Privatizing the blame game: corporate reputation in the outsourced state

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ABSTRACT

Outsourcing to the private sector is sometimes thought to be an effective way for politicians to shift blame. This paper presents four case studies of problems with large UK government contracts, it describes the strategies used by contracting parties to manage public blame and media coverage and financial market data are used to analyse the reputational and financial consequences of problems for the firms. Large outsourcers can be damaged by problems with public contracts and that damage is more than temporary, in the long run this will limits the scope for blame shifting.

Keywords: Blame; contracting problems; G4S; outsourcing; public service conglomerates; Serco; share prices

Impact: the analysis is relevant to practitioners and researchers who are interested in the strategic direction of outsourcing and government-market relations.

Introduction

Failures and misconduct in public service delivery can have important consequences for policy actors, hence the dynamics of blame and blame strategies have received a great deal of analysis (Weaver, 1986; Hood, 2002, 2007, 2011; Boin, Hart and McConnell, 2009). This paper explores examples of failure in the context of government outsourcing, where blame may reside with the buyer or with the supplier or may get lost between the two. Often, the 'blame game' is played out in public and so the strategies that players adopt can be observed, but it is more difficult to assess the costs that actors must bear for receiving blame. In exceptional circumstances, we have seen political resignations (Dewan and Dowding, 2005), occasionally we have opinion poll data on an event and for major events it is plausible to look for electoral effects (Boin, Hart and McConnell, 2009). When policy delivery is delegated to companies, however, it is sometimes possible to assess the impact on suppliers when policy goes wrong. This paper analyses four examples of blame games in which businesses were major players and provides evidence of the impact on those firms' valuations.

Delegation of responsibility can have implications for blame avoidance strategies and the way the costs of failure are spread (Hood, 2011; Mortensen, 2016; Hinterleitner and Sager, 2016). Passing responsibility for a function to another organization might allow politicians to present public service failures as the result of failings on the part of an agency's or corporation's leadership. This outcome can appeal to politicians and government officials but what are the costs for the firm or agency? It might be that blame does little damage if the recipient is insulated from direct political pressures but, if receiving blame for public failings is costly, then organizations will be less willing to bid for contracts. Without an indicator of the damage caused to a firm, it is difficult to say whether outsourcing passes on the risks from public service provision or dissipates them.

Outsourcing has been a key part of public management reforms internationally but it does raise questions of accountability (Mulgan, 2006; Alonso et al., 2015) especially in Britain where outsourcing has moved beyond easily contractible services into functions that are difficult to monitor (Wilks, 2013; Bovaird, 2016). There are many possible justifications for outsourcing government functions but, whatever the rationale, outsourcing is prone to change the dynamic of blame after a failure and may create additional risks for both parties (Hood, 2011; Farneti and Young, 2008). Additional risks for politicians come from appointing a dysfunctional or opportunistic contractor, or a contractor that does not follow the cultural or ethical expectations of the public sector. Risks for firms come from a potentially unreliable client, from trying to deliver poorly-designed policy in an uncertain environment, and coping with heightened attention from media, parliament and interest groups.

This paper analyses the development and impact of four, potentially 'reputation damaging' (Gatzert, 2015), public contracting problems involving two large companies in the UK. The problems included failure in the provision of service, breakdown in the relationship with government departments and alleged opportunistic behaviour. The blame dynamics following these problems are analysed and share price movements are used to provide an indication of the (perceived) costs to the supplier of the contracting problems.

The events involved two companies that were heavily commercially exposed to the British state, even though they had international operations as well. Serco and G4S were both members of the FTSE 100 index during the events studied and were significant suppliers of a range of government functions (for further analysis see Bowman et al., 2015; Wilks, 2013; Crouch, 2003, 2011). Maintaining good relations with public officials and maintaining good reputations were crucial for their business models. As Paul Deighton (chief executive of London Organizing Committee of the 2012 Olympic and Paralympic Games) put it when referring to G4S in the aftermath of problems with its Olympics security contract:

> *The government is their [G4S'] most important client. The eyes of the world are on this project. They were highly incentivised to succeed because of all those reasons* (House of Commons, 2012, para. 34).

Government contracting in the UK has faced severe strain over the last decade (some high profile problems since the 2015 election are found table 1). The system has witnessed failures in specific contracts as well as significant commercial challenges for large outsourcers which have put the approach in question. Arguably, the cases discussed in detail below were initial signs that something was going wrong in outsourcing (see Greasley, 2019 for a summary of problems in the wider system).

Table 1 Selected post 2015 contracting problems

Problem	Summary
Rail contracting	Failures in the franchising system leading to 'root and branch' Williams Review
Army recruitment	Persistent under recruitment of regular and reserve forces (NAO, 2018)
Prison contracting	Reversal of outsourcing of Birmingham prison (Brady 2019)
Probation contracts	Poor contract performance, financial instability of providers (Beard 2019)
Carillion	Collapse of major supplier (and financial problems for others) (Mor et al 2019)

The next section of this paper discusses related work in the blame game literature and the risks of public outsourcing are examined from the perspectives of both sides of the relationship. The empirical analysis is presented in two sections. The first presents accounts of how the events unfolded, the strategies of the actors involved and coverage in newspapers. The paper then turns to the effects of events on share prices and finds substantial revaluations of firms after the events and, with one exception, little evidence of the share price recovering in the following weeks.

The relationship between blame and delegation is revealed to be complex and interacts with other elements of the management of contractual relations. In two cases, government ministers amplified, perhaps partly manufactured, public blame. This is a powerful tool for the government, but unless used sparingly will start to affect the willingness of suppliers to bid for contracts.

Related literature

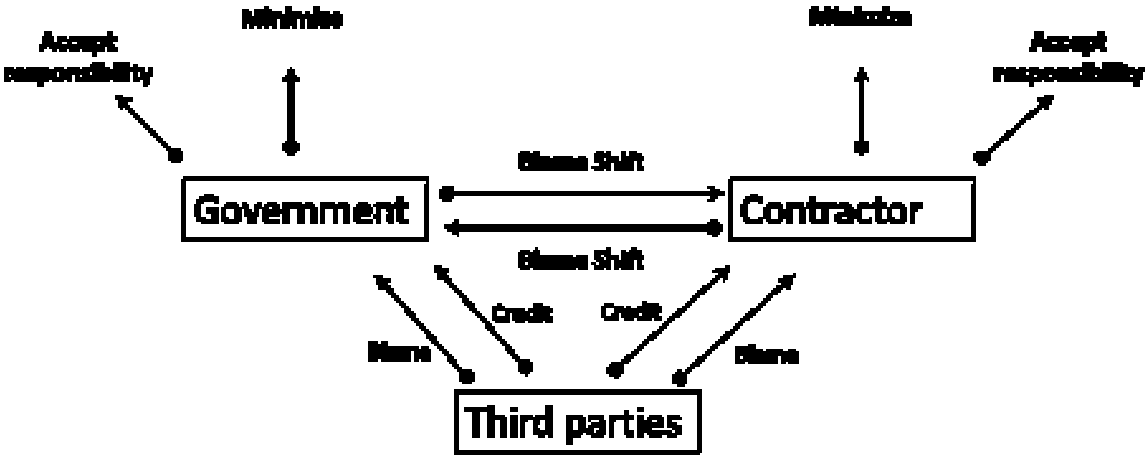
The analysis of blame in public policy has focused on politicians' strategies for avoiding blame given their loss aversion and the perceived negativity bias of voters (Weaver, 1986; Hood, 2002; Hood et al., 2009, 2016). Voters punish failure more enthusiastically than they reward success, and this bias is then passed (via media coverage) to politicians' incentives who then select public responses to minimize their responsibility for publicly-observable failure. Alternatively, 'anticipatory' forms of blame avoidance attempt to 'design away' blame through delegation (as discussed in Hinterleitner and Sager, 2016). This is a common strategy across many countries: recent studies have analysed the effect of delegation on strategies for blame avoidance after natural disasters in the USA (Moynihan, 2012), the political fallout from mishandled public events in The Netherlands (Resodihardjo, van Eijk and Carroll, 2012; Resodihardjo et al., 2016), and the response to politically unpopular policy in Switzerland (Hinterleitner, 2017). Mortensen's (2013) analysis of Norwegian health sector reorganization finds that less media blame was attributed to central authorities after decentralizing reforms and officials were less likely to try to pass responsibility up to politicians after the agencification of the Danish railways (Mortensen, 2016).

Public contracting is an example of what Hood (2010) calls ‘hard delegation’—an institutional design that inserts a formal contractual relationship between executive politicians and the organization which has operational responsibility for a function. Delegation can have two effects on blame (Hinterleitner and Sager, 2016): it can make it less likely that a problem is observed and it can affect the way that blame is managed if a problem is observed. The analysis in this paper focuses on the latter situation. The paper adds to the blame game literature’s focus on the effects of administrative structure by analysing blame when a function is contracted out and by assessing the reputational and financial consequences of contracting problems for private suppliers. These are important questions because the perceived riskiness of government work may influence the willingness of corporations to compete for tenders. On the other hand, if one of the effects of outsourcing functions is to dissipate the costs of blame after a problem emerges, then delegation can be an efficient mechanism for dealing with political risks. The blame-shift mechanism can work if the career incentives of private executives are not tightly linked to media and parliamentary assessment of performance. In short, if politicians can avoid blame by delegating to organizations whose leaders are not themselves subject to the pressures that create loss aversion, then the potential exists for a mutually advantageous exchange. Outsourcing will only make this possible, however, if corporations and their leaders are sufficiently insulated from the consequences of public blame (Bowman et al., 2015 discuss the issue of blame and British outsourcing).

By inserting an institutional barrier between politicians and policy implementation, hard delegation helps to shift blame away from politicians, but it also leads to a loss of flexibility and control over delivery which can in turn generate new risks (Hood, 2010). Typically, politically risky functions are complex and likely characterized by uncertainty and these features generate contracting as well as political risks (Brown et al., 2016). Contracting risks are associated with contract monitoring problems, opportunistic behaviour and disputes over how the terms of a contract should be interpreted. If such problems are serious, the relief from blame offered by delegation may only be temporary, politicians can again be open to blame for poorly-designed outsourcing and for failing to manage contractors. On the contractor side, working for the public sector can also introduce distinctive risks. These risks result partly from the public nature of the product provided and partly from the activities of extra-contractual third parties, such as opposition politicians, who may try to direct and amplify blame and expand an issue when it emerges. Public contracting is also risky for business because the government is often a powerful customer and may be able to exploit public controversies to strengthen its position relative to suppliers. As Brändström and Kuipers (2003) point out, labelling an event ‘a failure’ is a political act and how an event evolves into a ‘public failure’ is often determined by politicians’ strategies.

Figure 1, based on Hood et al. (2009) and Boin, Hart and McConnell (2009), is a schematic representation of the responses available for government and suppliers once an event is in the public domain. Government and suppliers can attempt to minimize or deny a problem; accept responsibility; or, try to pass responsibility on to the other party. Third parties, in the current examples—parliamentarians, can try to allocate blame or credit to government and/or its contractors. The framework does not capture all the nuance of the cases, for example in two cases discussed in this paper the incumbent government sought to direct blame backwards towards predecessors, but it does provide a common structure on which to hang additional relevant detail.

Figure 1. Blame game strategies.



The examples studied here vary in intensity and media salience, but each occurred in a concentrated time period and entailed some potential reputational threat to government and to suppliers. The cases are not typical of contracting problems (or problems with policy implementation generally), which often involve chronic performance difficulties over extended periods and which rarely make much of a media splash. The atypical nature of the events is what makes them disruptive 'focusing events' prone to generate blame and change and is why such events have been analysed as distinctive types of failure in the public policy and management literature on blame (Moynihan, 2012). The sudden and unexpected nature of the events also allows for relatively confident estimation of changes in share prices.

Four outsourcing failures: Serco and G4S

The two companies that were involved in the cases, Serco and G4S, were strategic suppliers of services to the British government and they were also commercially exposed to the government as a customer. The National Audit Office estimated that approximately 10% of G4S revenues for 2012 came from the British public sector and the equivalent figure for Serco was around a third (NAO, 2013). G4S concentrated on immigration and law and order functions; Serco was more diversified with interests in defence, transport, health, law and order and energy. For each company there was a risk that failures in one contract might generate spill-over costs by damaging its relationship with government and its broader reputation. The four examples of outsourcing failures are outlined below.

Example 1: Demands for more money

In 2010, the UK's new Coalition government attempted to renegotiate contracts with its major suppliers as part of its austerity drive. The Conservatives had committed to supporting small- and medium-sized businesses in the market for public services and consequently government sought assurances from major suppliers that any renegotiated rebate would not be passed down to the companies' own supply chain. In the autumn, a newspaper story revealed that Serco had sent a letter demanding a 2.5% rebate from its larger suppliers and had intimated that future business was at stake (Tyler, 2010). The Cabinet Office criticized the company and, after briefly prevaricating, Serco withdrew the letter and an apology was issued. The hostile reaction of the government changed a minor news story into a more significant risk for the company. Two elements of the letter were particularly damaging: the fact that the company was accused of reneging on an agreement with the Cabinet Office and the way the letter linked the company's demand for a rebate to the government's austerity policies. The context of the row generated favourable press coverage for the Cabinet Office, which was seen to be seeking to save taxpayers' money, by 'taking on' large corporations while ensuring those corporations did not 'bully' suppliers. A small number of press articles framed the events differently, as an unwarranted intervention into a private business' management of its supply chain in response to a common business strategy.

Example 2: Olympic delivery failure

The second example is a case of delivery failure. G4S had won the contract to manage venue security at the 2012 Olympic Games in Britain and had agreed to provide 10,400 staff and manage 13,000 further personnel (these numbers were a result of a renegotiation at the end of 2011 which had substantially increased the requirements). Two weeks before the opening ceremony, G4S told LOCOG, the Olympic Games organizers, that it would not be able to provide the agreed numbers. The government's contingency plan was triggered on 12 July and the Home Secretary answered an emergency question in the House of Commons about the need for additional military personnel. After the contingency plan was put in place, journalists started to publish articles about the company's growing administrative, scheduling and recruitment problems and the story received intensive media attention until the opening ceremony. The government refrained from publicly criticising the company during the run up to the Olympic Games, although its rhetoric became harsher when the question of compensation for the cost of the contingency plan became an issue. The G4S chief executive's appearance at a parliamentary hearing, and his insistence that the company would retain its management fee, sustained the story and triggered further negative comment. In parliament, opposition MPs tried to focus the blame on the Home Office, challenging its story about when it knew of problems and its monitoring of the contract. There were also attempts by Labour to expand the issue by questioning the move towards police outsourcing which was already controversial and would likely lead to a sizeable role for G4S. The Olympic Games passed off without a major security incident and press interest faded.

Example 3: Overcharging

Example 3 involves accusations of overcharging for services. Both G4S and Serco held contracts to monitor prisoners who were wearing electronic tags. The companies charged on a per-offender-day basis for monitoring compliance with curfew conditions. In early 2013, officials identified billing anomalies and in May of that year auditors were asked to examine the companies' billing practices. The audits found that, since the mid 2000s, the companies had been charging for monitoring some offenders after they had left the scheme and for some who had not been tagged (NAO, 2013b). The Secretary of State for Justice demanded the companies co-operate with a forensic audit of all their major public contracts and withdraw from the competition for the renewal of the tagging contract. Serco acquiesced but G4S refused both demands and its contract was referred to the Serious Fraud Office (SFO). The Secretary of State for Justice also noted that the contracts were signed and the overcharging started under the previous government. The overcharging was partly due to an administrative failure by the courts to provide notification when offenders left the scheme and it was also revealed that officials had been aware of some of the practices in 2008. In an NAO (2013b) report G4S provided examples of having requested (without success) that the courts provide the required notifications. G4S received more attention in the press than Serco partly because of its higher profile and because of its uncooperative response. There were two potential interpretations of events, in one version overcharging was the result of opportunism or due to a failure to adequately control managers. The other version was that the overcharging resulted from poor administration on both sides, the sort of problem that would normally be dealt with by negotiation between the contracting parties. Press coverage and the debate in parliament favoured the first version. In the autumn, Serco's contract was also passed to the SFO for investigation and eventually both companies agreed to pay compensation.

Example 4: Misreporting performance

The fourth example followed soon after the third and related to alleged misreporting of performance data on Serco's Prisoner Escort and Custodial Services (PECS) contract. The allegation was passed to the police in August 2013. The accusation was interpreted by the Secretary of State for Justice as further evidence of systematic problems with Serco's culture—the previous week he had demanded in a newspaper interview that the Serco and G4S ‘purge’ themselves and undergo a process of ‘corporate renewal’ (Warrell, 2013). The problems were also portrayed in the press as indicative of underlying issues with corporate governance at Serco. That interpretation was implicitly accepted by Serco’s chief executive agreeing that corporate renewal was required (Leftly, 2013). The police investigation of the contract was halted in 2014 having found no evidence of criminal behaviour.

Comparing contract failures

The four examples are summarised and contrasted in Table 1. In example 1, once the letter demanding a rebate was revealed, the government chose to add to the pressure on its supplier. This reaction may have been shaped by the perception that the company had reneged on an agreement with the Cabinet Office and by complaints from the Federation of Small Businesses—an important interest group. The story also developed in the context of government contract renegotiations with Serco and across the whole range of major suppliers. Example 2, the Olympic Games security contract, was the only straightforward ‘delivery failure’ and it occurred in a high-profile context. In this case, the government did not overtly join the criticism of the company. In the final two examples, government strategy was to amplify blame and direct it at the firms.

Table 2. Four contracting failures.

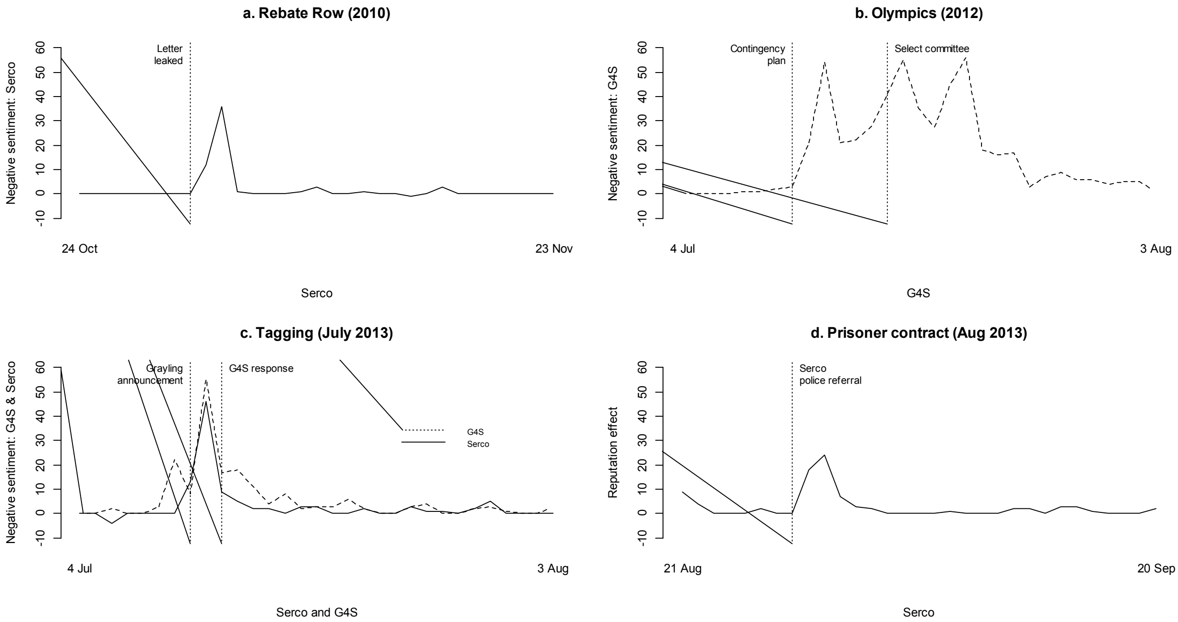
	Rebate	Olympics	Electronic monitoring	Prisoner escort
Nature of failure	Breaking agreement, treatment of supply chain	Service failure	Alleged opportunistic behaviour	Alleged opportunistic behaviour
Events	31 Oct Serco letter leaked 1 Nov Serco letter withdrawn	11 Jul Contingency plan 17 Jul Select committee hearing	11 Jul Results of audit, G4S referred to SFO, Serco accept 'forensic audit'	28 Aug PECS (Serco) referred to police
Blame-strategies	*Government:* 'unequivocally disagree and are highly critical' (Cabinet Office) *Supplier:* 'deeply regret this action and apologise unreservedly' *Third parties:* 'brutal and blatant' (supplier on Serco's letter) 'under-hand tactic' 'government was right to be appalled' (Federation of Small Businesses)	*Government:* 'If G4S don't fulfil their contract we will go after them for the money' (Prime Minister) *Supplier:* 'The company deeply regrets that…it is unlikely to deliver in full its obligations' *Third parties:* 'G4S has let the country down and you have had to send in the troops' (Select Committee Chair) 'Another Home Office shambles' (Shadow Home Secretary)	*Government:* 'I am angry at what has happened and am determined to put it right'. 'I am also disappointed that G4S still feels it appropriate to participate in the tendering process for the next generation of electronic monitoring contracts' (Secretary of State for Justice) *Suppliers:* 'have always billed in line with the contract'. 'taken out of all proportion' *Third parties:* 'To the lay public, that appears to be straightforward fraud…serious failings have been exposed in the way the MOJ buys in hundreds of millions of pounds of services, the Justice Secretary is proposing a massive expansion in the amount of work handed over to private companies' (Shadow Justice Secretary)	*Government:* 'It's become clear there has been a culture within parts of Serco that has been unacceptable' (Secretary of State for Justice) *Supplier:* 'deeply saddened and appalled' (Serco chief executive)

Sources: Print media database, Hansard.

The companies adopted various responses to the events. In the rebate example, Serco did not immediately grasp the political nature of the situation and had to rapidly reverse its position after initially declining to withdraw the demand for a rebate. During the Olympic Games problems, G4S went along with the government line and only occasionally raised questions about, for example, the preparedness of LOCOG—the Olympic Games organizing committee. In the final two examples Serco did not challenge the framing of the government and after some initial resistance G4S complied with the requirement to withdraw from the competition for the new tagging contract. The difference in strategies may have reflected the recognition that G4S depended less on government business than did Serco.

Parliament played its most important role in the Olympics Games example where the select committee appearance of G4S' chief executive had an impact on news coverage. The Home Secretary faced antagonistic questioning from opposition MPs in parliament but blame for the problems was largely laid at the G4S' feet. The contract failures were also used as opportunities to challenge other elements of the government's outsourcing strategy. In particular, after the Olympics problems MPs focused on police outsourcing and the overcharging problems were used by Labour MPs to criticise the imminent probation outsourcing programme.

Figure 2. Media reputation after four contracting problems.



In Figures 2a–2d, press coverage is used as an indicator of reputational damage. Reputation was a common theme in the coverage of events and was often presented as more important than the financial consequences of failures. An indicator of reputational damage was constructed by coding newspaper articles, accessed through the Lexis Nexis database, that referred to the companies. The author and research assistants then coded the articles for their 'sentiment' towards the named companies using an 11 point scale, and where there was disagreement the average was taken. The indicator tries to capture an article's general assessment of a firm, rather than directly measuring attribution of responsibility for a specific event. The data in the graphs are daily aggregates of article sentiment and so the reputation effect is a combination of salience (the number of articles on a day) and sentiment (average sentiment of the day's articles). The titles used were the Mail, the Telegraph, the Times, Independent, Guardian and their Sunday editions.

The rebate dispute was short-lived (Figure 2a) and the most intense negative coverage was on the day after the company had reversed its position, as commentators speculated about the consequences for the company's relationship with government. The Olympic security contract was the most high profile of the cases and negative attention was sustained for two weeks. The first spike in negative coverage in Figure 2b corresponds to the initial news that the contingency plan had been triggered by the Home Office, the media's interest was then revived by the chief executive's select committee appearance, the final spike coincides with the weekend newspapers publishing overview articles about the security contract and articles which included comment on the prospects and competency of the firm. The coverage spread beyond the details of Olympics security into examination of company strategy, profiles of executives' careers and other negative events. Figure 2c shows the coverage of both companies in July 2013 after the results of the audit of the electronic monitoring contract were revealed. The coverage for the firms was similar until the unco-operative response of G4S (dashed line) to the government's demands, which led to further negative coverage for the company compared to Serco (unbroken line). Finally, the prisoner contract story in August was focused on Serco this received the least attention (Figure 2d). The lack of the coverage may have been influenced by the timing of the event, the August announcement was during parliamentary recess and there was limited immediate reaction from opposition politicians.

Two features of the events particularly relate to the previous literature on blame in public policy. The first is that actors need to be concerned about their reputations beyond the immediate policy context (Moynihan, 2012). This is especially so for these two companies both of which relied on multiple contracts with government. The second is that policy ‘failures’ such as these examples are always the results of political framing processes rather than being straightforward and unmediated factual accounts (Stone, 1989). The intensity of media interest during an event was often influenced by government ministers’ statements and especially so for examples 1 and 3.

Analysing share price movements

It is often difficult to assess the damage to organisations caused by failures in the public sector—a lot of different factors are at play and negative consequences can often occur some period after the event that is said to have created them. The negative press coverage suffered by the firms is an indicator that contract failure in public services generates reputational damage. It would be ideal to have an indicator with a closer and direct relation to a company’s interests. In this section movements in company share prices are used to indicate the perceived costs to firms of the adverse events relating to their public contracts. A simple event study method is employed, this involves comparing the returns on the target stock with the returns on a measure of the broader market in a period around the day of an adverse event. Here, the FTSE 100 index is used as the comparator. If the event is unexpected, then unusual price movements of the target stock (relative to the broader market price) immediately after a negative event occurs is an indication of investor’s judgements of the costs of an event (the approach follows that outlined in MacKinlay, 1997).

The first step is to calculate the individual stock returns and the market returns for an 'estimation period', which in this case ends seven days prior to the event occurring. Daily returns are calculated as the proportional change in price over a day's trading for each company and for the FTSE 100 (as in equations 1a and 1b). Where p_t^c is the price at time t of the company stock, and r_t^c the daily return on the company stock, and p_t^m and r_t^m are the equivalents for the market aggregate (FTSE 100 index). The relationship between the target stock returns and the market returns during an estimation period is then estimated using OLS (equation 2):

$$r_t^c = \frac{p_t^c - p_{t-1}^c}{p_t^c} \; (1a)$$

$$r_t^m = \frac{p_t^m - p_{t-1}^m}{p_t^m} \; (1b)$$

$$r_t^c = a + b.r_t^m + \varepsilon_t, (d-(n+7) < t < d-7) \; (2)$$

The goal of the analysis is to identify unusual movements in the price of the target stock during an 'event window'—a period of trading days including the date of the event being analysed. 'Unusual' here means movement in the company stock which cannot be explained by general movements in the market or the usual variability of the stock. To achieve this goal the parameter estimates from Equation 2 ($\hat{a}$ and $\hat{b}$) are used along with the observed returns of the FTSE 100 during the event window to construct an expected return for the company, $\hat{r}_t^c$. This is the 'market model' of the stock returns during the event window (equation 3). Excess returns, xr_t^c, are then calculated as the difference between actual company stock returns during the event window and the returns predicted using the market model (equation 4):

$$\hat{r}_t^c = \hat{a} + \hat{b}.r_t^m, (d - 7 \le t < d + 24) \ (3)$$

$$xr_t^c = r_t^c - \hat{r}_t^c, (d - 7 \le t < d + 24) \ (4)$$

Excess returns measure how unusual the movement of a stock price is given how the market moved on the same day. Cumulative abnormal returns (CARs) are abnormal returns summed over multiple days after an event has occurred at time *d* and can indicate whether the initial share revaluation after an adverse event persists beyond the immediate period or whether there is a reversion (MacKinlay 1997, p. 21).

The events are single-firm, single-event studies and so the usual methods of statistical inference are unreliable. Gelbach, Helland and Klick's (2013) non-parametric 'sample quantile' test is used to conduct significance tests. The procedure involves identifying the rank position of abnormal returns of interest in the distribution of the estimation period residuals. If the event's abnormal return is in the bottom 5% of the distribution, then the null hypothesis of no effect is rejected at the 5% level (for a one-tailed test). Gelbach et al. (2013) show that this method provides consistent estimate of the critical value of a 5% significance test in single event, single firm event studies without relying on distributional assumptions. The method does not produce standard errors and so cannot be used to construct confidence intervals.

Contract failures and share prices

It is easiest to understand the results of the analysis by consulting the graphs of abnormal and cumulative abnormal returns (the graphs show ARs and CARs for the day of the event and 24 further trading days, tables report the first five days). Figure 3a displays share movements around the Serco rebate example. The upper graph of each panel is the daily abnormal returns in the event window and the lower graph the cumulative abnormal returns, which start on the day of the event. The first trading day (Monday 1 November) after the initial newspaper report is treated as the event day. Serco's stock lost 4.5% and 4% on the first and second day after the letter was published compared to what would have been expected using a market model (both are statistically significant at a 5% level using a one-tailed test). Although there was some recovery on the fourth day, the losses were sustained over the remaining days of the event window with the company stock price approximately 9% lower against the counterfactual.

Figure 3b displays the abnormal returns after G4S's Olympics security problems. (A dummy variable was added to the estimation period model in October 2011 to account for share movements after announcement of merger plans.) There was little reaction on the day the contingency plan was announced and thereafter there were small declines in price until after the weekend of 14–15 July 2012 when there were substantial price falls of almost 9% on 16 July and a further 5.5% the following day (when the chief executive appeared at the select committee). The CARs were minus 18% at their lowest but settled at approximately minus 13%.

Figure 3 Abnormal Returns And Cumulative Abnormal Returns (Rebate And Olympics)

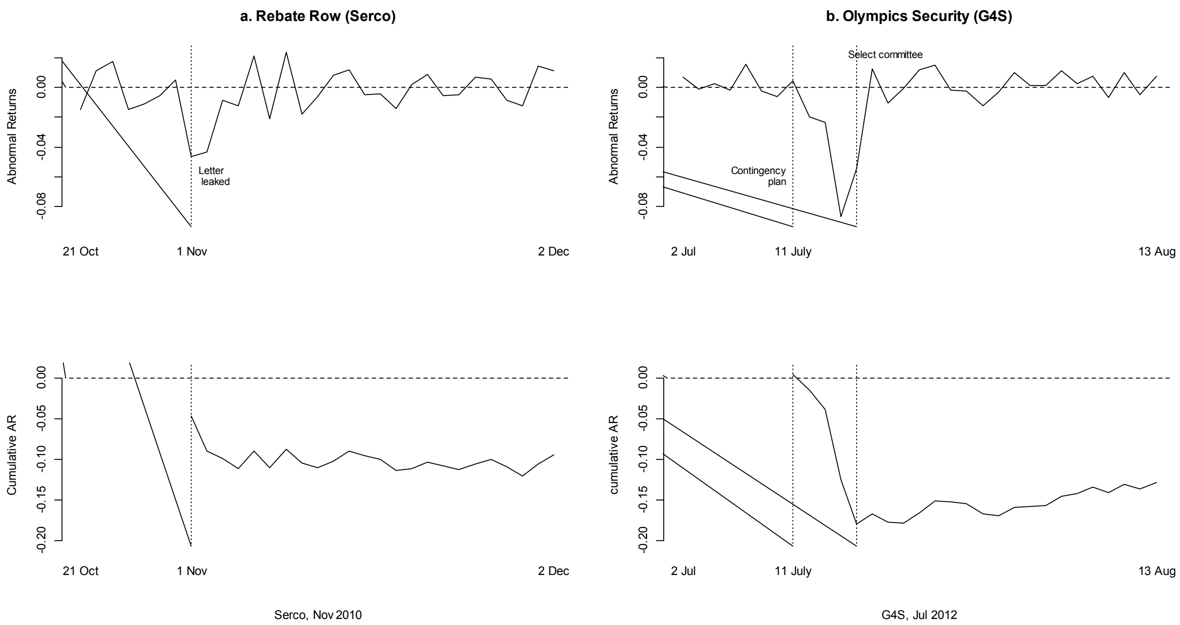
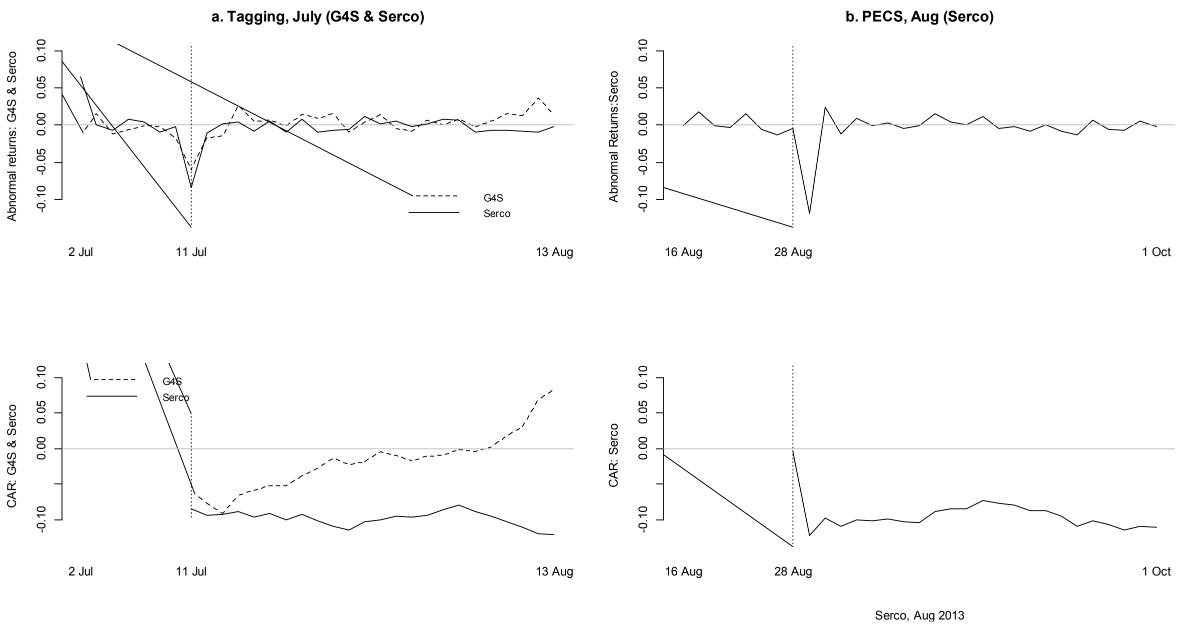


Figure 4a displays the price responses to the July 2013 announcement of allegations of overcharging. This event involved both Serco (solid line) and G4S (dotted line). The estimation periods for these events ran from 27 July 2012 to 2 July 2013. (A dummy variable was added to the G4S model to account for the effect of a profit warning on 7 May 2013).

Two potentially confounding events occurred on 10 July 2013, the day before the event analysed here. A coroner's court ruled that a deportee in G4S' care had been unlawfully killed (the death occurred in 2010) and also the parliamentary Public Accounts Committee published a report criticising the running of a Serco regional health service contract. Both of these potentially confounding stories had been in the public domain for some time. Nevertheless, it is not possible to be completely confident that abnormal returns are solely the results of the focal events studied here.

Figure 4. Abnormal returns and cumulative abnormal returns (tagging, prisoner escort)



Both companies experienced large drops in their share prices on 11 July 2013: G4S lost 6% against the market counterfactual, and Serco lost over 8%. While G4S's stock regained the lost value over the following days, for Serco the CARs remained around minus 10% for the rest of the event window.

The final event was the 28 August 2013 announcement that Serco's PECs contract would be investigated by the police. This is shown in Figure 4b. The same estimation period used for Serco in analysing the July 2013 event was also used to analyse the 28 August announcement. This was to ensure that the baseline model would not be contaminated by the previous tagging announcements. Serco's shares did not move on the day of the announcement, but were almost 12% lower than would have been expected from the baseline model on the day after the announcement and, although there was some reversion the next day, the cumulative abnormal return settled around minus 9%. Table 2 shows the excess returns and the results of the statistical tests for each example. Each of the events was followed by substantial stock price revaluations and, in all but one case, the decline was sustained over more than a month of trading days. The exception was the July 2013 (tagging) announcement relating to G4S, which did initially lead to a fall in value but over time the stock price recovered.

Table 3. Abnormal returns and cumulative abnormal returns.

	Rebate Nov 2010 (Serco)	Olympics July 2012 (G4S)	Tagging July 2013 (G4S)	Tagging July 2013 (Serco)	PECS Aug 2013 (Serco)
Abnormal Returns					
t = 0	-4.65%*	0.47%	-6.03%*	-8.42%*	-0.4%
t = +1	-4.34%*	-1.98%	-1.69%	-1.00%	-11.90%*
t = +2	-0.87%	-2.33%*	-1.43%	0.13%	2.50%*
t = +3	-1.25%	-8.71%*	2.65%	0.48%	-1.14%
t = +4	2.14%	-5.45%*	0.61%	-0.85%	0.88%
*$p < 0.05$ (one tailed test)					
Cumulative abnormal returns					
C[0]	-4.65%	0.47%	-6.03%	-8.42%	-0.04%
C[0,1]	-9.00%	-1.51%	-7.72%	-9.42%	-12.26%
C[0,2]	-9.87%	-3.84%	-9.15%	-9.28%	-9.79%
C[0,3]	-11.12%	-12.56%	-6.49%	-8.80%	-10.93%
C[0,4]	-8.98%	-18.00%	-5.89%	-9.65%	-10.05%

Discussion

The cases studied here are examples where delegation to the private sector did not dissipate the cost of blame and it appears to have created risks on all sides of the contractual relationship. As with other blame game studies, the cases are selected to be relatively high profile. Consequently, these cases do not necessarily generalize to the more typical low-key risks faced by contractors. Instead, they are disruptive events which have the potential to change a system and do significant damage to actors' interests. The goal of the analysis here was to unpick the process of how blame games play out and the consequences that follow for the companies involved.

Mostly the stock prices behaved as expected, but the comparative response of G4S and Serco shares to the July 2013 tagging announcement is an anomaly. The news seemed to be worse for G4S but Serco's shares did not recover in the way that G4S's did. This can be rationalized in various ways, for example, the tagging announcement came after a period of bad news for G4S, including a failed merger attempt, the Olympics problems, loss of prison contracts and a profit warning. G4S had new leadership and the problems of the previous year could be presented as due to the previous team.

On the government side, hard delegation may have helped ministers to avoid immediate blame for problems, but it came at the price of a loss of control over delivery (Hood, 2011). Ministers had to address the problematic performance of the contractors and faced the risk of it being reflected back at them, through questions about the competence of their contract management and about the wisdom of their outsourcing plans. Ministers demonstrated that they were willing to make events into high-salience news stories rather than try to contain events and limit public attention, presumably because they were confident that blame would be targeted at the supplier. The supplier rebate story would not have received the attention it did without the Cabinet Office's public criticisms of the company which were made in the context of attempts to renegotiate government contracts with Serco and other suppliers. Government ministers were also willing to magnify blame in the tagging events, or at least some media commentators believed that the government had taken an unnecessarily public approach to the dispute. This supports the idea of Brändström and Kuipers (2003) that the process which turns 'events' into 'failures' often has a political nature.

Opposition politicians and other third parties were sometimes able to influence the framing of events and to add to the pressure on outsourcing companies. The select committee hearing held during the Olympic event is the clearest example of this, it appears to have re-energized media coverage. Opposition MPs had some success at expanding individual contracting problems into broader questions about companies' competence and the outsourcing system. For example, the link was made in a select committee report on the Olympics published later in 2012:

> *Perhaps the most significant area of public concern flows from the growing role that G4S plays in the criminal justice system, and in public contracts more widely* (House of Commons, 2012, para. 5)

The companies were vulnerable because of their multiple public contracts and because their business models relied on future public contracts (less so for G4S). This helps to explain the substantial share revaluations which followed after each of the events and in most cases persisted. Reflecting on the events of 2013 in the company's annual report, Serco's chair noted that the 'inevitable consequence has been a material loss of momentum, particularly in the UK' (Serco, 2013, p. 1).

The risk to future government business would have been a key concern for these contractors and was also picked up by the media. The commercial costs of a failure were not limited to the specific contract but may also have affected ongoing relations with government, the reputations of outsourcers with other potential clients and the broader political environment in which the outsourcers operated (Moynihan, 2012). The government made clear that the firms should not bid for the 2014 probation outsourcing contracts and other outsourcing business was also lost (for example a large defence equipment outsourcing project was abandoned in late 2013). Executives also faced individual risks with resignations following G4S's Olympics contract and after Serco's tagging problems.

Conclusion

This paper contributes to the academic literature on blame allocation by analysing four examples of contract problems involving two large private suppliers to the British government. In the cases studied, blame was not dissipated by delegation and there is good reason to think that the high level of exposure of the firms to government amplified the costs of failure, the events reveal that commercial risks of blame can be significant for companies operating in public services. One feature of the cases studied here was the willingness of minsters to proactively use blame and adopt strategies which damaged commercial reputations when disputes arose in their relations with suppliers.

If corporations bear significant costs after problems, then the scope for blame shifting through outsourcing is limited. Businesses which may be subject to blame will have the same risk aversion incentives that delegating to a politically sheltered organization is said to remove. If politicians have shown themselves willing to amplify blame, and if this in turn damages suppliers' business models, then we should expect fewer suppliers participating in the markets for public contracts. This is an important limitation on politicians' use of outsourcing to manage blame.

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