ways of delivering the service, of achieving the result; think about best practice, go out and explore others”

Sixth, **entrepreneurialism does not require specialised or specialist people**. UKTI staff are not especially selected and do not have particular entrepreneurial experience beyond a large proportion having some experience of the commercial world. They are trained to be entrepreneurial and incentivised by the messages and the rewards. Project-based work is also a driver of entrepreneurialism. Much of UKTI’s most innovative activity came through one-off projects, often with short time horizons. Deadlines and specific objectives foster entrepreneurial thinking.

Finally, **the centre does need to let go** or at least not have too many instructions, guidance and prohibitions. UKTI ideas were often hampered by the centre and rarely, if ever, encouraged by it. What can we say about a central edict which decrees that a promotional organisation cannot deliver for UK plc via marketing activity?

## 6. How do we liberate “the hidden army”?

Most of the answers to this question are in my seven conclusions about UKTI in the previous section. Targets, evaluation, energetic leadership, learning from best practice, communication, training, and an understanding centre; it is not rocket science. But there is clearly a structural component too. I believe that the dampeners described in section four can be reduced somewhat via a less centrally controlled structure. Let me use UKTI as the example, recognising it can go further than much of the public sector

I arrived at UKTI with my experience in the European Commission at the front of my mind. As Neil Kinnock’s chief of staff, I drew up in 1999 a blueprint for modernising and cleaning up the administration of this EU institution. Neil was a doughty and effective reformer and I have no doubt that he left the Commission in a more effective, transparent, efficient and modern state. However, the reforms also repressed any entrepreneurial activity that existed with new and onerous layers of financial control, HR process and burdensome checks and balances. There is always a balance to be struck between control and initiative.

So when the Treasury asked me to think about how to make UKTI a more commercial organisation I was determined to lighten, not increase, the administrative burden. But in the end I always opted for doing that within the structural status quo, given the high cost (both in cash and lost performance) of disruptive structural reorganisation, the frequent change of Ministers and perhaps due to my lack of revolutionary zeal. As a schoolboy we had a vogue for waving Mao’s Little Red Book. But visiting China in 1979 and seeing the effects of the Cultural Revolution dampened my enthusiasm for regular upheaval. However, a structural revolution may have brought some benefits.

According to Cabinet Office classifications, UKTI is a “non-Ministerial Government Department”. This is odd because it has a Minister, yet lacks many of the trappings of an independent department. Notwithstanding the contradictions, what this classification means is that UKTI is subject to all the constraints described in this paper. And the contradictions mean that it has the worst of all worlds, as the popular press persists in inaccurately calling it a quango, and often held me solely to account for its actions, however often they are told that as a government department UKTI is not at all autonomous.

Some of UKTI’s work must remain in a government department, such as organising the Prime Minister’s visit with a business delegation to India, or briefing a Minister to meet an incoming foreign dignitary. But a government department is not necessary for providing a service to companies and to inward investors, whether information packs, training or events. These factors could be carried out more commercially. Many of the services are already contracted out, for example services to small and medium enterprises (SMEs) in the English regions. It could be

possible, although I am sceptical of the benefits, to contract out the entire organisation to operate with a fixed subsidy, to deliver fixed results. But this could lead to the separation of Ministerial (and FCO Ambassadorial) clout from UKTI's export support work, and the loss of political focus and support.

UKTI's unusual structure has arisen as an accident of history. Its staff are employees of either the FCO or BIS (then DTI). Being part of both departments gives it leverage and status, and it lends an international dimension to BIS and a commercial edge to the FCO. Putting UKTI at arm's length to government would strengthen its professional service delivery to small and medium enterprises (SMEs), and its marketing performance, but it would weaken its service to big companies on big deals, as well as its ability to influence foreign government and its effectiveness in attracting foreign investment.

The key point is that if Ministers or Treasury want the fruits of entrepreneurialism, they need to give the right signals and to encourage the right structure. In UKTI's case I think that its government department status prevents it from working as entrepreneurially as it could, although the alternatives each have different drawbacks. The Treasury needs to give a clear steer based on a full analysis of the options, not imply behind the scenes that radical reform would be welcome as long as it costs nothing; and Ministers need to loosen the controls and accept more commercial behaviours.

A central component to both these requirements is a better understanding of risk. Beyond Ministerial projects, Whitehall has very little appetite for risk and the appetite which exists is very poorly measured. The management of risk is the area in which I believe the public sector lags most severely behind the private sector. Large private sector organisations try to act with an understanding of, and plan for, the level of risk their actions involve, although I suppose the banks had too large a hidden army in the run up to 2007. Often this takes the form of extensive testing and research prior to action, and whilst failure is not always avoided, the company is in a better position to deal with the ramifications of failure. Whilst failure is more difficult to handle in the public sector, if Whitehall was better at encouraging well-prepared innovation and was willing to defend well-prepared, innovative, failures the Prime Minister's hidden army would begin to emerge.

My own conclusion is that UKTI contributes a commercialism and dynamism to Whitehall that is valuable (and could be more valuable if Whitehall would take advantage of it and not regard it as still a bit below the salt) and should be retained. Some of its services could be even further contracted out to enable entrepreneurial instincts to be more effective. But in many ways it is of greater value for UKTI to inject entrepreneurialism into Whitehall than for it to be pushed further into the private sector.

Further, I believe that UKTI could help the present Prime Minister in his quest to liberate the hidden army of public service entrepreneurs. It is a good example of how to resolve the contradictions identified throughout this study. The key points are to set targets, evaluate results, make resource follow results, reward individual innovation, use businessmen as Ministers and bring in more staff with commercial experience, outsource service delivery functions, accept and defend the occasional failure and, most of all, provide strong political backing for energetic and innovative leadership. A

key element in my own experience was that I received far stronger support and encouragement from Digby Jones and Mervyn Davies than I did from more conventional Ministers.

## 7. Conclusions

The belief that government would be best served by a more entrepreneurial public sector goes back to at least the early 1990s when David Osborne and Ted Gaebler first released their groundbreaking book 'Reinventing Government'. When I worked as Principal Private Secretary to William Waldegrave, Chancellor of the Duchy of Lancaster and Minister for the Civil Service in 1992 (I was Bernard Woolley to his Jim Hacker, and Robin Butler was even more subtle than Sir Humphrey Appleby), Osborne and Gaebler was heady stuff. Their analysis encouraged the UK reforms of that time, which were groundbreaking and world-leading and owed much to William's quiet radicalism. But, as the Crown Agents episode makes clear, it has to be the right sort of entrepreneurialism and it needs to be controlled and regulated. The UKTI case study suggests that the present central controls have not got the balance right as they tend to act as a dampener to innovation.

I have argued that political use of the term "entrepreneurialism" is not an oxymoron but confuses the issue, by making it seem as if one can extrapolate seamlessly from the private to public sector. Ministers on the whole are understandably reluctant to see their civil servants expose them to the risk of failure with a new, untried idea. But clearly Ministers do want civil servants to show more energy, more innovation and ideas and a greater preparedness to try out new ways of doing things to gain efficiencies. It is also clear that they feel frustrated that what does happen, happens so slowly.

It may be a mistake to ask the public sector as a whole to be entrepreneurial. UKTI, as a service delivery department, can experiment with new ways of meeting customer needs in the way that its parent Departments, BIS and the FCO, cannot. Equally, as a Department with Ministers directly accountable to Parliament, UKTI cannot be as commercial as, say, the BBC can.

The key differentiation is about the degree of risk, and the appetite for failure, that the public sector can accept. Entrepreneurs fail, often. They think up new ideas which challenge orthodoxy; they try things out; they abandon projects or change direction; and they make guesses about market reaction. Frequently, they get it wrong. Occasionally they go bankrupt. Then they start again with the next idea. The present political culture makes any process in the public sector which begins to resemble such a chain unacceptable. There is a vicious circle in which the media criticise failure, politicians and civil servants fear to fail, and so the system discourages experiment and encourages timidity which leads to a different sort of failure which is then criticised.

For parts of the public sector, passing the risk of failure on to the private sector clearly is the right way forward and has long been official policy. For some others, mutualisation, or perhaps the Big Society, could provide the route to experiment and energy. NGOs, self help groups, and local community organisations can fail more readily than government Departments. But Whitehall still has responsibilities which it must discharge. Where these are service delivery functions, as in the case of UKTI, the cost of dampening the entrepreneurial spirit is poorer service quality. Where these

are policy functions, as for example in the desire of BIS and the Treasury to find a strategy which will reinvigorate growth in the economy, the cost of caution is higher.

My experience at UKTI provides evidence of a government department which is able to operate in a way which encourages innovation, energy and ideas. It also highlights the internal and external obstacles to public sector entrepreneurialism. Much of this is related to safeguarding public sector propriety and is thus entirely reasonable. The rules on accounting, accountability and risk management will, we hope, prevent a future 'Crown Agents' disaster, but also will dampen innovation. The lack of a link between individual initiative and reward allows departments to operate in a collegial and bureaucratic manner, but discourages effort and risk-taking. In this context it does not really help to demand 'entrepreneurialism' from public services. It would be better to ask Whitehall to 'put more effort into devising new, more efficient and more customer friendly forms of service'. Although it is less catchy, I think it better defines the message David Cameron was putting across at the RSA this January.

My main conclusion from this brief study is that Whitehall does not have a coherent approach to innovation and risk within its own management. It wills the ends but leaves the means vague. A senior official in the FCO had on his wall the legend: "If you don't try, you won't fail". Recognising the value of failures is a highly unusual sentiment. Few civil servants would presently conclude, given the real world signals they get from their political masters, Parliament and the media, that they should indeed 'try'. But you cannot have great success without a leaven of failure. For myself, I believe that in my 31 years of public service I had some useful failures to my credit.

# Endnotes

- <sup>1</sup> House of Commons Statement on civil service reform, 13/05/80. Full text available at <http://www.margareththatcher.org/document/104364> [cited 09/02/11].
- <sup>2</sup> Chapter 3.20 of John Major's Citizens' Charter White Paper. From Cm. 1599 (1991) "The Citizens' Charter: Raising the Standard" (London: Cabinet Office).
- <sup>3</sup> Tony Blair's speech to the 2004 Labour Party conference, 28/09/04. Full text available at [http://news.bbc.co.uk/1/hi/uk\\_politics/3697434.stm](http://news.bbc.co.uk/1/hi/uk_politics/3697434.stm) [cited 09/02/11].
- <sup>4</sup> Gordon Brown's speech on efficiency savings in the public sector at the Institute for Government, 17/09/09. Full text available at <http://www.publictechnology.net/content/22072> [cited 09/02/11].
- <sup>5</sup> David Cameron's speech on modern public services at the RSA, 17/1/11. Full text at <http://www.epolitix.com/latestnews/article-detail/newsarticle/modern-public-services-speech-in-full-prime-minister/> [cited 09/02/11].
- <sup>6</sup> [http://www.nytimes.com/2002/07/11/style/11iht-glob11\\_ed3.html?pagewanted=all](http://www.nytimes.com/2002/07/11/style/11iht-glob11_ed3.html?pagewanted=all)
- <sup>7</sup> Boyett, I (1996). "The public sector entrepreneur: a definition", *International Journal of Public Sector Management* 9 (2): pp36-51.
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- <sup>10</sup> Leibenstein, H. (1966). "Allocative efficiency v. X-efficiency", *American Economic Review* 56 (3): pp392-415.
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- <sup>12</sup> Osborne, D., and T. Gaebler (1992). "Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector". Addison-Wenley Publishing Company, Inc. Reading, MA.
- <sup>13</sup> <http://govinfo.library.unt.edu/npr/index.htm>
- <sup>14</sup> Ibid. p xx

<sup>15</sup> Boyett, I (1996). "The public sector entrepreneur: a definition", *International Journal of Public Sector Management* 9 (2): pp36-51.

<sup>16</sup> Kearney, C., R. Hisrich and F. Roche (2008). "A conceptual model of public sector corporate entrepreneurship", in *International Entrepreneurial Management Journal* 4: pp295-313.

<sup>17</sup> Shockley, G., P.M. Frank, and R.R. Stough (eds.) (2008). "Non-market Entrepreneurship: Interdisciplinary Approaches". Edward Elgar Publishing, Cheltenham, UK.

<sup>18</sup> Bason, C. (2010). "Leading Public innovation: Co-creating for a Better Society". The Policy Press, Bristol.

<sup>19</sup> Private communication.

<sup>20</sup> Hood, C. (1978). "The Crown Agents affair", in *Public Administration* 56: pp297-303.

<sup>21</sup> <http://www.crownagents.com/Modules/Timeline/Default.aspx?contentID=1702>

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> Report by the Committee of Inquiry appointed by the Minister of Overseas Development into the circumstances which led to the Crown Agents requesting financial assistance from the Government in 1974, H.C. 48, 1977-8.

<sup>25</sup> UKTI Corporate Plan 2009-2011.

<sup>26</sup> UKTI "Prosperity in a Changing World" booklet.

<sup>27</sup> Private Communication.

<sup>28</sup> Private communication.

<sup>29</sup> <http://www.guardian.co.uk/politics/2009/jan/16/digby-jones-says-sack-civil-servants>

<sup>30</sup> <http://www.ukan.uktradeinvest.gov.uk/trade-directory/categories/travel-10788/british-airways-340>

<sup>31</sup> Ibid.

<sup>32</sup> <http://www.dailymail.co.uk/news/worldnews/article-1252695/A-hedgehog-run--bizarre-structure-built-China-moved-Victorian-times.html>

<sup>33</sup> <http://www.dailymail.co.uk/news/article-1085318/Government-quango-linked-Lord-Mandelson-spends-12-000-branded-golf-balls.html>

<sup>34</sup> <http://www.bbc.co.uk/news/uk-12527669>

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